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## Specializing In Mergers

Trio Says They Know What It Takes To Make A Credit Union Merger Really Work



*A page from the merger kit created by Westerra Services Inc.*

PORTLAND, Ore.—Given the flat-as-a-pancake margin of credit union profitability and the search for merger partners to achieve the scale needed to survive long term, it's no surprise to see a specialty merger company and a CUSO dedicated to making mergers.

David Bartoo, Ron Nice and Alan Peppers are part of a new breed of credit union advisor/consultants/CUSOs that are now specializing in assisting other CU executives and boards of directors in selecting, managing and finally succeeding in the mergers and acquisitions area. Bartoo is president of the Merger Solutions Group here, and Ron Nice, of Nice Enterprises and Alan Peppers, president of Westerra Credit Union, Denver, Colo., together added merger consulting to the service menu of Westerra Services,

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Inc, the CU's wholly owned CUSO.

"Going back a number of years ago, I saw the landscape changing," remembered Peppers. "I saw consolidation everywhere I looked and I wondered if we should be thinking about a merger strategy that would make for the size and scale to better serve members."

That was the beginning of what Peppers described as "getting my arms around the idea that mergers are more than just mergers; they have to be partnerships."

The concept is one that readily accepts a sea change in the attitude of acquiring other, sometimes smaller, sometimes same-sized CUs into a "networked" expansion that can retain the acquired CU's identity and adapts a "doing business as" legal framework (*CUJ March 12, and CUJ April 2, 2007*). But even if the acquired CU adopts a new name change, there is evidence that the waters have shifted and a concerted effort to seek balance rather than exert power is at work here.

"You must have unequivocal trust in your partners," said Peppers. "If not, you can't rely on them to do what they promise."

## Cheese Didn't Move

Those promises are key to making a merger work, as combining several credit unions into one must consist of joining the best of all service delivery options and discarding others. Westerra concluded two mergers in exactly a year, combining with Gateway CU in October of 2006, and then Safeway Rocky Mountain Credit Union in October of 2007. Peppers said he'd learned a few lessons along the way.

"Believe me, I thought I had 'moved the cheese' when we changed our name from Denver Public School Employees CU to Denver Public Schools CU, dropping the 'Employees.' But not so, and it can be uncomfortable to realize that. We just need to think differently."

Thinking differently means asking what you are missing that another CU can supply. For Peppers initially, it was more branches. "What was missing was convenience. We had only two branches. So it was the larger number of branches that would benefit us."

Then, it became a question of, "Is this the right partner?"

"Now we were moving from strategy to culture. My big lesson learned is that we didn't (at the time) spend a lot of time on culture, the hearts and minds part of it," Peppers told *Credit Union Journal*. "That answers the question, how do you get the work done? If the two cultures are different, then you have to create one from the two. Then comes the operational alignment, that's part three. That's where the workflows, the computer systems, the benefits and alignment (of all employees, pay packages, etc.) and the branding and pricing come in. We went through a name change as well."

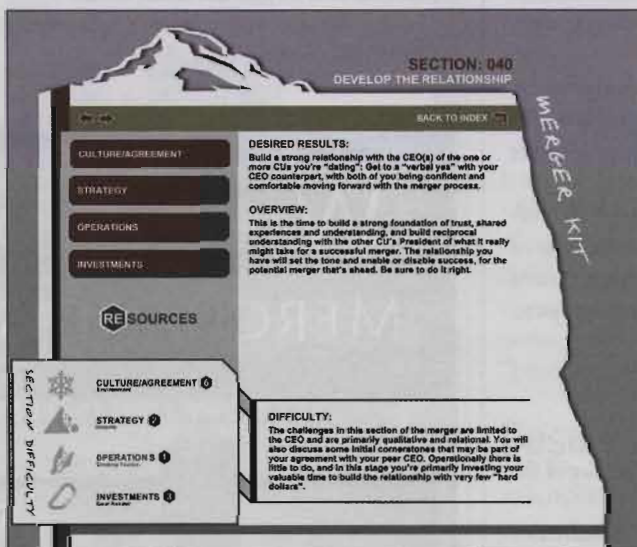
David Bartoo's company has zoomed in on the selection process, making its website interactive for both credit unions seeking partners (Partner Search Program link) and for CUs wanting to acquire other CUs (Active Acquirer Search Pro-

# Specializing In Mergers

## Trio Say They Know What It Takes To Make Credit Union Mergers Really Work



Ron Nice, left, and Alan Peppers. Below is a page from the merger kit they developed.



"There is no single answer or absolute methodology in creating and executing growth and acquisition strategies. Each merger is like a credit union; no two are exactly alike. The point of view, strategies, goals and experience on mergers is going to be different for every credit union. What is the best path and actions for a large credit union handling a merger may not work well for any other credit union in the country."

## People Problem

gram). "It is very important for a merging credit union to consider all potential partners so that the best interests of the members are the top priority in any merger considerations," Bartoo said.

"This starts with identifying what a merging credit union needs in a quality partnership and contacting every credit union that could be interested in merger discussions," he added. "This could be as few as one to three credit unions or more than a hundred. It is a lot of work, but how else can you tell your members, your regulator, the NCUA and your employees that you have done everything possible to find the best continuing credit union for everyone affected by this one-time decision? There are no second chances to make the best merger decision. The consideration of a merger should begin and end with the same question: 'Did we do everything possible to create the strongest future and best service environment for our members?' and the same answer, 'Yes.'"

The most common question from credit unions looking to create growth through positive mergers, Bartoo said, is, "What is the best way to prepare for and develop mergers?"

"The greatest dynamic in a potential merger is the human element," Bartoo acknowledged. "There are a number of emotions from the board, executives, employees, volunteers and members that can all effect the direction and timeline of any potential merger. These emotions, communication breakdowns and how to address every issue that arises are not all going to be found in a book or manual; but are frequently sighted as the primary reason that merger negotiations fail."

"Each credit union has its own finger print and the best merger offers the greatest potential of preserving the legacy of the credit union. There is nothing more emotional for a CU to consider than a merger," Bartoo said.

Bartoo has collected data about CU mergers, including a rating system that assigns the merger risk to each credit union, but said that only 20%-30% of CUs fall into the high-risk category.

"It's always a relational issue," said Nice. "Most people just don't get that. They see it as primarily a business option, but how it works is relational. It's about combining complimentary cultures, but people automatically go to the negative. The CEOs think: what happens to me? That is an

important strategic question, of course, but it has to be addressed at the right time and in the right way.”

“The chance of having roadblocks or communications issues throughout the merger process are greatly diminished if a credit union reviews and conducts preliminary due-diligence on all interested parties prior to engaging in any formal merger discussions,” said Bartoo. “In today’s changing merger environment there is going to be greater demand placed on due-diligence and creating the strongest partnership for any proposed merger.”

## Many ‘Doing It Wrong’

Nice said he worked with Westerra on their organization, governance and strategic planning.

“We found agreement on how to do mergers right. Many are doing it wrong,” he said.

He clicked off the current situation, citing Jay Johnson’s piece in the 2007 Callahan and Associate CU Directory, in which he said the movement was at an “inflection point.” CUs must face up to the realities that unless they find new growth (through CUSOs or fee income), create organic growth (deeper member penetration), become niche players (solid, single SEG strength), accept decline (hang on in denial) or convert (become a bank), or merge with other CUs, that the impact of credit unions on the economy may be muted by their declining numbers.

“A lot of CUs are challenged by the existing merger model and tweaking it, but it’s fundamentally at the end of its life cycle. It should always be about the best interests of the members going forward and in creating a true partnership where the whole is greater than the sum of its parts,” Nice said. “The niche players aren’t attracting the Gen-X and Gen-Y they need,” he said.

“The large CU, over \$600-million can take care of itself, but the small CU (under \$50 million) that is trying to be a full-service player will be chewed up by the competition and/or its own internal costs. So there is no future for them, apart from a viable and growing sponsor organization. Or, having a sponsor that gives direct or implicit support, for example, in space, personnel or back-office operations,” he elaborated.

Credit unions in decline “are eating their young in that they are living off their reserves. You know the credo: grow or die? It’s true, and there are a lot of CUs declining and continuing in that business model that creates less value for members and limits their merger attractiveness. Capital is the gauge, 10% is better, and 6% is the line where the regulator starts to look at it,” he said.

## The Merger Kit

So mergers are a real option, Nice said. “The Westerra mergers are a great example. We saw that it worked well. You can’t point to any other credit union in the country that merged with two other over-\$100-million credit unions in one year and did it so well. After all, anyone can merge one credit union. Afterward, Westerra was inundated with requests for how we did it. People spoke to us, we were asked to speak at meetings, etc. That’s when

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we came up with the idea to document and codify this model that works so well. We want to share the model, for a fee, of course, after both organizations, (Westerra CU and Nice Enterprises, Inc.) found we simply couldn’t handle all those requests for information.

Nice described the merger kit as an effort to answer all the same questions everyone has, from the CEO to the management of the credit union to the board members. “It’s about how to negotiate an agreement and what are the specifications of board actions to take. Now, here’s where most people blow it. They don’t have a firm merger and acquisition strategy as a living part of their strategic plan. They never thought the hurricane would hit, and so, when it comes, they overreact. So chapter one of the kit is about developing a strategy. The next chapter is about how to build a case internally, how to educate the board and think through the implications. It builds a hierarchy of organizational priorities to personalize this thing in the market to them.”

## In The Wrong Order

Where most mergers fail, quietly, for the most part, is because they may be doing the right things but doing them in entirely the wrong order, Nice said. “They involve the board too soon. That’s a big mistake. You really need a strong CEO to do the preparations before it comes to the board. So the CEO has to be empowered to make it that far. I’ve seen failure after failure take place that way. I’ve said to all my clients now, please, if you are even *thinking* about a merger, call us first. Most don’t, and so when it falls apart then they call. In most cases, it’s too late because the clay is dry and you can’t put Humpty Dumpty back together again.”

The kit is interactive, printable and has 28 chapters or sections. “There is a tipping point where everyone, after due diligence, community considerations and member approvals come, has to build on the details and you integrate. All those decisions have to come in the right order,” said Nice.

The Kit puts a timeline to that order and fills in the blanks about the ‘human problems’ like what happens to employees, who survives and how to deal with other changes.

“We’ve been a voice in the wilderness preaching this sermon for 10 years now and we feel that this is the absolute right time for this kit,” said Nice.

“Credit unions are making every effort to grow, but the best efforts of some credit unions may not be enough to provide the services and products in any

given competitive market,” said Bartoo. “A credit union cannot control sustainability issues like unemployment, the closing of companies or the rates of their competitors. Credit Union mergers are typically the result of member and economic trends and not the actions of the institution.”

*—Carol Anne Burger*

### FOR MORE RESOURCES

Read more about alternatives to traditional CU mergers at [cujournal.com](http://cujournal.com) and searching “CUs Try Out Networked Merger” in the archive.

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