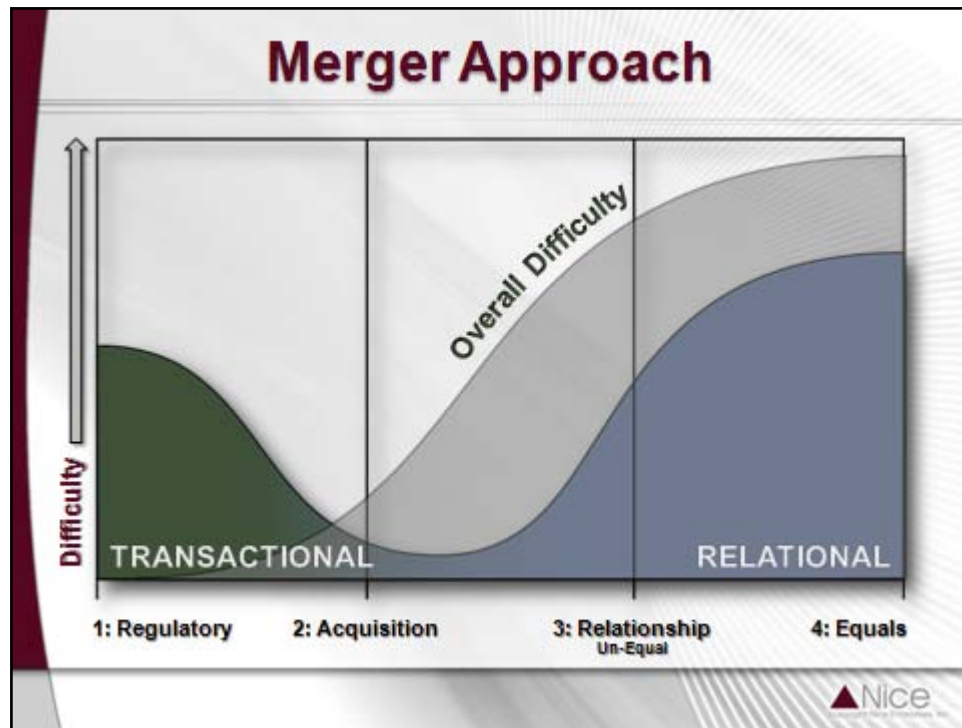



Understanding the Types of Mergers

Nice suggests that understanding what type of merger two credit unions envision is the first step toward ensuring that it will become a reality. He groups credit union mergers into four general categories:



1. The regulatory-driven merger, in which a credit union is forced by loan portfolio challenges or other financial problems to merge. Regulators may recruit a merger partner, and these consolidations typically involve a smaller, struggling credit union merging into a larger organization.
2. A merger by limited choice, in which a credit union acknowledges that a merger may be its best option in light of a business model that is not functioning properly or leadership in distress. Again, this type of merger typically results in a smaller credit union joining a larger organization. It is most closely aligned with an acquisition in the business sector in that the merging credit union still has some ability to negotiate the terms of the arrangement.
3. Merger by choice, but with a differential in size. The merging credit union could be one-tenth of the size of its prospective partner, or the two organizations could be closer in asset and membership size. This type of merger is distinct from the first two in that both parties have bona fide choices to merge or continue successfully as independent financial institutions. While recognizing the size differential, completing merger talks successfully requires that both parties pursue the arrangement as psychological equals, Nice contends.

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4. True mergers of equals. The rarest of all mergers, these consolidations entail “creating a brand new credit union from the ground up,” Nice says. “For a Type-4 merger to come to fruition, you have to be willing to reinvent yourself and jointly develop an entirely new organization.”

In classifying the types of mergers, Nice says Type 1 is purely a business transaction, and Type 2 is primarily about the business and operational aspects of merging. However, Type 3 and 4 mergers are first and foremost about building a relationship between two strong organizations. Relationship building can take time, from a few months to a few years, as the CEOs work together to develop trust and a common vision of what the merger will mean for both their credit unions.

As an example of a successful Type-4 merger of equals, Nice cites the completed November 2008 merger of T&C Federal Credit Union with USA Credit Union in Michigan, with respectively \$610 million and \$604 million in assets. Both credit unions had strong CEOs and management teams, strong capital positions, and received top marks from regulators. As part of negotiations early on, the credit unions agreed to adopt a new name that reflects their strengths and roots—Genisys Credit Union, for T&C’s ties to General Motors and USA’s original sponsor, Unisys. T&C was technically considered the merging credit union and USA the continuing organization, based on the fact that the partners agreed that the new credit union would operate under a state charter. T&C’s CEO Diane Addington became the Genisys chief executive; USA CEO Mary McDonald was named president until her retirement in January.

The Genisys example represents the chief benefit of “doing it right for both memberships and of gaining the advantages through strong preparation and using a strong, systematic process,” Nice says.

Because the third and fourth types of mergers are by choice, they require true negotiations to agree on the culture and leadership of the continuing organization. To approach these discussions with the attitude that the one of the prospective partners holds the upper hand is the best way to blow the deal, Nice contends.

“It’s been our experience that 80 percent of mergers fail or never come to fruition, and one main reason is a lack of understanding of the four types of mergers,” he says. “If you use the Type-2 rules and approach it as if you’re acquiring the organization when in reality you should be adopting a partnership mentality, it’s bound to fail.”