Managing Credit Union Mergers: The Board's Role

One of the most significant issues currently at play in the U.S. credit union movement, as well as an emerging issue among credit unions worldwide, is the rate at which institutions are merging. Statistics state that approximately one credit union merger occurs every day among U.S. institutions, with more institutions merging on a global basis.

By George A. Hofheimer

In late 2007, the Filene Research Institute, a think tank that explores issues vital to the future of credit unions, worked in concert with William Brown, Ph.D., a professor at Texas A&M University, to examine the board's role in the merger equation. The resulting study, "The Board's Role in Credit Union Mergers," identifies a host of instructive tactics for all credit unions to consider, no matter the country in which they operate.

It is important to examine the board's role in mergers because:

- Merging is a high-stakes decision.
- Relatively little is known about the topic.
- The answers we seek may help credit unions identify pitfalls in the merger process.

Brown's team revealed some high-level findings that shed light on why mergers generally occur. The primary reason is concern over the long-term viability of the merging credit union due to shrinking or stagnant membership or weakening financial conditions. In addition, the imminent departure of a longtime CEO can foster credit union mergers.

But not all boards are actively involved in managing their credit unions' merger activities. Three categories emerged to describe board involvement in the merger process: proactive and involved (25 percent); responsive and engaged (about 50 percent); and minimally engaged and possibly aloof (20-25 percent). As fiduciaries of their institutions, boards that fall into this latter category take an approach that is less than ideal to supporting merger activity.

The Filene study identifies six major issues officials of both acquirers and mergers should consider. Boards should be working to:

- ✓ Confirm a merger is in their membership's best interests.
- ✓ Ensure the future financial viability of the continuing institution.
- ✓ Explore staffing issues, such as continued employment of existing or long-time staff and key personnel.
- ✓ Understand board governance issues, including the number of board seats each organization will have after the merger.
- ✓ Identify infrastructure (i.e., information technology) compatibility and needs.
- ✓ Determine if the merger is the right fit based on similarity of cultures, social missions and membership synergies.

Practical Takeaways for Credit Unions

According to the Filene Research Institute, the first and most practical thing is to incorporate merger and acquisition scenarios into the credit union's strategic plan. In this plan, it may make a great deal of sense to objectively define elements deemed essential to moving forward as either an acquiring or a merging institution. In his study, Brown reports that two-thirds of those interviewed failed to take this proactive planning approach.

Second, credit unions need to proactively develop a succession plan for the chief executive/general manager. Smaller credit unions cite the retirement or resignation of their CEO as one of the main reasons for a merger. Proactive succession planning can ameliorate surprises for the board, staff and members and create a culture of organizational continuity in planned and unplanned leadership changes.

In the words of scientist Louis Pasteur, "Chance favors the prepared mind." Understanding when to merge and developing the necessary strategic approach can help credit unions and their boards prosper, no matter what their country of origin.

George A. Hofheimer is chief research officer for Filene Research Institute, a credit union think tank based in Madison, Wis.

WOCCU members can access a free electronic copy of "The Board's Role in Credit Union Mergers" at www.filene.org/free/cuworld.

From Cradle to Grave

Peru-Vermont Partnership Benefits Both Systems

By Victor Miguel Corro

Discussions about the development of a partnership between credit unions in Vermont and Peru were already underway when Joe Bergeron, president of the Association of Vermont Credit Unions (AVCU), heard about the plan. Although newly minted, partnerships between the association and its Peruvian counterpart have already established a standard of mutual benefit for all parties involved.

"Peru has five times the number of credit unions as Vermont, but in some ways Peru's system is similar to what the U.S. system was like in the 1970s," said Bergeron. "A lot of us have lived through that time and a lot of what we think they need to do are things we've already experienced."

The partnership idea was first discussed during a World Council of Credit Unions (WOCCU) board meeting two years ago. At the time, WOCCU board members Ron Hance, president and CEO of Heritage Family Credit Union in Rutland, Vt., and Manuel Rabines, president of National Federation of Credit Unions of Peru (FENACREP), had seen the benefits that international partnerships brought to credit union systems worldwide. That realization stimulated an interest in forming a partnership between the two

Association of Vermont Credit Union delegates meet with the Finance Committee of Peru's Congress.

Vermont visitors are welcomed by Finantel Credit Union.

PHOTOS COURTESY OF THE ASSOCIATION OF VERMONT CREDIT UNIONS PERU DELEGATION

Association of Vermont Credit Unions President Joe Bergeron interacts with a street merchant in Cusco.

"Credit unions in Peru are much more cognizant of their social mission than we are...they take care of their members from birth to death, even to the point of providing maternity loans and owning cemeteries."

–Joe Bergeron

MATT LEVANDOWSKI/HERITAGE FAMILY CREDIT UNION

Ron Hance, CEO of Heritage Family Credit Union, seated, and Rocio Miyashiro Kiyan, CEO of Cooperativa de Ahorro y Crédito ABACO, sign the partnership agreement between their two credit unions.

geographically distant and culturally diverse allies.

A visit in November 2006 by representatives from FENACREP and Peruvian credit unions to AVCU headquarters in Burlington, Vt., helped cement the partnership. The interactions with the association, local credit unions, the Vermont regulator and the system's corporate credit union helped the partners to identify several areas of cooperation.

On May 23, 2007, credit union systems in Vermont and Peru signed a partnership agreement. Visits to Peru and an evaluation of the country's needs gave officials from Vermont credit unions and AVCU ideas on various ways the two systems could cooperate in making credit unions in both countries more effective in serving members, Bergeron said. Initial ideas to help Peru's credit unions thrive included protecting the institutions through share insurance, expanding member services through shared branching, creating a central financing facility to handle cash liquidity and introducing state-of-the-art technology.

Disaster Delays Critical Progress

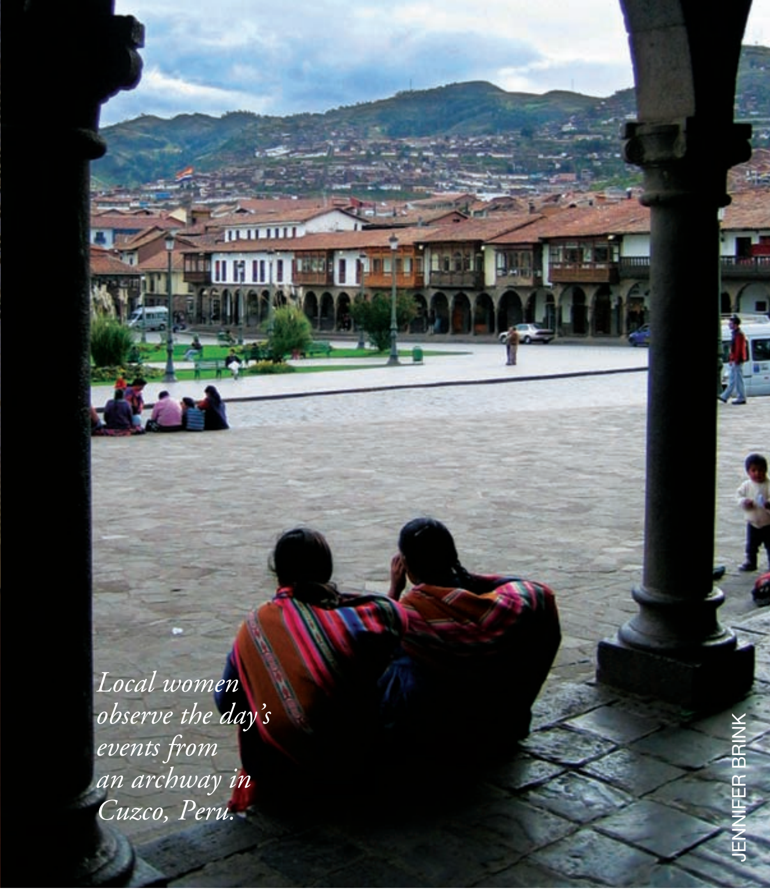
But as the partner systems were about to undertake an ambitious work plan, disaster struck the South American country. On Aug. 15, 2007, a 7.9-magnitude earthquake shook Peru, bringing chaos, death and destruction to the country. Within hours of the disaster, Bergeron contacted WOCCU seeking ways to help. AVCU proved instrumental in rallying U.S. credit union system members and raising funds to directly assist credit union staff, members and communities in Peru.

Several months after the tragedy, as the country was still recovering, partnership members began to rethink the objectives, focusing on the most pressing needs. As with other partnerships, WOCCU assisted in identifying where cooperation would be the most critical. Vermont and Peru are now working closely together in the creation of a private deposit guarantee fund for credit unions in Peru. The goal is to have some form of fund in place by the end of 2008.

"We re-evaluated our options and, as a result, will work very

FENACREP President Manuel Rabines delivers relief packages following Peru's August earthquake.

The Vermont delegation visits with officials of San Hilarion Credit Union in the suburbs of Lima.



Local women observe the day's events from an archway in Cuzco, Peru.

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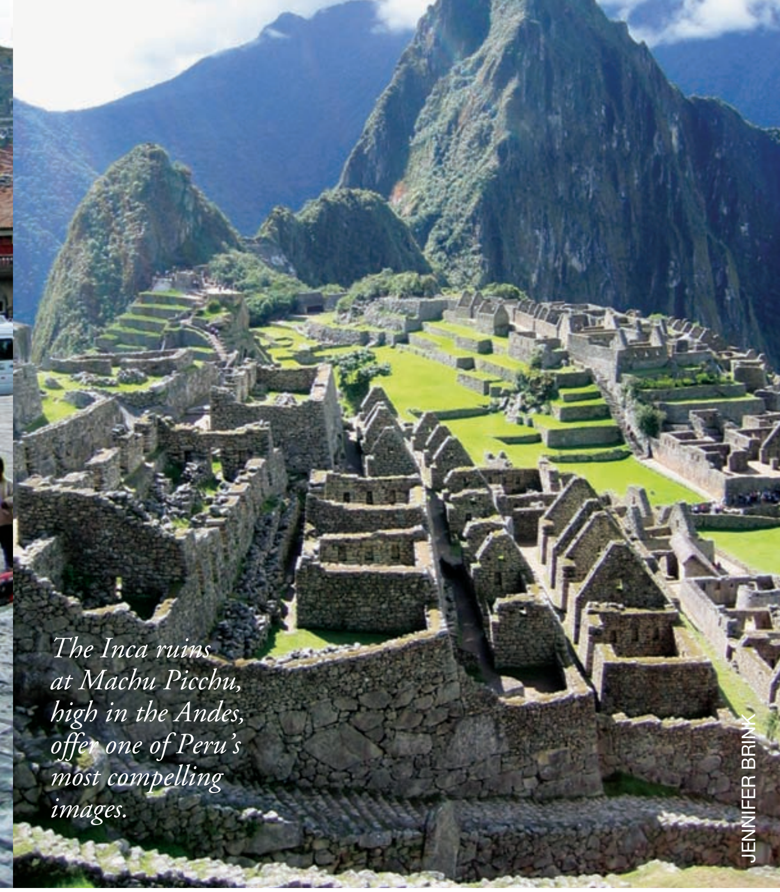

The Inca ruins at Machu Picchu, high in the Andes, offer one of Peru's most compelling images.

JENNIFER BRINK

closely with Vermont and WOCCU to bring a safer environment for credit union members in Peru," said Rabines.

Bergeron agreed: "We can work to help credit unions become part of their country's bank deposit insurance fund, something that Peruvian banks don't want to happen. We can help start our own deposit insurance program, or we can create a stabilization fund to protect credit unions encountering liquidity problems. That's what the U.S. credit union system did prior to the establishment of the National Credit Union Share Insurance Fund."

The relationship between Vermont and Peru doesn't stop with their respective trade associations. As a way to quickly assure a "best-practices" knowledge transfer, the partnership developed a direct credit union-to-credit union alliance. On Dec. 11, 2007, Cooperativa de Ahorro y Crédito ABACO, Peru's largest credit union, signed a partnership agreement with Heritage Family Federal Credit Union in Rutland, Vt. As Heritage Family CEO, Hance signed an agreement with Rocio Miyashiro Kiyan, ABACO CEO, pledging mutual support and agreement.

"We believe the partnership agreement should benefit both parties," Hance said. "ABACO can benefit from our past experience in Vermont, and we can benefit from the unique way in which they approach their membership."

The arrangement also will serve as the model for other credit unions. An employee-exchange program involving staff from both Vermont and Peru credit unions will be a central part of the program, Hance said. The value each country brings to the partnerships has not been lost on any of the participants.

"Credit unions in Peru are much more cognizant of their social mission than we are in the U.S.," Bergeron said. "They take care of their members from birth to death, even to the point of providing maternity loans and owning cemeteries.

"We could learn from that approach," he added.

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Peru's Financial System and Credit Unions

There are 13 banks in Peru, all but one foreign-based. Of the 160 Peruvian credit unions, the three largest are Japanese-owned and each has about US$75 million in assets. The fourth-largest drops to US$20 million in assets, and they get smaller from there. Vermont's 31 credit unions have about five times the assets of Peru's 160 cooperatives.

Interest rates on deposits are in the 12% range, 36% for loans. Loans focus heavily on micro-business lending, due largely to residents' low income levels. Some credit unions perform "cradle-to-grave" member service, ranging from maternity coverage to funeral arrangements. Most are very community-oriented.

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There is no deposit insurance, but all credit unions have security guards at locked entrances, and nobody enters or exits without guard approval. There are no corporate credit unions, so each institution is on its own for investments.

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Eye-opening Experience

Once credit unionism gets in the blood, it creates a commitment to service that lasts a lifetime. That's something Barry Lennon discovered long before he was appointed WOCCU's senior vice president of technical services in February 2007.

It's not that Barry, who heads WOCCU's Washington, D.C. office, hadn't already made a significant commitment to public service. He started in 1969 as a U.S. Peace Corps volunteer in Guatemala, then in 1972 went on to Mali, West Africa. He served more than five years there as a credit and management advisor to small rural cooperatives, financing farmers and small businesses.

"Those were eye-opening experiences, and they're where I first became enamored with the idea of member-owned financial cooperatives," Barry explained. "Some of the cooperatives we helped eventually failed, but many more turned into amazing success stories."

Those experiences fueled Barry's continued interest in international development, and in 1975 he moved to Volunteer Development Corps where he served as a regional director of marketing for five U.S. cooperative development organizations, including WOCCU, in Africa, Latin America and the Caribbean.

In 1981, Lennon arrived in Tegucigalpa, Honduras, as a finance and cooperatives advisor with the United Stated Agency for International Development (USAID). In 1986, he moved to Guatemala and continued working as a financial and cooperatives advisor with USAID, and in 1994, he returned to Washington as the senior financial advisor in USAID's Microenterprise Development Office, where he stayed until he joined WOCCU in February 2007.

"High quality of service and a fair price is foremost in my mind," says WOCCU's Barry Lennon, shown here with the staff of Mlandizi Savings and Credit Co-operative in Tanzania.

During his 26 years with USAID, Barry's assignments took him to more than 80 countries where he helped design and develop micro and rural finance initiatives. He was involved in financing and evaluating more than a dozen different WOCCU programs, all good opportunities to learn first-hand about the true potential of the credit union approach in developing countries.

"High quality of service and a fair price is foremost in my mind," Barry said. "There is no reason poor and low-income households shouldn't have access to the same financial services as the middle class. The most frustrating thing about credit unions and other cooperatives is their democratic process. It takes so much longer to get things done, but it's that same democracy that makes credit unions so attractive."

Barry believes WOCCU's road ahead is paved with great potential. Applying technology solutions to the African credit unions shows some of the greatest promise, he added, and it's an initiative in which he is especially proud to be involved.

"If you believe poor people deserve access to affordable financial services, credit unions are the way to go," Barry said. "There's really nothing that compares to a well run credit union."