

COMMUNITY CORNER

**Credit unions dominate early-year bank M&A in Washington state**

Monday, April 15, 2024 8:19 AM ET

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Market Intelligence

Credit unions are playing a significant role in Washington state's bank M&A landscape as cash payments to sellers provide the nonprofit financial institutions with key advantages over traditional banks amid depressed bank stocks.

Nationwide, credit unions were off to a hot start in 2024 regarding bank acquisitions and have made up a [larger share](#) of the buyers in the deals. In Washington, three of four deals announced this year were credit union acquisitions of banks, according to S&P Global Market Intelligence data. Washington has already seen more bank M&A announcements in 2024 than in 2023, which produced three transactions including one credit union buying a bank.

Michael Bell, the financial institutions practice leader at law firm Honigman LLP, expects credit unions will continue to play an outsized role in Washington's deal landscape.

"Washington has the two components you need to have an active space," Bell said in an interview. "There are strong and able credit union buyers and there are multiple, wonderful small community banks that want to sell."

**Recent bank deals announced in Washington**

Sorted by deal announcement date

Buyer (ticker)	Target	Announcement date	At announcement			
			Deal value (\$M)	Deal value/ tangible common equity (%)	Buyer's total assets (\$B)	Target's total assets (\$B)
Harborstone CU	●● SaviBank	03/22/24	NA	NA	1.91	0.59
Sound CU	●● Washington Business Bank	03/11/24	25.9	165.8	2.91	0.10
FirstSun Capital Bancorp (FSUN)	● HomeStreet Inc.	01/16/24	284.8	52.2	7.88	9.38
Global FCU	● First Financial Northwest Bank	01/11/24	231.2	156.4	11.84	1.53
BEO Bancorp (BEOB)	● Farmington State Bank	08/17/23	NA	NA	0.82	0.02
Glacier Bancorp Inc. (GBCI)	● Community Financial Group Inc.	08/08/23	80.6	164.9	27.53	0.75
Harborstone CU	●● First Sound Bank	08/01/23	22.4	151.0	1.90	0.17
Umpqua Holdings Corp. (UMPQ)	● Columbia Banking System Inc.	10/12/21	5,147.1	NA	30.89	18.60
Sound CU	●● Bank of Washington	09/21/18	NA	NA	1.52	0.21
Banner Corp. (BANR)	● Skagit Bancorp Inc.	07/25/18	193.2	241.5	10.38	0.92
FS Bancorp Inc. (FSBW)	● Anchor Bancorp	07/17/18	76.6	113.6	1.13	0.47
Timberland Bancorp Inc. (TSBK)	● South Sound Bank	05/23/18	36.9	154.9	1.00	0.19
First Interstate BancSystem Inc. (FIBK)	● Northwest BanCorp. Inc.	04/25/18	155.6	219.2	12.27	0.83
Heritage Financial Corp. (HFWA)	● Puget Sound Bancorp Inc.	07/26/17	124.1	232.9	3.99	0.57
BayCom Corp. (BCML)	● Plaza Bank	06/26/17	10.5	119.0	0.70	0.07
Commencement Bank (CBWA)	●● Thurston First Bank	07/08/16	11.1	87.0	0.19	0.13
Pacific Continental Corp. (PCBK)	● Foundation Bancorp Inc.	04/26/16	65.9	143.9	1.97	0.42
Cascade Bancorp (CACB)	● Prime Pacific Financial Services	04/26/16	17.1	108.5	2.98	0.13
Northwest BanCorp. Inc. (NBCT)	● Fairfield Financial Holdings Corp.	06/23/15	20.8	138.5	0.45	0.15
Olympic Bancorp Inc.	● Puget Sound Financial Services Inc.	05/13/15	NA	NA	0.96	0.09
<b>Group median</b>			<b>151.0</b>			

● Merger of equals ● In-state buyer ● Buyer is a credit union

Data compiled April 2, 2024.

NA = not available.

Analysis limited to whole company and franchise bank and thrift transactions announced in Washington. Government-assisted deals, branch deals, minority-stake deals and thrift merger conversions are excluded from the analysis.

Deal value-to-tangible common equity is the deal value as a percentage of tangible common equity acquired. This is derived from per-share values when all ratio components are available; otherwise, aggregate values are used.

Company titles and tickers for buyers are shown as of the deal announcement.

Source: S&P Global Market Intelligence.

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**Credit unions dominate deals in early 2024**

Premiums on recent credit union acquisitions of banks in the state have been "pretty attractive," Stephens investment banker Jimmy Troy said in an interview. For example, deal value as a percentage of tangible common equity was 165.8% in [Sound CU's](#) March-announced [acquisition of Washington Business Bank](#) and 156.4% in [Global Federal Credit Union's](#) January-announced [acquisition of First Financial Northwest Bank](#).

The premiums are comparable to what Washington banks have paid in the past, with a median deal value as a percentage of tangible common equity of 151.0% for the 20 most recent deals in the state.

The key difference is that credit unions are paying sellers in cash, Bell said. Stock price volatility is not an issue that credit unions have to contend with, which gives them an advantage over banks, he added.

"We're paying at a market rate but we're paying with a 100% valued currency," Bell said. "A bank buyer would use bank stock and that value is impaired."

Among credit unions, the most likely buyers will have \$1 billion or more in total assets and will seek targets with \$1 billion or less in assets, Bell said.

[Harborstone CU](#) and Sound CU have been Washington's most active credit union buyers, accounting for four of the state's five credit union bank acquisitions since 2015.

### Largest credit unions in Washington by total assets, Q4 2023

At or for the 12 months ended Dec. 31, 2023

Company (top-level ticker)	Total assets (\$B)	ROAE (%)	NIM (%)	Efficiency ratio (%)	NPAs/assets (%)	YOY deposit change (%)	YOY loan change (%)
Boeing Employees CU	29.87	10.27	3.64	70.45	0.17	-4.1	13.5
Spokane Teachers CU	5.79	9.89	3.40	68.54	0.48	0.0	3.1
Gesa CU	5.46	10.00	3.27	69.48	0.56	-1.7	-3.2
Washington State Employees CU	5.36	7.77	3.50	69.37	0.43	1.0	12.4
TwinStar CU	4.20	11.28	4.38	67.24	0.46	74.8	95.3
Numerica CU	3.93	10.15	3.25	73.46	0.18	3.0	3.8
Sound CU	2.91	7.68	3.43	72.56	0.45	5.7	6.7
Whatcom Educational CU	2.77	6.12	3.36	76.11	0.25	4.5	10.4
Kitsap CU	2.37	7.28	3.63	71.70	0.84	5.5	18.7
HAPD Community CU	2.37	15.76	4.46	67.28	0.32	-4.0	-3.3
Columbia Community CU	2.34	11.35	3.62	66.24	0.40	0.9	9.6
IQ CU	2.06	3.51	3.43	75.88	0.67	2.0	-0.3
Horizon CU	2.05	2.37	3.86	86.36	0.49	-0.5	3.6
Harborstone CU	1.91	6.52	3.14	75.47	0.54	0.7	2.8
Fibre FCU	1.63	8.20	3.77	71.27	0.39	-1.8	5.2
Salal CU	1.22	8.02	3.33	88.41	0.22	1.1	-4.8
Red Canoe CU	1.16	4.66	3.38	80.39	0.54	-4.7	11.0
Seattle Metropolitan CU	1.11	6.56	3.80	79.23	0.66	-5.0	4.0
Qualstar CU	0.98	6.99	3.29	64.06	0.97	-2.9	15.9
Solarity CU	0.87	3.77	3.59	83.70	0.23	-1.8	0.0
<b>Group median</b>		<b>7.73</b>	<b>3.47</b>	<b>72.13</b>	<b>0.45</b>	<b>0.3</b>	<b>4.6</b>

Data compiled April 2, 2024.

ROAE = return on average equity; NIM = net interest margin; NPA = nonperforming asset.

Analysis limited to largest operating credit unions by total assets as of Dec. 31, 2023, that are headquartered in Washington; excludes corporate credit unions.

Data based on regulatory filings.

Source: S&P Global Market Intelligence.

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### Dealmaking challenges for banks

While bank stocks have recovered from 2023 lows, they have still been a massive underperformer. From Jan. 1, 2023, to April 11, 2024, the KBW Nasdaq Bank Index was down about 1% while the S&P 500 was up about 35%. Depressed bank stocks and underwater securities portfolios make it more difficult for bank buyers to digest acquisitions and have opened the door for credit unions to make up an elevated proportion of the buyers in Washington's deals, Troy said.

"That really impacts what they can pay," Troy said. "In order to make it attractive to the seller, there's got to be a good premium to get them excited."

Another reason bank buyers have been less active in Washington recently is distressed deals in the state such as [FirstSun Capital Bancorp's acquisition of HomeStreet Inc.](#) and Umpqua Holdings Corp.'s [acquisition of Columbia Banking System Inc.](#), Troy said. Along with disruption from [the failure of First Republic Bank](#), these deals have created fallout opportunities for banks to absorb clients and talent organically that can make acquisitions less desirable for would-be acquirers in the short term, he added.

### M&A outlook

However, a wave of bank M&A in Washington this year is unlikely, even if the Fed begins to lower rates, Holland and Knight law partner Jeffrey Haas said in an interview.

"There's going to be a lag period, so I think you're looking at the latter part of the year and probably more realistically flowing into next year before you see any meaningful pickup," Haas said.

Still, catalysts for bank M&A remain, Haas said, adding that he would not be surprised to see a measured pickup in deal volume. Troy expects the proportion of credit union deals to decline as bank stock prices recover, and bank buyers regain the ability to pay at or close to the levels credit unions are paying. Should the interest rate environment improve, it will also relieve the pressure of purchase accounting marks on buyers, he added.

"Nobody is abandoning M&A. Conversations have been picking up," Troy said. "I think buyers and sellers both are preparing for that day."

## Washington community banks by financial performance metrics

Ranked by total assets

At or for the 12 months ended Dec. 31, 2023

Company (top-level ticker)	Total assets (\$B)	ROAE (%)	NIM (%) <sup>1</sup>	Efficiency ratio (%) <sup>1</sup>	NPAs/assets (%)	YOY deposit change (%)	YOY loan change (%)
HomeStreet Bank (HMST) <sup>2</sup>	9.38	-2.27	1.99	88.15	0.89	-9.0	0.0
Heritage Bank (HFWA)	7.17	8.29	3.54	60.77	0.47	-5.4	7.0
Coastal Community Bank (CCB)	3.75	15.35	7.19	45.47	0.20	18.5	15.2
1st Security Bank of Washington (FSBW)	2.97	13.08	4.58	61.51	0.47	18.5	9.8
Peoples Bank (PPBB)	2.41	9.57	3.84	68.16	0.21	-8.4	2.9
First Fed Bank (FNWB)	2.18	3.07	3.16	80.59	0.91	6.8	7.5
Yakima Federal Savings and Loan Association <sup>3</sup>	2.08	3.37	2.06	52.52	0.04	-3.9	8.8
Cashmere Valley Bank (CSHX)	2.04	15.57	3.35	50.58	0.31	-6.6	3.6
Timberland Bank (TSBK)	1.89	11.42	3.85	55.19	0.31	1.5	14.1
Kitsap Bank	1.65	12.66	3.45	72.55	0.00	-7.2	5.2
Riverview Bank (RVSB)	1.59	6.54	2.91	71.96	0.01	-10.6	0.2
First Financial Northwest Bank (FFNW)	1.50	5.03	2.77	78.36	0.08	1.6	0.8
Bank of the Pacific (PFLC)	1.15	13.01	4.40	64.24	0.06	-14.5	7.1
Sound Community Bank (SFBC)	1.00	7.75	3.60	74.31	0.57	2.0	3.4
Olympia Federal Savings and Loan Association <sup>3</sup>	0.96	1.84	2.50	89.35	0.28	-10.1	5.9
Seattle Bank	0.86	9.45	5.36	59.37	4.31	19.4	11.4
Baker-Boyer National Bank (BBBK)	0.71	7.81	2.88	90.56	0.17	-10.0	6.1
Mountain Pacific Bank (MPCB)	0.67	13.89	4.34	57.49	1.06	9.1	19.2
UniBank (UNIF)	0.62	9.62	3.91	49.11	1.71	5.4	4.1
Security State Bank	0.61	22.06	5.06	44.03	0.11	-11.7	6.5
<b>Group median</b>		<b>9.51</b>	<b>3.57</b>	<b>62.88</b>	<b>0.30</b>	<b>-4.6</b>	<b>6.3</b>

Data compiled April 2, 2024.

ROAE = return on average equity; NIM = net interest margin; NPA = nonperforming asset.

Analysis limited to Washington-based operating banks and thrifts with total assets of less than \$10 billion as of Dec. 31, 2023.

The middle-tier parent and ultimate parent must also have less than \$10 billion in total assets as of the most recent quarter available. In addition, nondepository trusts, industrial banks, companies with a foreign banking organization charter, companies with a bankers' bank certification, and companies with a loans-to-assets ratio of less than 25% as of Dec. 31, 2023, were excluded.

<sup>1</sup> NIM and efficiency ratios are shown on a fully-taxable equivalent basis.

<sup>2</sup> FirstSun Capital Bancorp announced the acquisition of HomeStreet Inc. on Jan. 16, 2024.

<sup>3</sup> Company has mutual/co-op ownership structure.

Data based on regulatory filings.

Source: S&P Global Market Intelligence.

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## Potential bank buyers

The most likely buyers will be publicly traded banks with less than \$10 billion in assets that have been active in the state historically, Haas said.

Three of the top 20 Washington community banks by total assets, [1st Security Bank of Washington](#), [Timberland Bank](#) and [Heritage Bank](#), have made acquisitions since 2015, and two others, First Financial and HomeStreet, agreed to sell earlier this year.

In general, Washington's community banks perform well. While the top 20 Washington community banks by total assets have experienced median deposit outflows of 4.6% year over year, median loan growth was 6.3%. Additionally, the group median efficiency ratio was 62.88% while medians for return on average

equity, net interest margin and nonperforming assets as a percentage of total assets were 9.51%, 3.57% and 0.30%, respectively.

Larger banks, on the other hand, will be more constrained from striking deals given more stringent regulation under President Joe Biden's administration, Haas said. Of the top 10 banks and thrifts by deposits in Washington, only Columbia Banking Systems Inc. has had a deal since 2020 and the buyer was not a Washington-based bank.

### Top 10 banks and thrifts by deposits in Washington

company (ticker)	Active branches (actual)	Total deposits		Capped total deposits (\$B)*
		Balance (\$B)	Market share (%)	
Bank of America Corp. (BAC)	131	45.05	21.21	33.27
JPMorgan Chase & Co. (JPM)	154	32.28	15.20	28.24
U.S. Bancorp (USB)	144	23.54	11.08	16.28
Wells Fargo & Co. (WFC)	115	21.05	9.91	17.51
Columbia Banking System Inc. (COLB)	103	15.22	7.17	13.44
KeyCorp (KEY)	144	10.64	5.01	9.37
WaFd Inc (WAFD)	75	7.72	3.63	5.85
Banner Corp. (BANR)	67	7.20	3.39	7.20
W.T.B. Financial Corp. (WTBF.B)	27	6.30	2.97	6.02
Heritage Financial Corp. (HFWA)	44	4.93	2.32	4.93
<b>Washington</b>	<b>1,395</b>	<b>212.43</b>		<b>178.78</b>

Data compiled April 2, 2024.

Data based on the Federal Deposit Insurance Corp.'s Summary of Deposits filings as of June 30, 2023 for institutions operating in Washington. Furthermore, data is pro forma of announced and completed mergers and transactions as well as branch openings and closings as of April 1, 2024. Additional branch information is collected by S&P Global Market Intelligence on a best-efforts basis. Excludes credit unions.

\* Deposits per branch are capped at \$1 billion.

Source: S&P Global Market Intelligence.

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