NewsRoom

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Acquisitive credit unions have Georgia banks on their mind

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The year's first credit union deal to acquire a bank was announced Monday, and it involves one of the largest banks that would ever be bought in such a transaction.

It also continued the trend of credit unions looking to Georgia for bank acquisitions.

Georgia's Own Credit Union has agreed to buy Vinings Bank in Smyrna, Georgia, just outside of Atlanta, where Georgia's Own is based. The bank has $653 million of assets, according to the Federal Deposit Insurance Corp., but Georgia's Own said it will take on only $471 million of those assets because the bank holds various assets that credit unions cannot legally hold.

Vinings would be the second bank purchase for the $3.4 billion-asset Georgia's Own; in 2018 it bought State Bank of Georgia in Fayetteville.

Georgia is a hot market for such deals because it has plenty of small community banks and a fair number of big credit unions, according to Mike Bell of the Honigman law firm in Detroit. There are roughly 320 FDIC-insured banks in Georgia.

It's a similar mix in states like Florida, Alabama, Wisconsin, Illinois and Minnesota, according to Bell, who represented Georgia's Own in the Vinings deal.

Additionally, Georgia's colleges and universities have made the state a hotbed of technology talent, and this in turn has fueled the growth of local banks and fintechs that seek to hire recent graduates. For example, the Community Bankers Association of Georgia and the Georgia Fintech Academy, a talent development initiative, formed an alliance in 2020 to connect students with bankers .

The Georgia's Own-Vinings deal is the seventh in which a credit union is buying or has bought a bank in Georgia, and more are likely, said Joe Brannen, president and CEO of the Georgia Bankers Association. "There is nothing stopping this right now," he said.

Acquisitive banks often cannot offer the same prices as credit unions because credit unions use their tax-exempt status to amass excess capital to use in such deals, Brannen said.

"We do not oppose a bank board of directors making a decision to sell" to a credit union "if it is in the best interests of shareholders, customers and employees. That's their business," he said. "What we get grouchy about is that Congress has done little to change the rules so that a bank acquirer can be competitive when a credit union buyer is in the mix."

The largest such deal ever announced also involved a Georgia bank. VyStar Credit Union in Jacksonville, Florida, in April agreed to buy the $1.6 billion-asset Heritage Southeast Bank in Jonesboro, Georgia. The timeline for completion of that deal has since been extended until Feb. 28, 2022.

Bell had previously predicted there would be at least 25 deals announced this year.

"I still think it's a good number," he said. "They're all stacked up right now, and they're all going to come fast," he said. Bell said another deal could be unveiled before the end of the month.

Last year 13 banks agreed to be sold to credit unions, approaching 2019's record of 16 such announcements.

Kirk Hovde, head of investment banking for Hovde Group, which advised many banks on deals with credit unions, said he would not be surprised to see 2022 break the record for most credit union-bank deals, as bank M&A is moving full steam ahead.

"There are a lot of bank acquirers that do not have much interest in the smaller banks, which leaves an opening for the [credit unions] to step in," he said. " As the need/desire for scale in the banking industry continues, I believe [credit unions] will be an ever more likely buyer of the smaller community banks."

Because many banks need scale to maintain their investments in technology and meet their regulatory costs, it's likely that larger banks will consider being acquired by credit unions going forward, according to Jacob Thompson, a managing director of investment banking at Samco Capital Markets.

"We're going to see more M&A, and I do think we'll continue to see more deals involving sellers of substantial size," Thompson said.

Georgia's Own did not disclose the price it agreed to pay for Vinings Bank, but Hovde said pricing and an all-cash payment are typically the two biggest factors when banks accept a credit union as a buyer. Georgia's Own earned $24.6 million in 2021 after it lost $10 million a year earlier, according to call report data from the National Credit Union Administration.

Credit unions don't need to extract the same level of cost savings from a deal as banks do, or they are able to defer the cost savings into later years, he said.

Many banks still have a bias against selling to a credit union, but it "is less prevalent than it was a few years ago," Hovde said. "I've had bankers tell me they would never sell to a [credit union] and then a few years later when the time to sell came along, they were fine with the concept if it meant the best price/consideration for their shareholders, employees and customers."

Additionally, credit union buyers have been a bit more "friendly" when it comes to staff retention, he said. Georgia's Own said it plans to retain all 47 full-time equivalent employees of Vinings Bank.

---- Index References ----

Company: VININGS BANK; FEDERAL DEPOSIT INSURANCE CORP; VYSTAR CREDIT UNION; HOVDE GROUP, LLC; NATIONAL MENTOR HEALTHCARE, LLC; State Bank of Georgia; HONIGMAN MILLER SCHWARTZ AND

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