THE CREDIT UNION

A Modern Alternative to a Traditional Merger

Filene Research Institute
WHAT is the Network Credit Union?

MAIN OBJECTIVE: To provide credit unions an alternative to the traditional merger option

INSPIRATION: Not-for-profit network hospital system based in Indiana

APPROVED: NCUA Office of General Counsel deems the Network Credit Union option currently permissible under the FCU Act, NCUA’s Charter and Field of Membership manual, NCUA’s existing letters to credit unions, and Office of General Counsel legal opinion letters

In 2014 the Indiana Credit Union League inquired to the NCUA on the legalities of multiple-group FCUs merging with each other with the following conditions present:

- The “merged” (non-surviving) credit union would become part of and subsumed by the “continuing” (surviving) credit union, but the merged credit union would continue to operate and serve its former members under the name: “[Merged Credit Union], a division of Continuing Credit Union”

- The continuing credit union would appoint an advisory committee composed of officials of the merged credit union to serve in an advisory role

- The continuing credit union would reserve one seat on its nominating committee for a representative of the merged credit union

- This is only a viable option for multi-SEG credit unions
WHY the Network Credit Union?

**OVERVIEW**

**SIZE MATTERS:** Larger credit unions have the most success in generating membership and loan growth.

**SCALABILITY:** The Network Credit Union enables small credit unions to scale—thereby reducing operating expenses—without compromising their identity. As a result, small credit unions can leverage a valuable opportunity to expand business operations to keep up with consumer demand and build capacity to satisfy increasing regulatory requirements.
Benefits of Collaboration

Validated by Filene Research:

→ Collaborative merger models have helped credit unions reduce costs related to audit fees, league expenses, data processing, and bonds. Collaboration opens the door for employee sharing and expanded access to IT and business development tools

/// Collaboration In Practice, 2013

→ Smaller credit unions experience great efficiency gains in a time when the entire financial services industry is rapidly evolving. The face of competition is changing with the emergence of mobile banking alternatives and the proliferation of new entrants such as Walmart

/// Credit Union 2.0, 2014

→ When back office processes are consolidated, more attention can be given to frontline staff in order to improve transaction handling and member advising time

/// A Road Map for Credit Union Collaboration, 2009
Foundation

It takes at least two credit unions merging together, along with approval from NCUA to receive the Network Credit Union designation.

Within the Network Credit Union merger process, a preliminary surviving credit union will be selected in order to minimize the market-to-market impact.

The Network Credit Union’s field of membership will be the composite of the FOMs of each credit union that’s part of the Network Credit Union.

The new Network Credit Union name must include the term “Network Credit Union.”
Governance

- Deposit insurance, safety and soundness requirements, reporting, and governance all rest at the Network Credit Union level.
- Supervision, examination, and statutory limitations take place at the Network Credit Union level.
- The board members of the Network Credit Union are elected by the members of all the divisional credit unions. Each divisional credit union has its own advisory board of directors and a CEO.
- Divisional credit union advisory boards are appointed and serve as an advisory board to the network board.
- Advisory boards do not have legal governance duties.
Strategy

Keys to a successful network credit union:

→ Democratic Governance
→ Cooperative Business Model
→ Local Identity; Shared Resources
→ Common Quality Standards

Developed by executive teams from participating credit unions detailing how to standardize compliance, financial practices, centralized support, products, technical infrastructure, risk management, and marketing.
Network Credit Union Formation

SNAPSHOT OF THE 4 CREDIT UNIONS CONSIDERING JOINING TOGETHER TO FORM ONE NETWORK

Credit Union A
- 36M in assets
- 6000 members
- 7 board members

Credit Union B
- 48M in assets
- 5000 members
- 7 board members

Credit Union C
- 7M in assets
- 1200 members
- 9 board members

Credit Union D
- 79M in assets
- 11500 members
- 7 board members
Network Credit Union Formation

Conversation is initiated between two multi-SEG, federally chartered credit union CEOs about the benefits of joining together to form a Network Credit Union.

They contact two other credit union CEOs to gauge their interest. They consider each credit union’s location, membership base, products and services, financial condition, ideals, etc.

All four CEOs meet with their Boards of Directors and devise an initial plan.

Credit Union C informs the group they are interested in operating as a branch of Credit Union D. This changes the number of credit unions in the network to three.
Initial Plan Considerations

- Network CEO and CEO of each of the new divisional credit union is chosen
- Composition of network board
- Composition of advisory boards
- Appointment of divisional credit union responsible for generating consolidated financial statements
- Centralized strategy for IT, audit, mobile and web banking, call center operations, ATMs, debit/credit cards, accounting, and marketing
The board of each credit union reviewed the merger plans, and each credit union board approved moving forward with the plan.

The minutes from the board meetings and merger plan will be submitted to the NCUA for their review.

Upon NCUA’s approval of the merger plan, each credit union will send information about the planned merger to create a new Network Credit Union, along with a ballot for members to vote on the plan.

Following certified vote tallies from each credit union, the plan, along with the vote results, will be submitted to the NCUA.

NCUA approves the merger.
Benefits

- Opportunities to create more real value for members via scale and reducing footprint of back office and related distractions from better service
- Builds a platform for further scale
- Maintains local identities and local decision-making
- Operates as more of a partnership, which opens the door for shared services, better alignment of the member experience, and collaboration
Challenges

- Difficulty gaining widespread buy-in and agreement on decision making because of the number of CEOs and boards involved.
- How will balance sheets be aggregated?
- Are long-term cost savings enough to generate a positive ROI?
- Member experience supremely dependent on alignment of all the credit unions’ products, underwriting standards, services, and delivery channels.
- Would each participating credit union operate under its own data processing system?
FAQs

Q: Will I have to give up my charter?
A: Yes, all credit unions will become divisions of the network credit union and separate charters will cease to exist.

Q: How will share insurance work?
A: Share insurance is at the network level, up to $250,000 per share owner through the National Credit Union Administration (NCUA).

Q: What will happen to my branches?
A: Branches will continue to exist but could evolve over time as market demands change.

Q: What is NCUA’s take on this?
A: NCUA issued Letter 99-CU-17 which states that a credit union may operate under more than one name.

Q: What authority do I have to grow my credit union?
A: Each divisional credit union president will work with the network president and senior leadership team to define specific growth targets appropriate to their region. The presidents will work with the centralized support areas to ensure strategies are in place to achieve the desired results.

Q: Will we have to convert systems? Assign new account numbers? Etc.
A: No, system conversions, account number changes, etc. are not required. As the network evolves, system conversions may occur to enhance operational efficiencies.
Outlook

Under the ideal circumstances the Network Credit Union Option will:

→ Enable credit unions to merge without losing local identity
→ Allow credit unions to maintain a voice in decision-making
→ Empower credit unions to be more competitive in the financial market place by delivering products and services to members under the cooperative model
→ Provide credit unions the scale needed to meet the changing needs of consumers, increased regulatory pressures and massive investments in technology/security
Examples of Network Credit Unions in North America and Additional Resources

- **Desjardins** (Québec)
- **First West Credit Union** (British Columbia)
- **Healthcare Credit Union System** (Ohio)
- **Additional resources** on the Network Credit Union idea
- Thanks to George McNichols, President/CEO of **Hoosier Hills Credit Union** in Bedford, Indiana for his unwavering contributions to the Network Credit Union concept
About Filene

Filene Research Institute is an independent consumer finance think and do tank. We are dedicated to scientific and thoughtful analysis about issues vital to the future of credit unions and consumer finance.

We live by the famous words of our namesake, credit union and retail pioneer Edward A. Filene: “Progress is the constant replacing of the best there is with something still better.” Together, Filene and our thousands of supporters seek progress for credit unions by challenging the status quo, thinking differently, looking outside, asking and answering tough questions, and collaborating with like-minded organizations.

Filene is a 501(c)(3) not-for-profit organization. Nearly 1,000 members make our research, innovation, and impact programs possible. Learn more at filene.org.

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