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# ASK ALM FIRST

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## *How Can My Institution Drive Strategic Growth?*

As depositories plan for 2020 and beyond, discussions surrounding how to best achieve long-term growth are becoming more commonplace. Why? Scale matters and the size required to achieve economies of scale seems to be a moving target. One example can be seen in the credit union movement. Since 1990, 50% of credit unions have disappeared. Yet, total membership has increased by 100%. There are simply a smaller number of credit unions serving more members – and competing with larger financial institutions via community charters.

*What Strategic Growth Avenues Should We Consider?*

What we're seeing in today's environment is not a rush of institutions merging due to financial insolvency. Rather, forward-looking financial institutions are considering the best ways to remain relevant and sustainable in the future.

When evaluated and executed properly, mergers and collaborations can create more member/customer value by reducing expenses as a percentage of assets. They can also help institutions retain high-performing employees by offering career growth and better compensation. Other benefits may include reduced compliance costs as a percentage of assets, enhanced convenience, more competitive rates, and expanded products or services.

*How Can We Avoid Potential Pitfalls in the Merger Process?*

After years of assisting credit unions and banks navigate the merger & acquisition process, I've learned many valuable lessons. One of the most important is to ask the tough questions early in the process. A real-life example of this happened years ago, when I was called in to assist two credit unions that had already been working together on a merger for months. One of the first questions I asked the two then-CEOs was who would remain at the helm post-merger. They both raised their hands. After months of preparations on both sides, the merger never happened.

Your institution can avoid those types of pitfalls by enlisting the right assistance to navigate the process and discussing the negotiable and non-negotiable aspects of any potential merger or collaboration beforehand. Everyone wants to be the surviving institution. However, what that means to individuals, executive teams and boards may differ.

*What Motivates the Different Parties?*

While each situation is unique, there are some common reasons why sellers, buyers and merging entities choose their respective paths.

- **Sellers –** Entities seeking to exit often for financial gains, financial issues, owner needs/concerns or leadership transition challenges
- **Buyers –** Entities looking to expand, often geographically or into niche businesses, by acquisition
- **Merger transactions –** Entities looking to expand, often geographically or into niche businesses, by acquisition

*Is It Better to Buy a Bank?*

While there has been more discussion about bank purchase opportunities in the credit union space recently, credit unions may want to consider collaboration opportunities with other like-minded credit unions first before spending real money on a bank. It is important to note that credit union mergers do not require cutting a check; whereas buying a bank does.

*Why Is the Right Process So Critical?*

Regardless of whether your institution is evaluating a potential merger with another credit union, considering purchasing a bank or looking at another type of transaction, following a comprehensive process is critical. From early planning, negotiation, qualitative and quantitative value proposition analysis, to post-merger integration, there are many steps that can't be overlooked. With the right process and guidance in place, mergers and acquisitions can be a beneficial decision for both parties.

To learn more about the merger and strategic growth solution services ALM First provides, interested depositories should contact info@almfirst.com.