



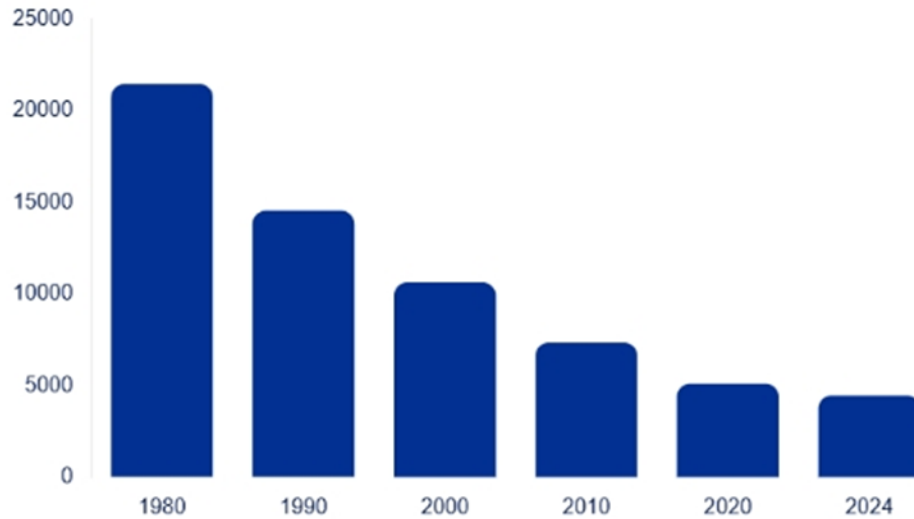
Why M&A Transactions Between Credit Unions and Community Banks Accelerating

In last few years, there has been an emerging trend in the US financial markets. More and more credit unions (CUs) are acquiring community banks (CBs). This is still a nascent trend, and the CU acquisitions are only a small portion of the total bank M&A transactions. Nevertheless, in 2024, the CU-led transactions made up almost a quarter of all transactions. This trend echoes the broader consolidation trends that we've observed both in the CU and CB industries in last few decades and we believe learnings from those trends will be useful to understand this emerging trend.

In the US, a CU is a nonprofit cooperative whose members can borrow from pooled deposits, usually at relatively lower interest rates. Over the last half a century, the number of CUs consistently and significantly reduced, at a compound annual rate of about 3.5%, due to industry consolidation, as presented below. Indeed, the current number of CUs is less than a quarter of that in 1980. The consolidation has been fueled by a few major factors, such as improving and diversifying revenue streams and reducing the operating expenses through the efficiencies and economies of scale.



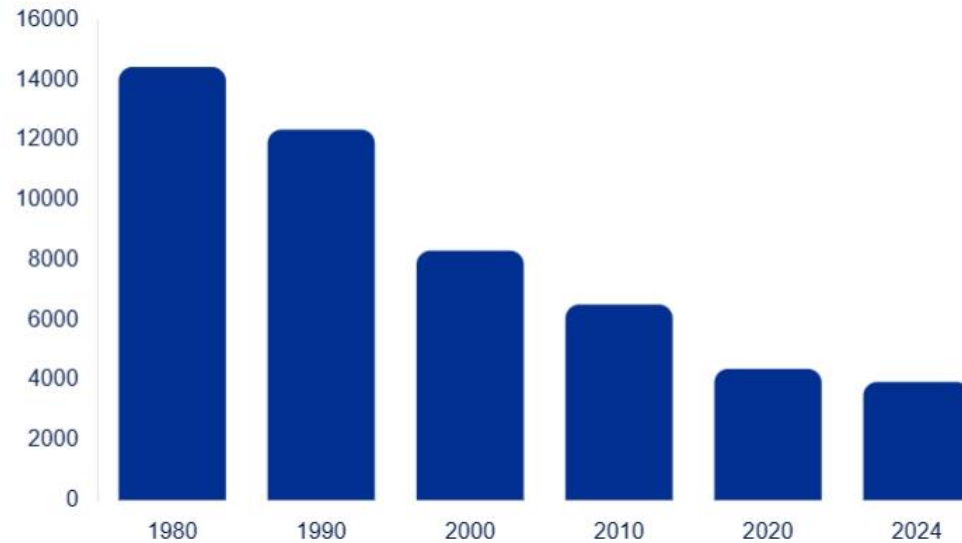
Number of Credit Unions in the US (Source: NCUA)



As evident from the data, the rate of consolidation has decelerated in recent years due to two major reasons.

First, the average CU today is significantly larger than that in the last decade. For instance, the average CU in 2010 had assets of only about \$150M. Today, the average CU has assets of about \$550M. Thus, the current pool of available CU merger targets for the is both smaller and made of much larger and more complex organizations. Second, because of the consolidation in the industry over the last few decades, the returns of any future merger diminished for the average CU.

Number of FDIC insured CBs (Source: FDIC)



A very similar trend is also evident in the number of CBs, as evident above. The number of CBs in the US has also significantly reduced since 1980, at an annual compound rate of almost 3%.

As evident from the data above, the rate of consolidation has also decelerated in recent years, like what has been observed in the CU industry. Today, nearly 70% of CBs have assets in the range of \$100M to \$1B which make them suitable M&A targets for many CUs for improving diversification and reducing the operational expenses.

We expect that the trend of CUs acquiring CBs will continue. If you are interested in learning more about our work with CUs and CBs and about how we can help you, please contact us at sei-partners.com

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