

COMMUNITY CORNER

Big credit union looks for bank acquisitions in Florida

Monday, July 23, 2018 12:57 PM ET

By Kevin Dobbs and Ken McCarthy

To date, none of the 20 largest U.S. credit unions by assets have acquired a community bank.

But that could soon change.

VyStar CU, the 17th-largest credit union in the country at \$7.57 billion in assets, makes no bones about its interest in buying a bank — or banks — as it pushes toward \$10 billion in assets.

President and CEO Brian Wolfburg took the helm of the Jacksonville, Fla.-based credit union at the end of 2017. In an interview during the National Association of State Credit Union Supervisors' annual conference last week, he said that under former CEO Terry West the credit union operated in a tight geographic area with a conservative mindset, and that it was content with solid organic growth.

But now, as it marches toward \$10 billion and subsequently faces lost interchange income tied to the Durbin Amendment and the higher regulatory costs that come with eclipsing that threshold, the company is focused on M&A. Banks for years have used acquisitions of competitors to leap over the \$10 billion asset level, arguing that by packing on extra assets they can spread new expenses over wider bases and capitalize on newly acquired business lines or markets to drive more revenue.

VyStar would represent the entrance of a credit union to this bank-deal arena.

"We don't want to just bump up against \$10 billion and trip over it," Wolfburg said. "We would really like to have in place as many cost savings as we can."

Wolfburg said smaller bank deals are more likely because more of those institutions are amenable to all-cash transactions that credit unions, which are not publicly traded, can pursue. He said small banks "might not be worth getting out of bed for" but added that in some markets that might be preferable to entering through de novo branching.

As the size of the deals increases, bank targets are often looking for a cash-and-stock combination, which a credit union cannot provide. "But we are trying to figure out how to compete in that space," he said. "We've come up with ideas, and we've talked to regulators about what could be a 'stock-like' scenario."

Wolfburg was not in a position to disclose more details about those talks. But if it can overcome those hurdles, the credit union is definitely interested in doing larger deals, he said. "We probably want to stay south of \$1 billion just because of the impact on the net worth when the asset size increase that quickly," he said.

Wolfburg said the idea of buying banks appealed to him when he previously worked as COO of Anchorage, Alaska-based Alaska USA FCU because it appeared to be an efficient way to create density. So when he took the job with VyStar, it was something he wanted to pursue immediately, and the credit union's directors are on board with that plan.

The Jacksonville community bank market has seen a spate of deals in recent years. But the VyStar executive is confident that the surrounding region is still ripe for further consolidation.

In some of its original counties, VyStar has upwards of 30% to 45% of households as customers. So the credit union is looking for banks at the outer edges of its geographic footprint, which includes 22 northeast-to-central Florida counties. Wolfburg pointed to places including Volusia County, Daytona Beach, Orlando and Lake City as sites for potential bank buys.

Thomas Rudkin, a principal at DD&F Consulting Group and an investment banker active in Florida, said several small banks in those markets would consider selling. He said they are looking to gain the heft necessary to manage regulatory costs, to expand product offerings for their customers and in some cases to resolve leadership succession at banks whose top executives are nearing retirement.

Rudkin also told S&P Global Market Intelligence that pricing on bank deals has been favorable for sellers over the past year, and that banks that might sell are eager to do so before the environment shifts. He said that, while it is still uncommon to sell to credit unions, such deals have occurred often enough in recent years that would-be sellers are typically receptive to offers from credit unions.

The largest credit union to acquire a bank thus far was Lake Michigan CU, with \$5.46 billion in assets. It announced in 2017 that it would buy Encore Bank.

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