

Speaker 1:	00:01	On the show today we have Howard Howard Michael Bell talking about the growing trend of credit unions acquiring banks. Check it out.
Speaker 2:	00:11	Welcome to our show and on today's program we have Mr. Mychal Bell from Howard and Howard how are you sir. Really good my good to talk with you again. Good to talk to you too. I'm like and I'm like a lumberjack. Look that's a good look for you.
Speaker 3:	00:23	Thank you. It's a Michigan thing this time we are going to stay warm.
Speaker 4:	00:26	I know you were just telling me before the recording that you guys have a few inches of snow on the ground already. Congratulations.
Speaker 5:	00:32	Yeah thanks. We do more coming right. Is three or four more months of this.
Speaker 6:	00:36	Yay yeah yeah. Kind of. I know. Well we have a white Christmas be fund. So that's right. The kids will dig it. All
Speaker 4:	00:46	right. Hey we're talking about another interesting very interesting topic here. Credit unions acquiring banks this is something that's always piqued my interest. And you have several announcements several of these kind of in the hopper we were talking about before the recording one of which I saw a story in Korean journal about Georgia's own credit union set to acquire the State Bank of Georgia. So this is I mean although it's you know it's a first for this state. You know we've been seeing more and more of this happening. So what's going on with this trend. What's going on here Michael.
Speaker 3:	01:14	Yeah that's right Mike you raised that announcement that was kind of I think mid November. Interestingly enough shortly after that we announced SRP Federal Credit Union there in South Carolina but also Georgia buying Southern Bank which is a Georgia bank. So for some reason in November we've got two Georgia banks one signed to a Georgia credit union one to a Federal Credit Union it's in Georgian's out there right. Right. And I'll tell you that you know it hasn't happened yet so we can't talk about it but there's one that I expect to announce this month. And then in the beginning of 2018 there's a few more that the trends that trend line on this is striking sharply upward really slow. What are these. Yeah and I remember we talked I forget how long it's been a couple of years ago maybe on this

are few but I kept saying there'll be more there'll be more but I'll tell you that if you follow the news stories on the I've been saying and I'm saying this is this is the moment.

- Speaker 3: 02:15 I mean we're at the top of the bell curve. This will always be relevant but right now activity levels have never been higher yet so why is it why is it why is it OK so why is it.
- Speaker 4: 02:23 Why are we hitting the high watermark here. What's going on.
- Speaker 3: 02:26 You know there's really two ways to talk about it internal to our industry. There are plenty of really strong solid credit union buyers. You know they've got capital. They've got sophisticated management and they want to grow. And we're a credit union. There's only so many things you can do with your capital. You don't build a best in technology but. Buy investments. But this is a whole different animal and really leads to some strong results. Cutting in line is now now understood that and agrees with him. And so we have of strong buyers on the other side of the equation and bank lambled. Now let me say a small bank land about 500 or less in assets. Know pricing for them has gone up enough where today you can sell and perhaps get you know a decent return. But their regulations have not gone any easier just like ours.
- Speaker 3: 03:23 It's not easy to be a small bank. It's more expensive to be a small bank than a credit union. A succession plan issues you name it they have are issues and I even multiply and so they have more and such that they're now selling they need to find a way to exist or if not exist to have an equity event and be Dunton it can sell us. So the credit unions and you don't take care of their people. We keep the branches open we take care of the community. So it's a pretty story that lets them reach a conclusion.
- Speaker 4: 03:59 So is it. So my next question is are are small they smaller banks looking for buyers or credit and looking to buy or is it a mix of both.
- Speaker 5: 04:09 Yeah I think it's a mix of both. That's what's that's what's really causing this activity. So for the last seven or eight years I've been beating the drum for Korean buyers every chance I get. We're here. Let us have a chance let's buy that that's now worked in my mind such that. The professionals out there that sell small banks know about it and they're now leveraging it because let's be honest as I said to them what's the worst thing that can happen either the credit union succeeds or they raise the price. And so a seller or a selling bank has nothing to lose by

including us. And I think that message is resonating. Just to give you a little example. Bank director is a pretty significant trade association the bank world that they have a conference every year that's strictly about mergers and acquisitions in bank world.

- Speaker 5: 04:59 And this year at the end of January they've asked me to come speak as to why a bank should entertain a credit union buyer. Wow. Wow. So I can tell that's something I talk to them about to be honest for some time. He knows for sure too. But they agreed they said you know this is real this is happening. This is our event our people our constituents need to hear this. And so I'm going to give the message and tell our story in about 45 days. I
- Speaker 6: 05:26 would like to be a fly on the wall in that room. Just all just to observe you know just wow. That's going to be I would like to talk to you after that. That would be really interesting conversation I think.
- Speaker 2: 05:37 Yeah we'll see how that goes as it goes for it. Yeah yeah. I'll survive but I won't talk about it. Right. So so how does the how does that without getting into too deep of.
- Speaker 4: 05:49 Details. How does the how's this process work. I mean obviously OK say a is looking they see a candidate bank. You know that's I guess for sale. What steps do they need to take without getting too detailed.
- Speaker 5: 06:03 Yes so really I think when a bank sells it it's going to really happen one or two ways and this is the easier we're talking about it. The banks are going to be or want to go through a formal process or go one on one. And so most banks will retain a professional investment bankers is charged with selling them running the process. And you know I don't know if I could say eight out of ten happened that way but it's a majority. OK. And that instance that professional bank really set off a process and they'd go out requalify or seek buyers. And so these professionals regularly contact me and then my clients who get involved in that process. Well again. Yeah those professionals. It's almost like selling homes but it's banks. Yeah I was thinking the same thing. Yeah it's different in that you know they put together a really detailed plan.
- Speaker 5: 06:58 So you get this memorandum and explains You know here's some information data you have until this date to give us a bid. And there's different steps. Absolutely. I have seen a slight increase just like in those professionals now realizing the

options there. And when they have a small bank client they sometimes will reach out to me and say look I've got a seller who go exclusive or one on one. Here's the price wienie. And so if that's something that my clients can meet and it's a good deal for both of us avoid the hassle of the process right which would be interesting.

- Speaker 6: 07:35 Yeah I could imagine I could imagine. So yeah. So I mean gosh I'm trying to think of flake. I was thinking the whole the whole process I mean is it a difficult thing to do or is it or is it kind of a kind of inviting thing to do for a credit union if they're looking to do that sort of thing.
- Speaker 5: 07:53 So for equity and buyer it's never done as I explained it this way. Tell them that this process and by the way this would work for the formal process or the one on one really is scientific and that once you do it once there's a huge education curve that you then blow through and you're ready each time. And so you know there's certainly costs there's certainly time and there are some risks that if you try it it will work. But on the upside I sincerely believe that there is this learning curve that we just beat through and the next time something comes up your that much smarter or better quicker and the process of the process is to step back really involves myself senior management and then the board to an extent that this part of the process is really your management. Okay. And then we'll also team up with a valuation professional so we can run some financial models and induce is really amongst the three of us.
- Speaker 5: 08:54 Can. We handle it and that process usually happens within a couple of weeks to three weeks and we're we're at a situation to know if we want to move forward and what we want to do it.
- Speaker 6: 09:07 Okay. Very cool. My next question I was thinking about pros and cons. To this. I mean are there. I mean you have a couple of pros and cons each that you could literally do.
- Speaker 5: 09:18 First I'll start with the negatives. Okay this is important right. I can sometimes I'm so excited and positive about this it's almost like I'm trying to sell something but I think it's important. There's definitely nuggets and I'll tell you I've got some clients that as an example are you know one of my clients has a very strong organic growth machine are growing their loans and loan products you know without getting to specifics but not just very strong remarkably strong such that at this moaner they really shouldn't be deploying their capital in a non organic way and acquiring something they need to deal with their organic loan

machine. And that leads to this negative in that your growth is so strong.

Speaker 7: 10:02 This probably isn't the moment for you to also do this both numerically right for them for that for the reasons and management and the second negatives that I explain is real. You know boards and senior management have to be comfortable with probably writing the largest check they've ever written or making the largest spend of their capital ever. I mean this is this isn't just buying technology or deciding to build a branch. I mean this could be four five six seven times that. So I get introspective that perhaps you know isn't isn't what they want to do. You know it's not something for that already. OK. Now on the flip side the positives. I'll tell you that when you look at this investment so you can choose to spend your money to a branch of a lot of numbers or to buy an existing operation.

Speaker 7: 10:59 I'll tell you when you look at the numbers and the payback on this model buying operation it is remarkably stronger such that even though you're going to run a really big shot. Your investment typically comes back to you within a year to three years. Streamy part that's fast. Yeah the nature of the accounting science. And then just the inherent facts when you buy a bank and their sense model versus ours are so powerful that from day one the moment you close. So it's usually on a Friday whether you open on Saturday or Monday. I'm saying that I 100 percent guarantee which is rare people in my profession that it will be revenue positive. It throws off revenue from day one. I can imagine. Unlike if you make an investment you know in a branch you have to follow the members.

Speaker 7: 11:49 That's not revenue positive for. Five years. Yeah. So the positive is the extent to which this is a good numerical accounting investment. And also it's really a powerful tool to pick up geography. You know if you identified on a server. This is the fastest and cheapest way to get there. Yeah I can be very strong and most of my clients will tell you to be honest. I encourage them to think geography first. You know there's so many details when you're going to do a transaction like this that I strongly encourage the first analysis the first bit spent on. The geography you know where are these branches because we can't can't move them. I mean they're they're going to be in that town. Do we want to serve that community. What are those metrics look like for us once we get past that we absolutely get in great detail but that's often the starting point to get us down.

Speaker 6: 12:47 Okay very good. Al that's that's exactly why I was looking for exactly what I'm looking for. Hate to wrap up here because I

know you got a lot of stuff on your plate. You have some snow on the ground. So we see this trend increasing in 2018. I mean just having said what you said at the very top of the interview.

- Speaker 5: 13:03 So you know Mike I do it it's it's interesting because it has already increased right the last half of this year has been the busiest I have seen in the last nine or 10 years that I've been doing. But every moment I see that I think where the pace can't continue it actually keeps increasing such that I do expect an uptick in activity to continue towards. You know obviously as we round out December and then into 2018 the factors are there things in the market are cyclical. We all experience that this cycle this moment in time is extremely right for these transactions. I'll give you a corny analogy that I think is extremely appropriate hope. Sure Joel that moment when were kind of in a rush to get somewhere near to stop whiteners one car in front of you. Yeah and turns green and they don't move. Yeah. Likely you politely say to yourself hey it's not getting any green.
- Speaker 7: 14:01 You know. Which is true. It's going to and recycling. Time to go. Yeah that's what this moment is I'm suggesting that if this is your IBH year of your interest then it's not any great. This is that moment can happen is for pricing to go up right if you know little economics you know those cycles you can understand that this kind of demand this kind of supply level is going to change. You shift in price you keep walking up this moment in time is the greenness is going to get. There will always be relevant. We're going to do these transactions every year but we'll certainly see a lot at some point with the high watermark now. Wow.
- Speaker 6: 14:43 Wow. Great message to end on. And that certainly sounds like Southern California real estate. It's just like you're buying little tiny garages for five billion dollars. But anyway that's another show but man this is such. I mean I've always been interested. So thank you for the education Michael and this sounds like a white paper in the making as well. So the fact that time really gets it.
- Speaker 4: 15:03 Well thank you so much appreciate it. Let's check back again maybe halfway through the year and see how the trend is probably increasing still so good to find out.
- Speaker 3: 15:12 Not to do it. Mike I appreciate you broadcast and happy to share any time. All

Speaker 4:

15:16

right very well sir thank you very much for your time today. And keep up the good work. Thank you.