Preferring the Scalpel to the Hatchet:

Expect Credit Union Branch Transactions to Become More Prevalent

This article posits that credit union branch sales will become more popular in the coming months. First, the article briefly discusses the general drivers behind credit unions consolidation. Next, it explores potential advantages of the branch sale transaction versus the full merger. Then, the article explores some of the technical considerations and operational process involved in accomplishing a successful branch transaction. We hope that the piece will offer valuable insight to credit unions as they consider the full panoply of strategic alternatives in the coming months and years.

The credit union industry is undergoing a period of sustained transformation, shaped by a convergence of regulatory, economic, and technological pressures. Industry consolidation has been a particularly prominent trend over the last several years, as an increasing number of credit unions succumb to the significant headwinds facing the industry. To date, the consolidation has been realized through a steady stream of deals in two flavors: (1) credit union-for-credit union mergers and (2) credit union acquisitions of community bank assets and liabilities. While these full-firm transactions have traditionally been the preferred vehicle for consolidation, we anticipate a growing emphasis on branch transactions in the months ahead. The more selective, strategic decisions to sell, acquire, or consolidate branches can offer a nimble alternative to the finality of a merger and might provide a reliable avenue for credit unions to improve financial performance or better align geographic footprints with member needs.

To understand why branch transactions are poised to become more common, it is helpful to examine the larger drivers of consolidation within the credit union space.

The Drivers of Credit Union Consolidation

As industry assets have climbed steadily, the number of credit unions has continued to shrink. An industry that counted more than 10,000 credit unions at the start of the century, has seen more than half of those organizations disappear via consolidation or liquidation. As *Image 1* on page two illustrates, by our conservative estimates, we expect fewer than 4,000 credit unions will remain by 2030.

We hope that the piece will offer valuable insight to credit unions as they consider the full panoply of strategic alternatives in the coming months and years.

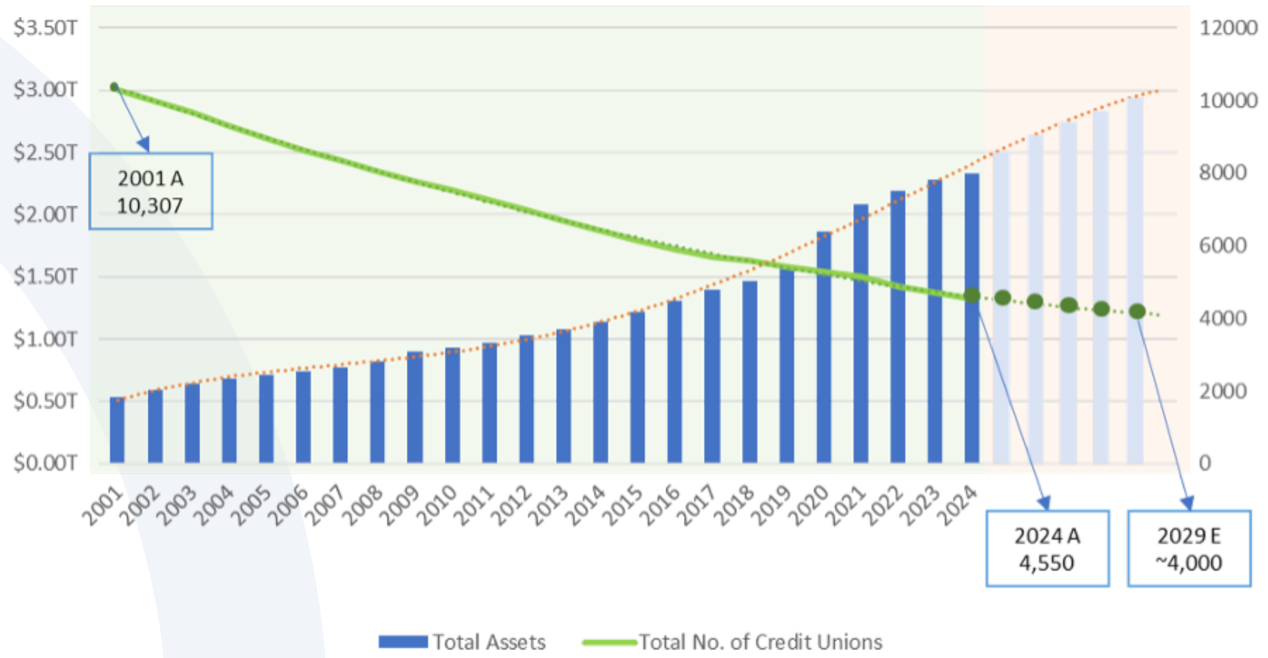

Image 1

Several macroeconomic and structural forces are coalescing to drive credit unions toward consolidation. Each is addressed briefly in the section that follows:

Aging Leadership

First and foremost, many of America's 4500+ credit unions are confronting an aging c-suite and an aging board of directors. In adopting a new succession planning rule last year, then NCUA Chairman Todd Harper conceded as much, obeserving that

> "[t]his final rule on succession planning establishes a way for the NCUA to address one of the most common causes for unplanned and unforced credit union mergers."[1]

Rising Cost of Regulation

Credit unions are also contending with the growing complexity and cost of regulation and compliance. The 2008 financial crisis ushered in a wave of new rules. For small and mid-sized institutions, the financial and operational burden of complying with these requirements is disproportionately high. Merging with a larger institution often provides enhanced regulatory expertise, access to a more robust compliance infrastructure and a larger asset base to spread fixed costs.

Increased Costs of Branches

Our analysis tells us that, over the past decade, the real cost of running branches has more than doubled. As Image 2 illustrates, in the period from Q1 2015 to Q1 2025, the total office operations and occupancy expense category more than doubled industrywide (from $2.14B to $4.35B), while the total number of credit union branches only grew by 14%.

[1] *See NCUA Chairman Todd M. Harper Statement on the Succession Planning Final Rule,* (Dec. 17, 2024), available at https://ncua.gov/newsroom/speech/2024/ncua-chairman-todd-m-harper-statement-succession-planning-final-rule.

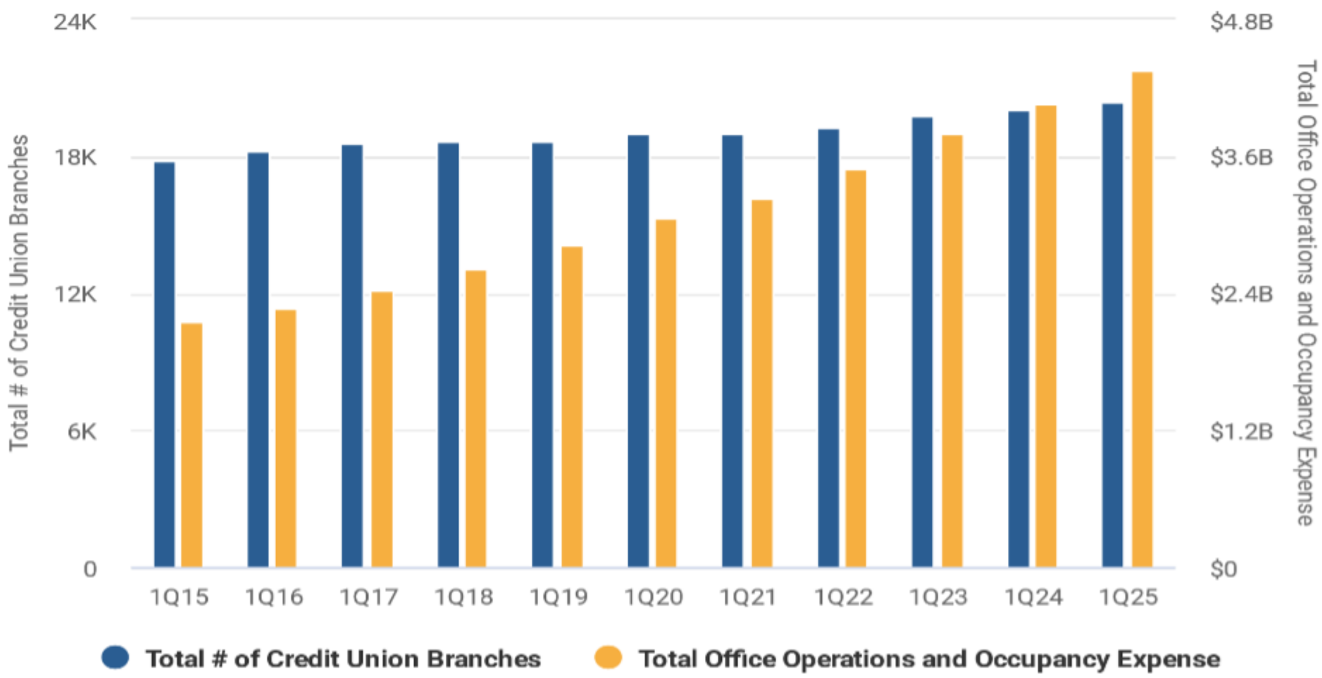

Image 2

Increased Burden of Technology-Related Costs

Technological expectations from financial service consumers are escalating rapidly. Members now demand seamless digital banking experiences, 24/7 account access, and integrated financial tools. The cost of upgrading core systems, maintaining cybersecurity, investing in robust anti-fraud systems, and maintaining mobile platforms is often beyond the reach of smaller credit unions. Consolidation offers scale, allowing institutions to make the necessary investments in technology without jeopardizing profitability.

Balance Sheet Pressures

Most recently, interest rate volatility and competitive pressure from fintechs and large national banks have narrowed net interest margins, further compressing earnings. The tightening of monetary policy by the Federal Reserve in the post-pandemic period substantially increased competition for deposits. This competition caused the repricing of deposits to outpace the repricing of loans. This phenomenon was observed particularly at credit unions, since credit unions typically make less use of floating rate products and hold a larger dollar amount of member mortgages on balance sheet rather than selling them into pools. Increased provisions have further compressed credit unions' true margin on their core lending business.

In addition to these pressures, the structure of the credit union industry lends itself to increased consolidation. As the table below illustrates, while 83% of the industry's firms hold less than $500 million in assets, more than half (53.2%) of the industry's assets are concentrated in institutions with between $1billion and $10 billion in assets.

Asset Size	No. of CUs	Total Dollars	% by Number	% by Dollars
$100B plus	1	$190B	>1%	8.0%
$10B - $100B	19	$391B	>1%	16.4%
$5B - $10B	61	$449B	1.3%	18.9%
$1B - $5B	376	$816B	8.4%	34.3%
$500M - $1B	291	$207B	6.5%	8.7%
$100M - $500M	1,072	$245B	24.0%	10.3%
Less than $100M	2,649	$78B	59.3%	3.3%

Image 3, Source: Data from Callahan and Associates (as of Q1 2025)

Given these headwinds and an increasingly uncertain macroeconomic backdrop, it is not surprising that more and more credit unions have turned to consolidation to broaden their deposit bases, increase lending capacity, and reduce operating expenses per asset. In this context, mergers have often been viewed as the most direct path to scale, diversification, and long-term sustainability.

To date, the decision tree for credit unions has been limited to merging themselves out of existence or redoubling efforts to go it alone. Full-scale mergers come with limitations: they require extensive regulatory approval, member consent, and integration of complex systems and cultures. This process can be time-consuming and expensive and may not be appropriate for credit unions seeking more targeted solutions. Also, the closure of a branch might also seem unsatisfying. While such a step might offer operational savings, it must be weighed against the loss of a physical billboard and the potential reputational risk that might follow from a tactic that can be viewed as an abandonment of members and frustrating to the credit union mission. Enter the branch transaction and our thesis that it might provide a middle ground – offering the potential for balance sheet improvement and geographic rationalization.

Branch Transactions: A Strategic Alternative to Full Mergers

Branch sales can provide a modular, lower-risk alternative to full-scale mergers. For the selling credit union, instead of parting with an entire institution, a transaction can be crafted as a more precise restructuring. Thus, a branch transaction can allow institutions to achieve greater efficiency, expand market presence, and improved financial health, without casting away control of the entire firm. For the acquiring credit union, assets and liabilities can be acquired in smaller bites, without assuming all the liabilities and obligations that transfer in a full merger.

We expect more credit unions to pursue branch transactions for several compelling reasons, each described briefly below:

1. Improving Financial Ratios

Selling non-core branches can lead to immediate gains in financial performance. By divesting branches with low deposit volumes, weak loan production, or high fixed costs, credit unions can improve efficiency ratios, loans to shares ratios and return on assets. The proceeds from these sales can be redeployed into more desirable locations, higher-growth digital channels, member-facing technology, or capital reserves. Credit unions have limited funds for capital expenditure and should concentrate these funds in markets demonstrating the highest return on investment. A well-constructed branch sale can create more funds for capital expenditure while eliminating a lower performing location.

For acquiring institutions, branch purchases can represent a capital-efficient path to growing deposits and expanding lending capacity. This path can be especially enticing in areas with strong demographics or underserved populations. In contrast to full mergers, which often carry redundant infrastructure, targeted acquisitions of branches allow for cleaner, leaner expansion. Even in acquiring a branch that is seemingly underperforming for the selling credit union, the acquiring credit union can bet on its ability to apply its own model and brand to the branch or to consolidate existing market share.

2. Rationalizing Geographic Coverage

Today, many credit unions find themselves with fragmented or suboptimal geographic footprints. Anecdotally, this seems especially prevalent among those with legacy community charters or that have acquired other credit unions through multiple prior mergers. In some cases, branches are located far from the institution's core market, starving them of resources and leadership. These branches could simply be closed, but the question then becomes whether the credit union will retain any members in this market or whether attrition will result in these members joining other financial institutions. Additionally, a credit union owes its member owners a fiduciary duty and closing their only point of physical access can hardly be framed as being in the member's best interest. In either case, the credit union loses these members. In one case, simply through reduced service. In the other, by allowing members to take part in the cooperative mission and governance of their credit union.

Branch transactions can offer an elegant solution to this challenge. By shedding branches in distant or otherwise underserved regions and acquiring locations in high-opportunity markets, credit unions can realign their physical presence with strategic priorities. This is particularly relevant in the current market, where remote work and changing migration patterns have reshaped community boundaries and member behaviors.

Moreover, rationalizing the branch network does not necessarily mean shrinking it. With time, we expect that some credit unions may pursue branch swaps whereby they might sell non-core branches in one market while acquiring branches with better strategic alignment. As demographics shift, credit unions must be proactive in meeting members where they are. For example, a low-income credit union struggling to maintain the designation might divest branches with a higher income membership. This flexibility makes branch transactions an appealing tool for credit unions seeking agility without full organizational upheaval.

3. Responding to Shifts in Member Behavior

Certainly, digital adoption among credit union members has accelerated dramatically, especially in the wake of the COVID-19 pandemic. Many members now prefer mobile banking utilizing branches for complex or high-touch services such as mortgage consultations or financial planning. As the role of branches changes from transactional to high touch, credit unions are rethinking their branch strategy.

This is not to say that branches are unimportant. For example, a market study from UKG validates the continued importance of the branch activities that cannot be replicated online:

> "A key reason for the persistence of branches is that many people still like to use them. While COVID-19 has accelerated the shift to digital in consumer banking behavior, branches survive because they remain a venue of

choice for high-value and complex transactions... People tend to trust face-to-face interactions more than digital interactions. Talking directly to well-trained staff is often more efficient than wading through information online or doing the rounds with a call center to speak to the right person. With the right relationship, a branch has the potential to become a one-stop shop for financial products and a seamless part of the omnichannel banking experience."[2]

Furthermore, for credit unions with low-income members, branches remain critical to the industry's mission, as "the digital lives of Americans with lower and higher incomes remain markedly different."[3] For example, a recent Pew Research Center survey found that:

- Roughly a quarter of adults with household incomes below $30,000 a year (24%) say they don't own a smartphone.
- More than four-in-ten adults with lower incomes do not have home broadband services (43%) or a desktop or laptop computer (41%).
- By comparison, each of these technologies is nearly ubiquitous among adults in households earning $100,000 or more a year.[4]

Accenture's 2023 Global Banking Consumer Study also found that "consumers still rely on branches for specific but important transactions,"[5] observing that "[i]n the past 12 months they used branches more than any other channel to open accounts, get advice and acquire new products,"[6] and noting that 63% of respondents "turn[ed] to branches to solve specific and complicated problems."[7]

Against this backdrop, credit unions are responding by reshaping their branch strategies, investing in potentially fewer higher-value locations. Rather than closing branches and risking member dissatisfaction and negative press, selling non-strategic branches to peer institutions offers a smoother path. This approach ensures continuity of service to members while enabling credit unions to focus on high-return investments like digital capabilities and advisory services.

Accomplishing a Successful Branch Sale

From start to finish, a branch sale requires a significant commitment of time and resource. After a credit union has decided to sell branches, it will typically create a confidential presentation describing the opportunity. Once appropriate non-disclosure agreements are in place, the presentation will be shared with prospective buyers. Those potential buyers will be asked to submit bids by furnishing a letter of intent by a date certain. Once those bids are collected and assuming there are satisfactory bids, the selling credit union will select a winner based on a number of considerations including the total consideration, and the expected experience for its affected members and employees. The winning bidder will usually enter an exclusive period of sixty days to review materials assembled by the seller in a secure data room.

[2] 2022 UKG Teller Line Study, at 5, available at www.ukg.com/sites/default/files/2022-07/sd0237-usv6-2022-teller-line-study-wp.pdf.
[3] See Emily A. Vogels, Digital divide persists even as Americans with lower incomes make gains in tech adoption, Pew Research Center (Jun. 22, 2021), available at https://www.pewresearch.org/fact-tank/2021/06/22/digital-divide-persists-even-as-americans-with-lower-incomes-make-gains-in-tech-adoption/.
[4] Id.
[5] Michael Abbott and Kim Kim Oon, *Global Banking Consumer Study, Reignite human connections to discover hidden value, Accenture* (Mar. 21, 2023), available at www.accenture.com/us-en/insights/banking/consumer-study-banking-reignite-human-connections.
[6] *Id.*
[7] *Id.*

During the exclusive due diligence period, the parties' counsel will negotiate a definitive purchase and assumption agreement to memorialize the transaction. Because specific assets and liabilities will pass, they must be specified carefully. Once the definitive agreement is executed, the parties will issue a press release and manage the member communication process. They will also work together to produce the merger package for the NCUA (and state regulator, if necessary) approval. While that review typically takes 60 days, recent NCUA staffing cuts make it likely that it will be extended for some additional period. Following regulatory approval, the selling credit union will hold a member vote of effected members and close the transaction shortly after a successful outcome.

The Members Transferred

There is no exact or prescribed method of determination for the members that a credit union will include in a branch sale. Typically, the scope of the transaction will be negotiated between the selling credit union and the acquiring credit union and carefully described in the definitive agreement that memorializes the transaction.

To the extent the branch being sold services a distinct geographic area, the members associated with that geography will likely be transferred. For example, in deciding whether members will be part of a transfer or not, shedding credit unions will often look to a particular set of zip codes, a set of counties, or an entire state as an appropriate measure of demarcation. Once the members included in the transfer are established, the loans and shares associated with those members should move along with their corresponding credit union member.

The Assets Transferred

Again, there is no exact or prescribed method of determination for the assets transferred. Instead, the specific loans, investments, cash, land and building that will be transferred are negotiated by the parties. Of course, the assets must be associated with the members associated with the branches being sold. Typically, the parties engage in negotiation around non-performing assets or specific loan types or other assets beyond the purchasing credit union's concentration limits.

There is no loss realized by the seller on underwater assets, and the buying credit union potentially converts those unrealized losses into goodwill. In certain situations, selling credit unions can structure the transaction to create a liquidity event by including more loans and investments than liabilities. Such a structure would result in the buying credit union transferring cash to the selling credit union, creating a liquidity gain for the seller.

The Liabilities Transferred

As with assets, there is no exact or prescribed method of determination for the liabilities transferred in a branch sale. Typically, shares are the only liability transferred. And again, the liabilities must be associated with the members affected by the sale.

The Consideration Paid

While there is no express requirement that a purchase price accompany a transaction, one is customarily included to recognize the inherent value of the deposits and the memberships being transferred to the buying credit union. Typically, the purchase price is expressed as a percentage of the deposits being transferred. For example, a deal transferring $100 million of deposits for a $4 million purchase price would be expressed as a 4.0% premium.

The selling credit union recognizes the transaction premium as income, but it is not an expense on the acquiring credit union's balance sheet. Instead, the premium, after allowing for fair valuation of the assets and liabilities, is recorded as a core deposit intangible or goodwill.

Regulatory Approval and Member Vote

Credit union branch sales can be thought of as a mini merger, as both include a member vote, regulatory approval and purchase accounting. As a general matter, the term "spin-off" is used to describe the branch sale, which typically includes the transfer of members, loans, deposits, certain employees and certain real property. As with mergers, a majority of the affected members must approve the transaction, as required by Part 708 of the NCUA Rules and Regulations. Only those members whose shares are to be transferred are permitted to vote and members whose shares are not being transferred do not vote. If the spin-off is approved by the voting membership, all members of the group to be spun off are transferred, regardless of how they voted or if they voted at all. Finally, the transaction must also be approved by the appropriate NCUA regional director(s), and, if applicable, state regulators, a process which takes at least 60 days.

The Timeline of a Typical Transaction

From start to finish, credit unions should allow almost a year to complete a transaction from its idea phase through day one execution. This timeline can be extended as parties struggle with the complexity of the process to identify the individual assets and liabilities included in the transaction. The recent reduction in headcount at the NCUA is also likely to increase the time for regulatory review. While each deal has its idiosyncratic considerations, the illustration below highlights many of the guideposts along the typical transaction timeline.

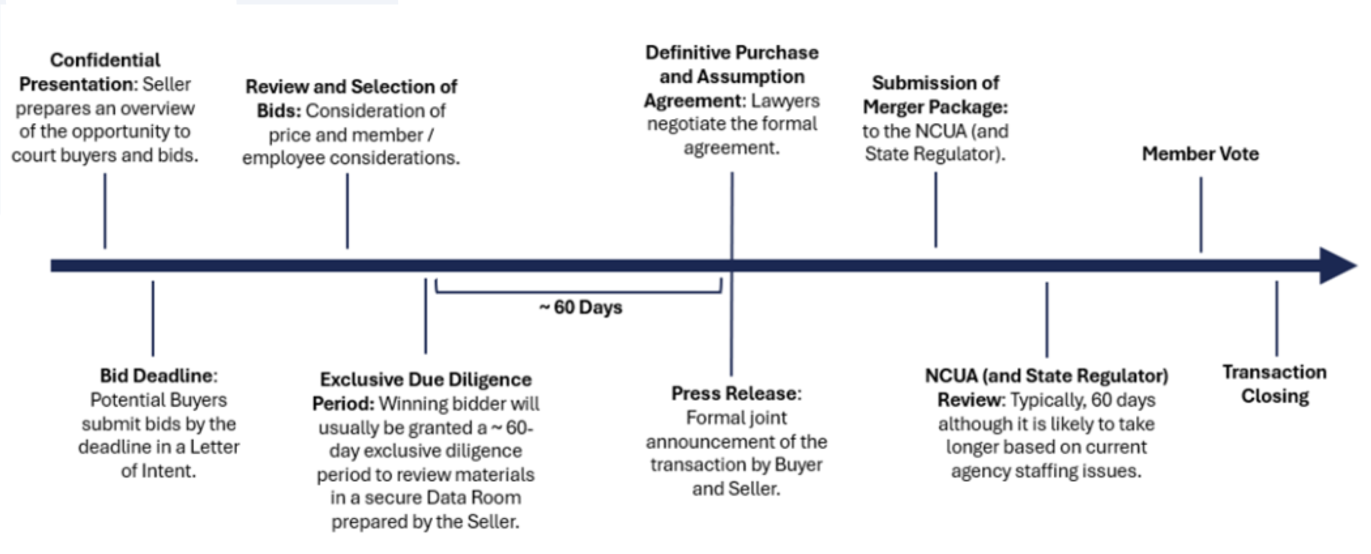

Image 4

Conclusion

The consolidation of the credit union industry is not a new trend, but the tools being used to achieve that consolidation are evolving. While mergers and acquisitions will remain an important mechanism for growth and stability, branch transactions can provide a more targeted and flexible alternative which can be particularly appealing against a challenging economic and regulatory landscape.

As credit unions look to optimize financial performance, reshape geographic coverage, and meet shifting member expectations, we expect branch transactions to rise in prominence. They allow institutions to capture many of the strategic benefits of consolidation, without the complexity of full mergers. In that sense, they can offer a compelling path forward in a period of industry reinvention.

For credit unions navigating an increasingly competitive and technologically demanding future, branch transactions represent not just a stopgap, but a potential strategic lever for sustainable growth.

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