

LEGAL UPDATES AND NEWS

Credit Union and Federal Savings Bank Strike Landmark Merger

In the first merger transaction of its kind, on March 1, 2012, Monadnock Community Bank, a federal stock savings bank (the “Bank”), and GFA Federal Credit Union (“GFA”) entered into an agreement whereby GFA will acquire through a purchase and assumption transaction substantially all the assets and assume substantially all the liabilities, including all deposits, of the Bank and pay \$6.4 million in cash that will be distributed to the shareholders of Monadnock Bancorp, Inc. (the “Bancorp”), the parent holding company of the Bank.

This type of transaction creates new expansion opportunities for credit unions and a broader range of acquirors for banks. Many community-based banks and credit unions have similar balance sheets and philosophies of customer service and, therefore, a merger may prove to be very attractive and provide many synergies.

Background

The Bank was originally chartered as a credit union and converted to a federal mutual savings bank in the late 1990’s. In 2004, the Bank converted into a mutual holding company structure and raised \$3.2 million in new capital. In 2006, the mutual holding company converted to a full stock company and raised an additional \$5.6 million in new capital. This mutual holding company structure, followed by a full stock conversion, has been used by a number of former credit union clients of this firm. The Bank also participated in the Capital Purchase Program which was administered by the United States Treasury Department (“UST”). The preferred stock issued to the UST will be redeemed at the completion of the transaction.

At December 31, 2011, the Bancorp had \$82.6 million in assets, \$48.7 million in deposits and \$7.2 million of stockholders’ equity. GFA had \$345.0 million in assets, \$269.4 million in deposits and \$43.0 million of members’ equity as of that date. The Bank has one office in Peterborough, New Hampshire and GFA, headquartered in Gardner, Massachusetts, operates out of 7 branches in Massachusetts and one in New Hampshire.

The transaction provides GFA with access to additional markets adjacent to its primary market area in Worcester County, Massachusetts. GFA’s resources will provide more locations and lending options for the customers of the Bank. The former board members of the Bank will be given the opportunity to serve as advisory board members of GFA and the former employees of the Bank will be offered positions with GFA as appropriate. The transaction has been well received by the employees of both the Bank and GFA and the local community.

Credit Union Benefits

Although there have been a number of acquisitions of credit unions by mutual savings banks, acquisitions of banks by credit unions have been rare to date. The acquisition of a bank provides a credit union with a number of benefits including commercial lending expertise, an expanded customer base, increased earnings potential, additional capital and an increased asset base to support increased member business lending. Since credit unions may only offer cash as merger consideration in the acquisition of a stock bank, the credit union would typically need to be larger than the bank. If the acquisition is of a mutual savings bank, no consideration would be exchanged and, therefore, the relative sizes of the institutions is less of a concern.

There are a number of regulatory issues in a transaction of this nature, including non-conforming assets, field of membership compatibility and the strength of the acquirer to accomplish the transaction successfully. Credit unions should note, however, that a community charter is not essential in this type of transaction.

Approvals

The transaction will require a number of approvals including the National Credit Union Administration, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The transaction must be approved by the shareholders of the Bancorp, but the members of GFA are not required to provide approval. Both GFA and the Bank are confident that regulatory and shareholder approvals will be obtained.

This transaction is an example of the creative transactions structured by the attorneys at Luse Gorman to assist our clients in their strategic goals.

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If you would like to learn more about this transaction, please contact one of the following attorneys of our firm. We are available to meet at your convenience and can provide management and the Board with the information necessary to make an informed decision and ensure that your Board's decision is consistent with its fiduciary duty to the members.

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