

COMMUNITY CORNER

VyStar CU strikes largest ever CU capital raise as bank deal remains pending

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By Lauren Seay and David Hayes
Market Intelligence

VyStar CU raised a large chunk of capital while the company waits for regulators to approve its pending acquisition of Heritage Southeast Bank, the banking subsidiary of Heritage Southeast Bancorp. Inc.

The Jacksonville, Fla.-based credit union raised \$200 million in subordinated debt in the first quarter, the largest such raise by a credit union yet. VyStar CU issued the subordinated debt to "further enhance its already strong capital position" and fund organic growth initiatives to support its members and communities "without compromising financial stability or diluting net worth," President and CEO Brian Wolfburg wrote in a statement to S&P Global Market Intelligence.

The \$200 million secondary capital raise may also help VyStar CU's pending bank transaction gain regulatory approval by making sure the credit union's net worth ratio remains well above regulatory standards after the roughly \$194.4 million deal closes. VyStar CU announced its acquisition of Jonesboro, Ga.-based Heritage Southeast over a year ago, in March 2021, and the companies have extended their merger agreement three times while they wait for the go-ahead from regulators.

VyStar CU declined to respond to questions specifically asking if the raise was related to the pending deal, or whether it has had conversations with the National Credit Union Administration about potential concerns regarding the deal or the credit union's capital position. Heritage Southeast feels "confident and supportive of VyStar as they navigate the regulatory approval process," CEO Leonard Moreland wrote to S&P Global Market Intelligence in an email.

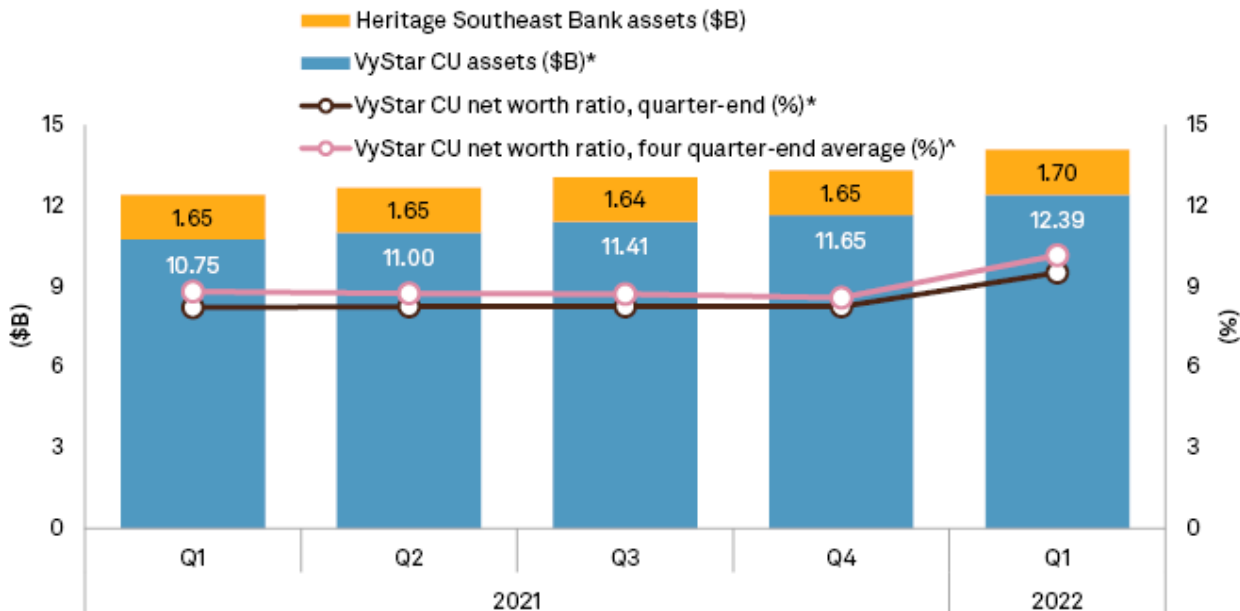
Net worth ratio

A credit union is considered well-capitalized by the NCUA if its net worth ratio sits at or above 7%. When its net worth ratio falls between 6% and 6.99%, a credit union is considered only adequately capitalized and the NCUA requires increased earnings retention.

For low-income designated credit unions, or LICUs, subordinated debt can be factored into their net worth ratio, a measure of reported net worth divided by reported assets at quarter end. With its \$200 million capital raise, VyStar CU, which is a LICU, boosted its net worth ratio to 10.15% in the first quarter from 8.57% in the prior quarter.

Without the secondary capital raise, VyStar CU's net worth ratio was likely to take a hit and possibly drop below 8% after the Heritage Southeast deal closes, due to the size of the bank target and the credit union's significant growth since the deal was announced, according to an analysis by S&P Global Market Intelligence based on VyStar CU's first-quarter call report data.

VyStar CU's assets and net worth ratio since Q1'21



Data compiled May 24, 2022.

Data sourced from regulatory filings.

* Total assets reported by VyStar CU at respective quarter-ends. Net worth ratio is calculated as reported net worth at quarter-end divided by reported assets at quarter-end.

^ Net worth ratio calculated as reported net worth at quarter-end divided by average assets reported for the four most recent quarter-ends.

VyStar CU announced it would acquire Heritage Southeast Bank on March 31, 2021.

Source: S&P Global Market Intelligence

When the NCUA evaluates bank purchases, both the credit union's current and pro-forma net worth ratio are key considerations, Douglas Winn, president and co-founder of Wilary Winn LLC, a financial adviser to credit unions and community banks, said in an interview.

"The NCUA definitely scrutinizes the pro formas, including the net worth ratio, before they'll approve a deal," Winn said. Similarly, the banking regulators involved "would definitely want to know that the credit union has adequate resources to take over the bank as well," he said.

When evaluating the credit union's capital position prior to and after a deal closes, the NCUA takes a "holistic" approach where it takes into account the "risk attributes" of a credit union, such as its balance sheet composition, credit risk and interest rate risk, Wilary Winn Managing Director Matthew Erickson added.

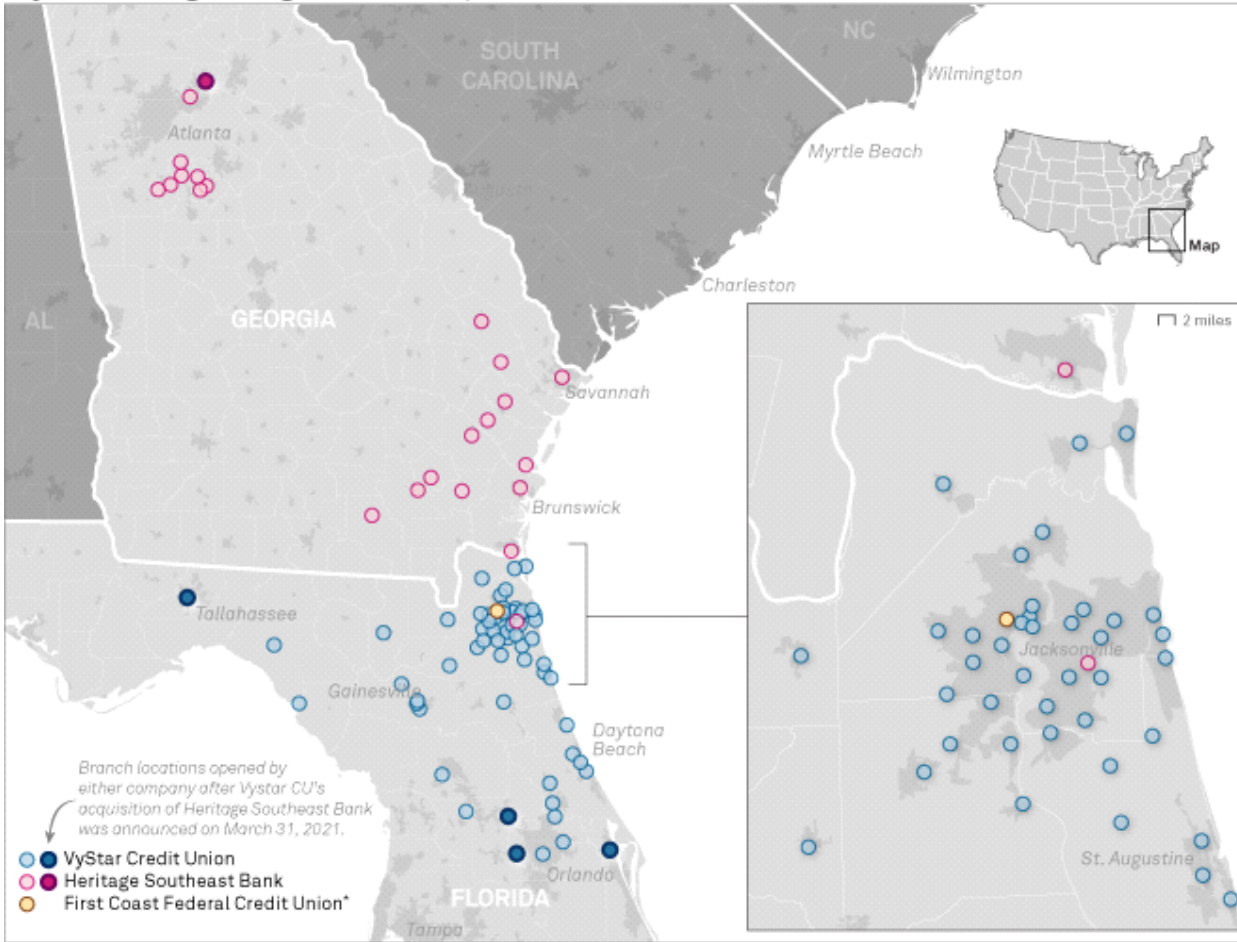
VyStar CU grows while bank deal pends

When VyStar CU announced the Heritage Southeast deal in March 2021, the credit union said it expected the transaction to push its total assets to \$12.5 billion. Over the past year, VyStar CU has grown to nearly that size through organic growth, reporting \$12.39 billion in total assets at March 31.

If the deal closes, the addition of Heritage Southeast Bank's \$1.70 billion in total assets as of March 31 will swell VyStar CU's total assets to more than \$14 billion. Only 12 U.S. credit unions sit above \$14 billion in total assets.

VyStar CU has also grown its footprint over the past year, opening four new branches, and it struck a small merger with fellow Florida-based First Coast FCU in April.

VyStar CU's growing branch footprint



Data compiled May 24, 2022.

Branch data includes all active branches for each respective company as of May 24, 2022.

VyStar CU's branches do not include administrative or facility locations.

Heritage Southeast Bank's branch locations are based on the Federal Deposit Insurance Corp.'s June 30, 2021, Summary of Deposits and are adjusted for any subsequent openings and closures on a best-efforts basis.

* VyStar CU and First Coast FCU announced a merger on April 11, 2022.

Map credit: Ciaralou Agpalo Palicpic

Source: S&P Global Market Intelligence

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