

The Challenge of Credit Unions Regarding Branches and Buildings: The Three Rs: Review, Re-Lease, Renovate. Or Start New?

MD|DC Credit Union Association

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E. Andrew Keeney, Esq.
Kaufman & Canoles, P.C.





E. Andrew Keeney, Esq.

Kaufman & Canoles, P.C.

150 West Main Street, Suite 2100

Norfolk, VA 23510

(757) 624-3153

eakeeney@kaufcan.com

<http://www.kaufmanandcanoles.com/movies/credit-unions.html>

Highlights

KLNB Overview

- The numbers
- Lease Issues
 - Renew/Recast
 - Renovate
 - Relocate
- Sale and leaseback

Highlights

Morgan-Keller Overview

- Construction Project Types
- Square foot cost data based on project types
- Management method options for construction delivery
- Project examples
- A case study example

Highlights

Kaufman & Canoles Overview

- Due Diligence Checklist - Purchase
- Closing Checklist - Purchase
- Regulatory Flexibility
- Sale and Leaseback

Branch Bank Real Estate Trends

- Site sizes are getting larger mainly due to banks and credit unions adding more drive-thru lanes, typically requiring 1.5 to 2 acres.
- Banks and credit unions are competing for the same size sites as some of the drug store chains and Wa-Wa's. The drug stores and gas convenience stores have definitely driven outparcel prices up.
- Banks and credit unions are paying more for sites than they did a few years ago.
- Banks are moving away from neighborhood locations and gravitating to more regional locations.

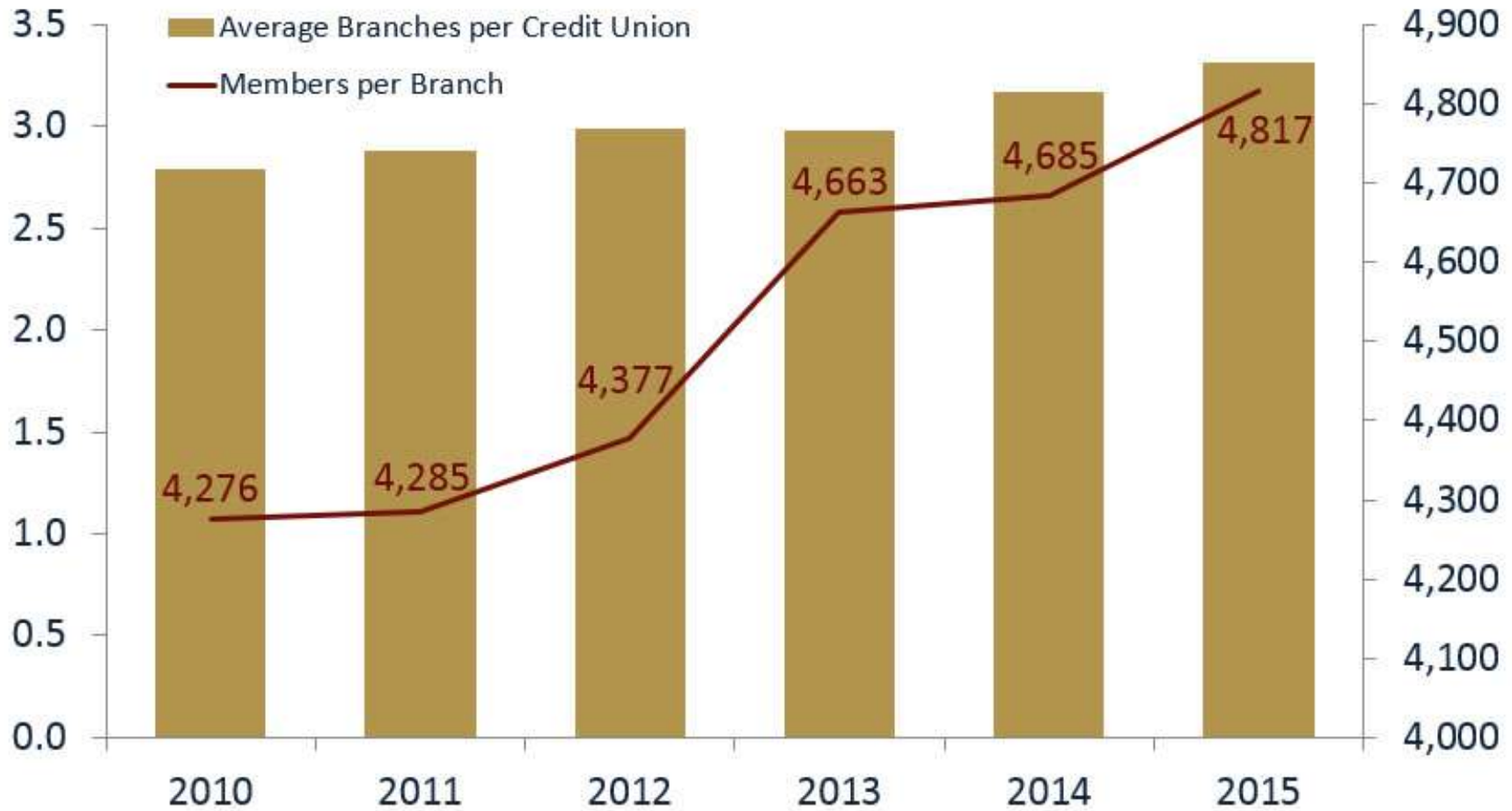
Land and Building & Other FA Investment – Net New Branches
 Data as of March 31 | All U.S. Credit Unions over \$50M in Assets



Source: Callahan's Peer-to-Peer Analytics



Average Number of Branches per Credit Union – Members per Branch
 Data as of March 31 | All U.S. Credit Unions



Source: Callahan's Peer-to-Peer Analytics



Average Land and Building Investment per Credit Union
Data as of March 31 | All U.S. Credit Unions over \$50M in Assets



Source: Callahan's Peer-to-Peer Analytics



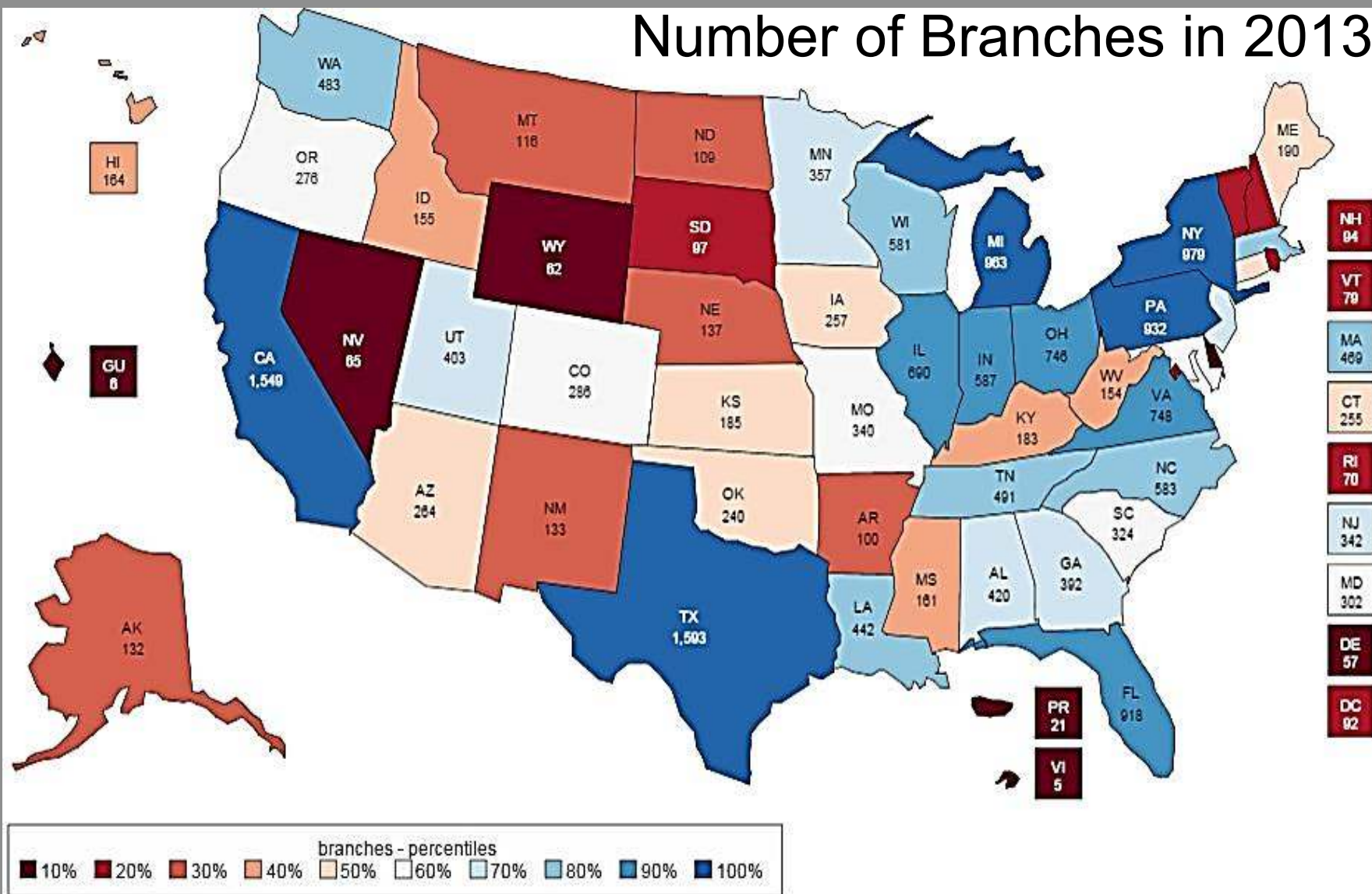
Year-Over-Year Growth in Land and Building Investment
Data as of March 31 | All U.S. Credit Unions over \$50M in Assets



Source: Callahan's Peer-to-Peer Analytics

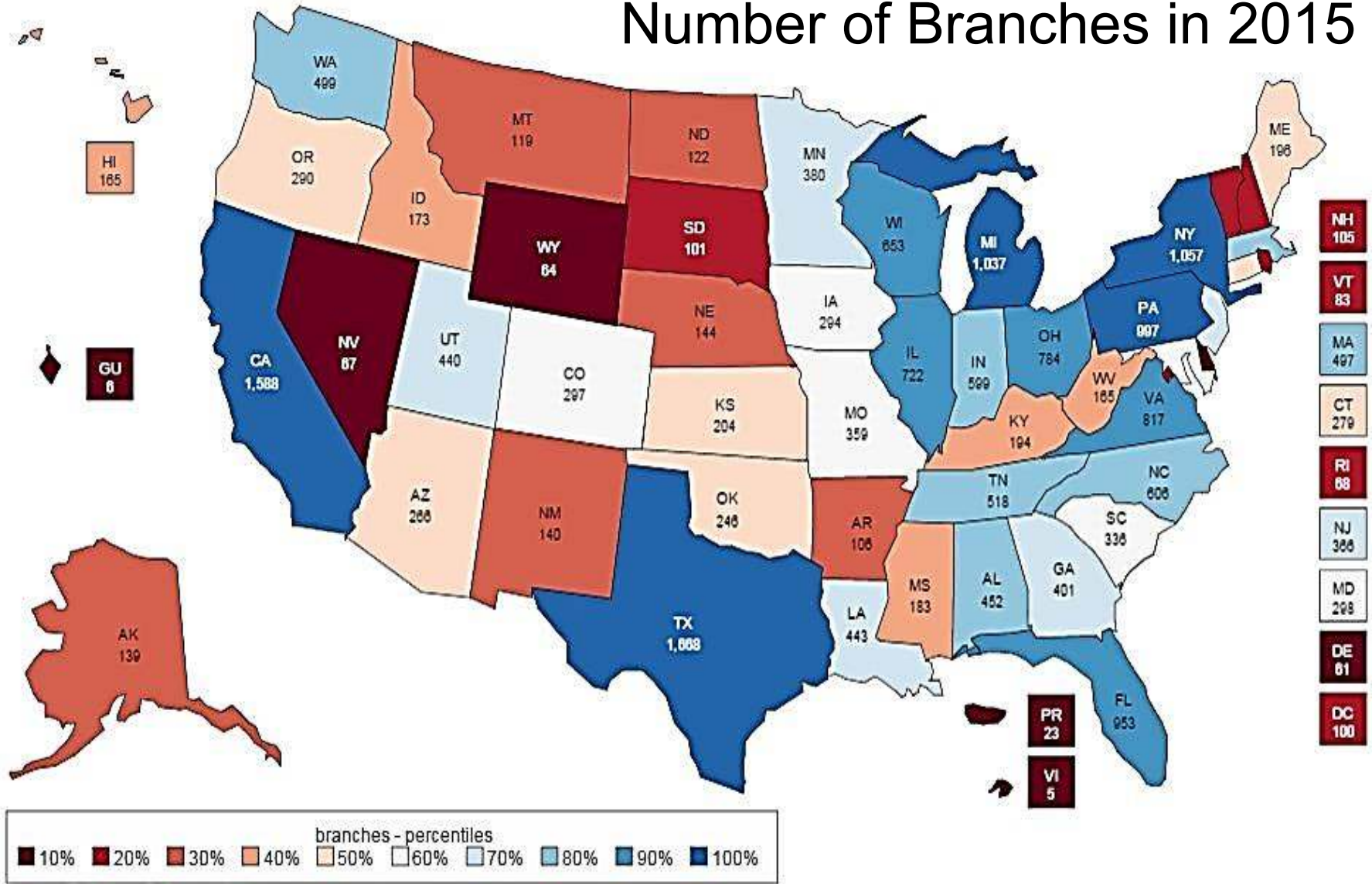


Number of Branches in 2013



Source: Callahan & Associates

Number of Branches in 2015



Lease Review

Recast

Renew

RELOCATE

LOCATION

LOCATION

LOCATION

Decisions, Decisions, Decisions

New Premises

- Lease
- Purchase

Current Premises

- Lease/Recast/Renovate
- Sale
- Sale and Leaseback
- Credit Union Financing

**Main Office
Branches**

Legal Aspects

- NCUA – Evaluations of Earnings (August 2006)
- Regulatory Flexibility Program
- NCUA – January 2005 Ownership of Fixed Assets Rules Changes
- NCUA – Fixed Asset Waiver Checklist
- NCUA – Financial Performance Considerations
- NCUA – Key Accounting Issues
- NCUA – Examiner’s Guide, as amended
- NCUA – Opinion Letter (1991)/Fixed Assets & Lease Arrangement
- NCUA – Opinion Letter (1992)/Fixed Assets
- NCUA – Opinion Letter (1996)/Fixed Assets and CUSO
- NCUA – Key Provisions of Fixed Asset Regulations
- NCUA – Basic Repeal (2015) of Fixed Asset Regulations

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Due Diligence Checklist

1. Confirmation of Receipt of Earnest Money
2. Delivery to Purchaser: Leases, Contractual Agreements, Service Contracts, list of personal/intangible items that convey, and copies of all tests, files, titles, etc.
3. Analyze local and state taxes
4. **Phase I Environmental Report**
5. Phase II Underground Storage Tank
6. Radon Test
7. Lease Review
8. Contract Specifications
9. Lease Terminations

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Due Diligence Checklist

10. Service Contracts
11. Review Service & Repair Records
12. Review As-Built Plans & Specifications
13. Personal Property (lists of inclusions & exclusions)
14. Determine if Seller will Remove Personal Items from Property
15. Review Warranties & Guaranties
16. Analyze Operating Statements and Other Operating and Financial Matters
- 17. Fire Safety Examination**
- 18. Test Water for Lead**

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Due Diligence Checklist

19. Inspect Structural Integrity of Building, Roofing, etc.
20. Inspect Mechanical/Electrical/Plumbing/Elevators
21. Inspections
22. Report on conformance with Americans with Disabilities Act
23. Insurance
24. Seller to Provide Purchaser a Commitment for Title Insurance
25. Title Exception Letter
26. Title
27. Use Requirements – Review Zoning

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Due Diligence Checklist

28. Signage – Review Zoning

29. Parking

30. Review Land Use Plans

31. Height Compliance of Building

32. Review Regulatory & Tax Notices

33. Review Tax Assessment Appeals, if any

34. Review Use & Occupancy Permit, Certificates & Licenses for Tenants & Building

35. Termite Inspection

36. Review Purchaser's Bylaws

37. Review Purchaser's Other Organizational Documents

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Due Diligence Checklist

38. Base Building Construction Estimates

39. Evaluate Costs & Expenses

40. Appraisal

41. Government Notices Regarding any Violations

42. NCUA Regulatory Review

43. Review of Credit Union Board Minutes and Resolutions

44. Certificate of Occupancy for Building and Tenants

45. Survey

46. Utility Agreements

47. Warranties and Maintenance Agreements

48. Building Engineers Log/Work Orders

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Due Diligence Checklist

49. Contact Information for Subcontractors and Vendors

50. Seller Lease Back/Preparation of Lease

Closing Checklist

1. Notice of Intent to Proceed
2. Lease
3. Termite Inspection Report
4. Agreements with Tenants
5. All existing Seller contracts to be Voided
6. Notice from Seller of Intent to Remove all Personal Items
- 7. General Warranty Deed**
8. Wire Transfer Instructions
9. Draft Settlement Statement

Closing Checklist

10. Transfer of Utilities
11. CUMIS or other insurance companies notification and purchase of policy
12. Good Standing Certificate
- 13. Assignment and/or Termination of Service Contracts**
14. Title Issues
15. State of Adjustments and Prorations/HUD
16. Payment of Purchase Price
17. Seller's Affidavit Reaffirming Representations and Warranties

Closing Checklist

18. Buyer's Affidavit Reaffirming Representations and Warranties
19. Bill of Sale
20. Assignments
21. Title Company Affidavits
22. Execute FIRPTA Affidavit
23. Execute New Lease
24. Proration of Real Estate Taxes and Public Charges
25. Proration of Rents
26. Keys

Closing Checklist

27. Closing Certificate Seller; Purchaser
28. Seller's Certificate of Incumbency
- 29. Official Resolution to Purchase Building**
30. Closing Instructions Letter
31. Tenant Lease
32. Proof of Insurance from Tenant

Sale & Leaseback



Takeaways

- Fixed Assets - very costly endeavors
- Allocate enough time and then double your timetable
- Establish a Facility Committee
- Spend your member's money wisely
- Hire experts



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