JUL 13

Jenna McNamee

# VyStar CU and Heritage Bank deal terminated amid regulatory scrutiny and worsening economy

Article

**The news:** Florida-based **VyStar Credit Union** and Georgia-based **Heritage Bank** have called off their merger agreement. The companies say a flurry of web and mobile disruptions and a downturn in the US economic outlook are the culprits.

**More on the termination:** The merger deal appeared to be a “go” as recently as April, with Heritage Bank CEO Leonard Moreland calling it a priority. But last week, both institutions agreed that they wouldn’t achieve all of the regulatory requirements needed for the deal in a timely manner.

- Heritage Bank’s Moreland said it would move forward separately, citing an improved post-pandemic environment and a strong capital position. The bank will “focus on new initiatives to create efficiencies and partnerships that will generate shareholder value.”
- VyStar plans to continue its growth in Georgia solo.

Trade groups, like the **Community Bankers Association of Georgia**, are relieved the deal fell through, as they feel credit unions’ tax-exempt status gives them an unfair advantage when scooping up community banks.

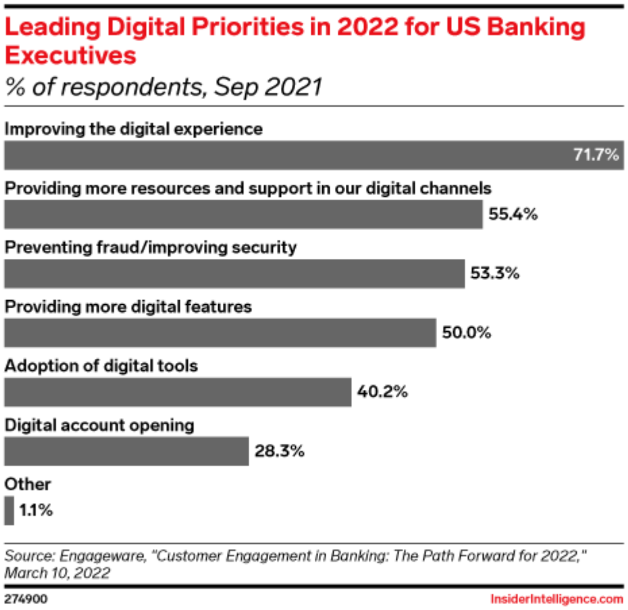
- The merger would have made VyStar the 13th largest credit union in the US, with assets totaling $12.5 billion, 850,000 members, and 88 branches.

**Upgrades and outages:** Weeks ago, VyStar experienced news-making outages and disruptions of its online and mobile banking platforms.

- The credit union communicated a planned outage for a system upgrade by software provider **Nymbus** over two days in May.
- But up to six weeks later, customers still experienced outages and were unable to access their accounts.

Those close to the Vystar-Heritage deal said the merger was not called off due to the service issues. But the outages highlight the tricky balance between modernization and digital trust. Financial institutions are prioritizing tech upgrades to keep up with digital banking demand. Many of them partner with third-party fintech providers to make the process cheaper and quicker. As VyStar’s predicament shows, choosing a reliable software provider is key to maintaining customer trust, and requires careful due diligence.

- Recently, Detroit-based fintech **Bankjoy** successfully converted 16 credit unions to its end-to-end digital platform. Since then, it has renewed contracts with six additional credit unions. Bankjoy says the upgrade can be done in 30 days with no disruption to customers.




**More context on M&A:** Outages aside, the deal termination is unsurprising, as bank mergers have been declining.

- **The second quarter saw 35 deals** between banks and financial institutions, as opposed to 49 in Q1, according to Raymond James analysis.
- If the trend continues, 2022 will differ starkly from last year, when 210 merger deals were negotiated.

Bank mergers and acquisitions face several headwinds in 2022. Last year, the Biden administration ramped up regulatory scrutiny on bank deals—specifically around how the merger will benefit the community, not just the resulting entity—making deal approval more difficult to obtain. Additionally, banks' balance sheets are tightening due to rising inflation and increasing interest rates.

**The big takeaway:** Many acquisition deals entered the pipeline during H1 2022, including **TD Bank's** deal with Tennessee-based **First Horizon Bank**, and **US Bank's** deal with California-based **MUFG Union Bank.** But in the current regulatory and economic environment, we wouldn't be surprised to see more deals called off. In the meantime, financial institutions seeking to grow and scale—especially small and medium banks and credit unions—are better off focusing on implementing sound digital plans.