Frequently Asked Questions

Last Updated: August 11, 2022

The Boards of Directors and senior leaders at both Heritage Credit Union ("HCU") and East Kootenay Community Credit Union ("EKC") are currently engaged in the process of evaluating a potential merger between the two credit unions.

Throughout this process, we know there will be many questions. We are using this document to provide answers to some of the more common ones.

As more information becomes available, we will update this document. We also encourage you to send us any questions or feedback to either **hcu@heritagecu.ca** or **ppinch@ekccu.com**.

Q) Why are we considering merging our credit unions?

A) In light of a rapidly changing financial services marketplace, both EKC and HCU have been exploring various options and alternatives to develop a modernized and sustainable long-term business model. Both credit unions are facing the pressures currently being faced by almost all small Canadian credit unions, including increased competition, rapid technological changes, and growing regulatory requirements. While numerous strategic partnerships and standalone options have been evaluated, the best outcome for both credit unions is found in merging with a like-minded, geographically similar credit union.

Merging EKC and HCU is a proactive approach, that the Boards believe, will strengthen the Kootenay / Boundary credit union system. This merger is expected to allow the credit unions to keep the jobs, profits, and overall community benefits here in the region, while providing the capacity needed to improve and adapt operations in a modern way.

A primary goal of this merger is to ensure that both credit unions can continue serving their members and their communities for the long term.

Q) Why not just continue with the current alliances and collaborations?

A) Both HCU and EKC have collaborated over the years with other credit unions in the Kootenay / Boundary region, via the creation of subsidiary companies owned by the respective credit unions. These collaborations have helped the credit unions deliver additional services to members, including wealth management and insurance services. However, both credit unions are seeing the limitation, and potential volatility, of such arrangements.

While these collaborations remain a valuable step forward, a full commitment to merging carries the scale of synergy that is simply not attainable otherwise. The amount of cost and work being replicated in conducting the business of the credit union is becoming unmanageable for many small operations. Through scale and growth, there should be greater access to both human and financial resources, when properly allocated, should lead to a more effective and efficient operation.

Q) How would merging operations benefit members?

A) During the due diligence process and the creation of a business case, we have uncovered a number of benefits to members of both credit unions. Members will have more access to branches throughout the Kootenays with seven locations between Elkford and Greenwood, including two regional hubs in Cranbrook and Castlegar. The members of HCU will be gaining access to a number of new products and services (such as a call center that is open 6 days per week). The members of EKC are expected to gain access to more modern technology, as the merger should enable greater resource re-investment. Overall, all members of the merged credit union are expected to benefit from the increased long-term stability of services in their communities.

Q) Has a decision already been made?

A) The Boards of Directors at both HCU and EKC have concluded that a merger between the two credit unions would be favorable. However, the final decision, provided the Superintendent of Financial Institutions (the “Superintendent”) gives consent, rests with the members of HCU.

Currently, the Superintendent is reviewing an application for consent to the merger, submitted jointly by EKC and HCU. This means that the Boards of Directors at both EKC and HCU have concluded through their thorough due diligence process that moving forward is in the best interests of their respective credit union, its members, its employees and its communities.

However, the decision to merge ultimately rests with the members of HCU. As the structure of the merger will see Heritage roll its operations into EKC, it will be the members of HCU who vote to determine whether the merger happens or not.

Q) What is the timeline?

A) The goal is to have the merger be effective as of January 1, 2023, though the timeline is subject to change, and is dependent on a number of different variables. Should there be delays, we still expect the process to conclude in early 2023.

We are currently awaiting consent from the Superintendent to present the merger to the members of HCU for a vote. If consent is given, we will send a notice to members of HCU containing necessary information to allow members to make an informed decision on the vote, as well as providing information on feedback sessions and the voting process and timeline. The notice will be given approximately 30 days prior to the member vote.

There will be two resolutions that need to be passed by HCU members in order for the merger to proceed. The first is a special resolution that may be voted on by all members of HCU in good standing. In addition, holders of Class "B" shares of HCU are entitled to vote on a separate resolution to approve the merger. Both resolutions must be passed in order to proceed.

Should the members of HCU and the holders of Class "B" shares of HCU vote in favour of the merger, the merger will occur shortly thereafter.

Q) What will the credit union be called?

A) As part of the new strategic direction for both HCU and EKC as a merged entity, there is currently a rebranding effort underway. This includes the creation of a new name for the merged entity, which at this time, has not been finalized. Both HCU and EKC are working together on this, with the goal of finding a name that reflects the traditional nature and aspirational goals of both organizations. If the merger is successful, the new name will be put in place shortly thereafter.

Q) What will happen to the employees?

A) Both organizations have made a commitment that no jobs will be lost as a result of the merger. While some managerial roles will quickly need to change, the roles of staff are expected to remain consistent, as will the pay, benefits, and the hours worked. Over time, the merged credit union is expected to align roles, pay, benefits, and hours worked across the organization. It is the goal of both credit unions to hire and retrain staff into more modernized roles, reflective of the ever-changing environment in which the credit union operates. Part of the rationale behind this merger is the need to modernize and adapt in the ways that we do work.

Q) How will my credit union keep its representation?

A) While the legal structure of the merger technically involves EKC acquiring the assets and liabilities of HCU, the credit unions have agreed to keep both voices at the table. The initial Board of the merged credit union will consist of 5 legacy directors from Heritage and 6 continuing directors from EKC. The composition of the Board will also be subject to a regional representation policy, meaning that any new candidates running for election to the Board will need to be located in the region that is eligible for nomination. It is important to both credit unions that the communities being served have a direct voice at the table.

Q) What happens if we don't merge?

A) Throughout this process, and through the course of past merger discussions, both credit unions have conducted financial modelling to build projections of multiple scenarios, including remaining standalone credit unions. These projections show a need to grow to remain financially sustainable.

In the province of BC, we are seeing larger urban credit unions making moves to acquire smaller rural credit unions. Both HCU and EKC have been approached for this reason in the past. We expect that if the proposed merger does not happen as presented, the need to merge with a larger, and potentially non-regional, entity will present itself in the next 5-10 years.

Keeping up with modernization and regulatory requirements will be challenging for both credit unions independently, with HCU facing more immediate pressures. Merging the two credit unions will help to alleviate this pressure.

Q) What will the merger cost?

A) While we continue to model the expected costs, there is no denying that the merger will have a price tag up front. Primarily, these costs come as a result of updating and converting technology and banking systems. Regardless of whether the merger occurs, each of HCU and EKC will need to update these systems eventually. Expediting the process, while carrying an upfront cost, is expected to lead to greater cost savings over the long-term, which is a major part of the rationale behind merging.

A second high-cost item will be the rebranding effort. Again, regardless of whether the merger occurs, both credit unions are looking to rebrand, so these costs will likely occur (and likely be even higher) if the credit unions do not merge.

The costs noted above, and all other associated costs, will be split between the two credit unions. It is projected that the costs of merging will be more than recouped through growth and efficiency over time.

Q) Why do you need consent from the Superintendent before asking members?

A) The Superintendent, along with the BC Financial Services Authority, works to maintain stability throughout the entire provincial financial system. Before presenting any such decision to our members, the superintendent ensures that the proposed merger complies with relevant legislation and is not expected to be contrary to the interests of the credit unions or their members. This ensures that members are receiving the information sufficient to make an informed vote, and aligns with the expectation that members are receiving an effective notice in which to review and understand such information.

Q) Do EKC members get to vote on the merger?

A) EKC members will not be asked to vote on the merger itself. However, EKC members will be asked in advance of the HCU member vote to pass resolutions approving three items that will be important for the merger to proceed:

- Removal of Common Bond: The common bond of membership of EKC is currently very narrow and only includes a small geographic area. To ensure all members of HCU are able to validly become members of the merged credit union, EKC wishes to remove its common bond of membership.
- Amendment of Rules: EKC wishes to amend its Rules in advance of the merger to allow EKC directors to appoint additional directors in the event of such a merger occurring. This will ensure proper representation of HCU directors post-merger.
- Change of Name: As noted above, if the merger occurs, EKC will change its name to one that encompasses the nature and goals of both EKC and HCU.

Q) When do HCU members get to vote on the merger?

A) We do not currently have a set date for voting, as it will be dependent on a few factors, including receiving consent for the merger from the Superintendent. Our current expectation is that HCU member voting will occur in November or December of 2022. We will provide approximately 30 days of notice prior to the start of voting.

Q) Is this merger related to the regional credit union initiative that EKC and HCU participated in with Kootenay Savings, Nelson & District, Columbia Valley, and Grand Forks District Savings Credit Unions a few years ago?

A) No, this is a new initiative. The prior initiative involving all six credit unions concluded in the summer of 2021, when each of the credit unions formally withdrew from the process due to the substantial costs and complexity of forming one regional credit union.

Instead, after careful deliberation of the most sustainable options to strengthen their services to their respective members, EKC and HCU decided to engage in a merger process solely between the two credit unions.