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Susquehanna Deal a Branch Cost-Cut Model

By Andy Peters

An old tool in banks' toolboxes may soon be used more often in the war against branch overproliferation — the sale-leaseback.

Susquehanna Bancshares' deal to sell and lease back about 30 branches could provide a blueprint for how other banks can decrease their branch count over the long term.

The $18.4 billion-asset Susquehanna sold branches to a unit of SunTrust Banks for $57.1 million. The Lititz, Pa., company will lease back the branches, over terms ranging from 15 years to 26 years. The transaction closed Dec. 23.

"The No. 1 reason by far" that banks engage in sale-leasebacks is for capital-planning purposes, says Jeff Marsico, executive vice president at The Kafafian Group, Inc., a bank consulting firm.

MARSICO: Sale-leasebacks help banks avoid branch fire sales.

Susquehanna will be able to take assets out of real estate, which carry a 100% risk-weighting, and trade them for funds to pay down borrowings, Marsico says.

With the sale-leaseback, Susquehanna is "just taking this money that was invested in real estate and investing it in our business," says Stephen Trapnell, a spokesman for Susquehanna.

Susquehanna will use the proceeds "for general corporate purposes, including supporting lending and investing activities and repayment of short-term borrowings," the company said in a Thursday regulatory filing.

Susquehanna will record a pretax gain of approximately $37.7 million on the sale. The company will also release a $4.1 million deferred tax asset, which will reduce its income tax provision in the fourth quarter

Another reason for the sale-leasebacks, and one that other banks may try to emulate, is long-term branch planning, Marsico says.

Because Susquehanna's leases are for relatively long terms, those branches apparently are expected to be financially viable for the short-to-intermediate term. But if branches become unprofitable to operate by the end of their leases, Susquehanna will be able to exit the properties more easily, since it will not own them.

"A lot of these banks have properties in sites that you can't envision as anything but a bank branch," Marsico says.

Susquehanna, Marsico adds, "could end up holding a property forever and be forced to sell it at fire-sale prices because there's nothing else you could do with it."

The long-term leases also protect SunTrust, as the buyer, Marsico says. "It gives the buyer a protection against obsolescence" of each branch, he says.

A spokesman for SunTrust referred questions to Susquehanna's regulatory filing.

The sale-leasebacks appear to fit within Susquehanna's strategy of branch reduction, Marsico says. The company said in May that it would close 16 branches, with the closings expected to occur during the fourth quarter.

Susquehanna expects to post a fourth-quarter charge of between $9 million and $12 million to close those branches, but says that the financial benefit of closing them will be realized within two years.

In the recent sale-leaseback agreement with SunTrust Equity Funding, Susquehanna did not disclose the specific location of the branches that are affected.

Most of the branches are located in Pennsylvania, with some in New Jersey and one in Maryland, Trapnell says.

"We looked at our owned properties that would make the most sense for this particular transaction," in deciding which offices to sell, Trapnell says.

Before the SunTrust agreement, Susquehanna owned 134 of its 261 total branches, and leased the rest. Susquehanna is "not necessarily looking to do more sale-leasebacks at this time," Trapnell says.

Susquehanna will continue to operate the branches as they are now, with "no change in the services to customers," Trapnell says ▪

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