

Leasing Alliances BANKS REAP BENEFITS

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Over the past decade, many banks turned to equipment leasing when looking for new ways to expand their business, and with good reason. There are many benefits of offering equipment leasing, ranging from providing clients with an alternative to traditional loan products, to generating additional revenue for the bank.

But most of all, banks have recognised that leasing is an increasingly popular way for commercial clients to acquire equipment. If a bank or its affiliate is not offering leasing to its clients, it is a virtual certainty that one or more of the bank's competitors is providing this capability. Creating and maintaining an internal best-of-breed leasing programme, however, can be a demanding and costly endeavour.

A full-spectrum leasing operation requires the provider to possess in-depth knowledge in many areas specific to leasing, including asset management, lease accounting, lease tax regulations, specialised documentation and leasing systems, to highlight just a few. To provide effective internal leasing support, a bank must either acquire or develop the knowledge. This can be time consuming and costly, making it difficult to grow a leasing unit to the critical mass needed to justify the substantial investment.

Given today's challenging economic environment and the pressure to increase returns while minimising investment, it is not surprising that many banks with non-core or smaller equipment financing units are rethinking the strategic value of their in-house leasing operations. More and more banks are turning to outsourcing arrangements. Having an established and experienced third-party leasing company manage their leasing programme allows banks to continue to offer this important product to clients while reallocating resources to core business endeavours.

The specific structure of a bank outsourcing arrangement will depend on that bank's particular requirements. A bank may elect to outsource the front end processing of new leases, with the lessor providing sales support, structuring, documentation and, typically, funding. Depending on the structure of the outsourcing agreement, the bank's portfolio of existing leases may either be managed by, or sold to, the lessor.

While one obvious benefit of outsourcing may be an initial gain on the sale of a lease portfolio, there are many others.

A bank can retain control of the client relationship while seamlessly offering leasing without the overhead on the capital. In addition, in many cases the products offered by the lessor are more robust and competitive. Experienced and knowledgeable lessors can provide specialty products and structuring expertise since they have in-house experts dedicated to understanding the latest tax and accounting issues and asset values.

In the most successful outsourcing arrangements, the bank maintains its direct relationship with its customer. Through the bank sales person, leasing company representatives are brought in as consultants to structure an equipment finance solution. Leasing representatives can also provide behind-the-scenes support to bank relationship managers to determine where additional leasing opportunities exist.

When a bank is considering outsourcing equipment finance capabilities, finding the right partner can be challenging. After all, customers are among any company's most important assets, and the leasing services provided will be a direct reflection on the bank itself.

While every institution will have its own unique set of decision criteria there are several common considerations that will affect partner selection:

- ❑ depth and quality of capital and funding sources. A stable institution with an internal source of capital may be able to provide less volatile and perhaps more attractive pricing;
- ❑ a robust syndication network. This provides a replenishing source of credit for large or capital-intensive clients, so that the bank never needs to cap the relationship. This allows the bank to retain account control;
- ❑ risk posture on residuals and credit approval. Banks should clearly communicate their expectations to ensure that they are aligned with their partner. The value of an outsourced leasing programme can diminish rapidly if the partner is unable to extend credit to clients that the bank typically approves for loans and other credit products, and;
- ❑ experience. The partner and its representatives must have a thorough understanding of the marketplace, culture, target market segments and client's business needs.