HQ sale offers options for American Bank

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A key corner in St. Paul may bring premium sale price from Walgreens

American Bank's longtime headquarters, in the southeast quadrant of Snelling and University avenues in St. Paul, could bring a high sales price from a developer working on behalf of Walgreens. (STAFF PHOTO: BILL KLOTZ)

American Bank's pending sale of its University Avenue headquarters in St. Paul might be designed to add cash to its balance sheet and strengthen its capital reserves in a tough regulatory environment.

Or it could be designed as sale bait.

More cash and capital could make the bank an attractive buyout target at a time when some community bankers are looking to get out of the business, said Eliot Stark, a community bank specialist with Chicago-based investment bank, MB Headwaters.

"Fatigue is very high among boards and even among management teams," Stark said.

Fatigue would make sense at American, which lost $60 million during the last five years. Its problems started with bad construction and development loans — between 25 and 35 percent of that portfolio was delinquent in 2009-10 — but spread to home and business loans as the effects of the recession lingered.

The bank's balance sheet started to improve in 2012, and a purchase agreement it signed with Minneapolis-based Semper Development could further strengthen the numbers. Semper is a frequent partner of the Walgreens pharmacy chain, and American's headquarters at the busy University and Snelling Avenue intersection is the kind of site retailers like Walgreens pay premium prices to obtain.

American CEO Tom Palmer said his company probably won't close on the sale until spring, but the bank is already preparing to move its remaining staff out of its 1578 University Ave. headquarters by early March.

Those final employees will relocate to American's Mendota Heights office at 1060 Dakota Drive and to a small office at 2310 Seventh St. W. in St. Paul.

Palmer wouldn't discuss a price for the property but Ramsey County appraisers estimate its market value at $4.1 million, including the site's two-story, 1960 office building.

Real estate pros say the property should bring a strong price. It's in the heart of a shopping district that includes Wal-Mart and Super Target, and more than 36,000 vehicles pass the building every day on Snelling, one of the highest counts in the Twin Cities. A station for the new Central Corridor Light Rail Transit line will also open a few steps away in 2014.

"That is an outstanding location, and it's tough for any retailer to get great sites these days," said Keith Sturm, principal with the Minneapolis-based Upland Real Estate group, which works frequently with national retailers. "Walgreens has a longer-term perspective than most buyers, often signing 75-year leases, and they'll be willing to pay more for that location than many buyers," he said.

Semper Development owner Howard Bergerud declined to discuss plans for the site. But Semper has built more than 300 stores for lease to Walgreens.

Walgreens and its rival CVS Pharmacies have been bidding up prices on Twin Cities properties in the last year. In June, Semper paid $5.4 million to acquire several parcels in Mound for a Walgreens, and Hennepin County had estimated those parcels' value at just $1.9 million.

A premium sale price could take a burden off American, which has operated under increased regulatory scrutiny since 2009 because of its string of bad loans and losses.

Despite those headaches American has stayed on its feet, keeping its capital levels above regulatory minimums, writing down or restructuring nonperforming loans, and selling off foreclosed properties.

That discipline puts the bank on course to finally make a profit again in 2013, Palmer said. “We aren't at a high-performing level yet, but it will be the first time in five years,” he said.

The sale would speed up that turnaround by beefing capital levels up to meet higher regulatory targets and make it easier for it to increase lending again.

It would also take a big bite out of expenses. The bank reduced its staff by more than 50 percent from 2007 through September 2012, according to FDIC reports, leaving lots of empty offices at its 41,000-square-foot headquarters, Palmer said.

“That space is really underutilized.We'll be reducing our expenses by $750,000 a year or more,” he said.

That downsizing would help stabilize the bank's finances, but it could also help tee it up for an eventual sale, said Stark.

Although the worst of the banking crisis has passed, community banks are facing meager earning prospects as they struggle with higher regulatory compliance costs and narrow margins.

“Even at healthy banks, boards are asking the question, can we really earn any money in this environment?” Stark said.

American fits the profile of banks that are buyout targets. “They're not distressed but they're struggling to keep capital up,” he said. “They have negative earnings because they're shrinking. But they have branches and customers” that would-be buyers want, Stark said.

Palmer didn't discount the possibility of a sale, but said that probably won't come for a while. “I think we still have a few more years before we would be an attractive candidate for a buyout,” he said.

Still, a local business workout specialist thinks American's move is probably geared more to keeping the bank viable for its current owners.

Most community banks are searching now for ways to build capital above former levels to meet new regulatory goals, said Mark Sheffert, principal of Minneapolis-based Manchester Cos.

That means either raising equity — which is very expensive — or selling assets like branches, Sheffert said. “This looks like a sensible way to raise short-term capital,” he said.

The sale doesn't make as much sense as a sale strategy, Sheffert thinks. “Most buyers already have strong capital levels, and what they're looking for is customers and distribution. I wouldn't think it would be helpful for a bank to sell its crown jewels in terms of branches to attract a buyer,” he said.

Cutting it down to size

American Bank's managers reduced the bank's balance sheet over the past five years, writing off problem loans and letting its weaker clients go to keep capital ratios safe.

Assets / Loans

Q1 2006: $722.3M / $600M

Q3 2012: $381.9M / $175.1M

Source: FDIC