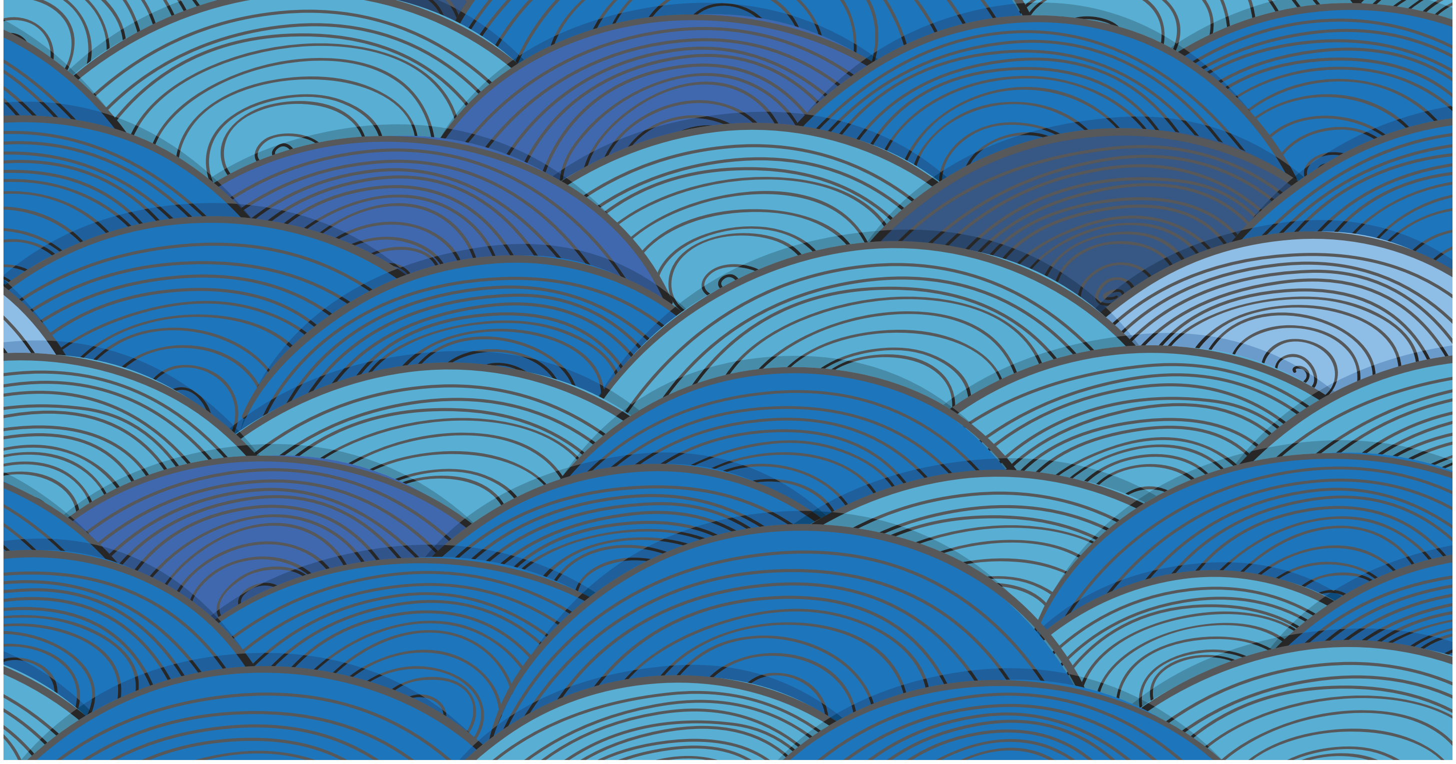

A Constant Revenue Stream from Written-Off Assets

No longer just an end-of-the-fiscal-year house-cleaning task, selling your charged-off assets makes good sense—and yields steady returns—throughout the year.

BY BRETT BOEHM

Liquidating charge-offs is one of the easiest ways to convert an uncollectable asset into cash and profits. While some asset-based lenders and lessors may have relied upon collection agencies to recover their unpaid leases and loans, many doing so have found there are significant liabilities associated with hiring a collection agency to attempt recovery. That, plus monetary advantages, is why many lessors and lenders are turning to selling their charged-off leases and loans as an integral part of their annual business plans.

Quite simply, it's found money and found profits.

My company, TBF Financial, LLC, has exclusively served many of the largest companies in the $650 billion equipment finance sector by purchasing their portfolios of small-ticket leases and loans that were uncollected and charged off.

In fact, TBF pioneered this service when it was founded in 1998 and has now refined and perfected a simple, easy process that pays sellers cash upfront for accepted pools of charge-offs. We are currently serving many satisfied clients and are purchasing annual volumes of more than $100 million in non-collected receivables.

It's truly the simplest, easiest way for any asset-based lender to improve their bottom line.

This is because unlike collection agencies, which are often motivated to pick only the low-hanging fruit of the charge-offs they are given, charge-off buyers are experts at reaching higher by identifying collectible charge-offs and successfully collecting on them. Because of their expertise at recognizing value, they are able to offer substantially higher prices for the charge-offs they buy. Since collecting on written-off accounts is all we do, we often know better than the holder of the account how much can be collected. This knowledge means the price we can pay a seller reflects our expertise at discerning value—an expertise that ensures our sellers obtain the highest possible return from their charged-off asset.

Five Good Reasons to Sell Charge-Offs

In today's challenging economic climate, no stone is being left unturned in an effort to enhance revenue. After all, cost reductions, enhanced efficiency, and economies of scale can only yield so much benefit. Asset-based lenders are finding themselves under increased pressure to explore every possible source of revenue to enhance their bottom line.

It should perhaps come as no surprise, then, that selling charged-off assets is materializing as exactly that hidden resource.

Few would have thought to look for potential revenue in an area of their business as mundane and unpromising as the collection department. Yet, that is exactly where many are finding opportunity for revenue generation. Across the board, from some of the largest companies in the equipment finance industry to small boutique lenders and lessors, asset-based lenders have learned that their charge-offs, obligations that even their collection agencies cannot collect, still have value. What's more, there are companies that will purchase those charge-offs.

There are many significant benefits to selling charge-offs and, frankly, no liabilities.

First, selling charge-offs is the easiest way of converting them into revenue and improving cash flow. Any lender that is seeking ways to boost its bottom line can benefit from the immediate boost it gains from selling its charged-off leases or written-off loans. Once sellers complete their first sale of their charge-offs, they often see how easy it is to realize cash on these assets, and they are likely to start a proactive arrangement where they automatically sell their charge-offs, usually monthly or quarterly. The regular revenue from the sales then becomes a line item in their budgets that they can count on going forward.

Second, since these assets have been charged off the seller's ledger as having no value, the purchase price is a "recovery" for accounting purposes; therefore, the total purchase price goes directly to the seller's bottom line as profits. While many equipment finance companies will do end-of-the-year sales of their charge-offs to increase their annual profits, an increasing number of lenders or lessors are finding that selling their charge-offs throughout the fiscal year provides a steady stream of revenue. For revenue generation, there's never a better time than the present, and charged-off assets don't appreciate with age.

Third, this strategy of selling charge-offs as soon as it has been determined they cannot be collected has the added benefit of removing them from the path that would see them assigned to a collection agency—a path that often has its own risks and expenses. These companies have learned that the purchase price they will get for their charge-offs is more than they are likely to recover by using collection agencies. This allows the sellers to reduce their expenses associated with their collections process while generating revenues from an immediate sale of the charge-off. Even if the seller decides to wait until after the agency process is complete, there is still lots of potential to boost profits by selling the charge-offs at that point.

Fourth, another reason some companies are selling charge-offs is that, beyond the time and expense of the collections process, they have become uncomfortable with the uncertainty of using collection agencies. Because of the nature of their legal relationship with the seller of charged-off assets, collection agencies are acting on behalf of, and representing, the owners of the charge-offs; this means that everything and anything the agencies must do to collect ultimately reflects on the account owners. Let's face it: collections is a business that can get ugly. These days, collection agencies are being more closely monitored, and some are being charged with violations of the law by regulatory authorities for their use of illegal collection tactics. The last thing any asset-based lender or equipment finance company needs or wants is to be associated with or responsible for any illegal actions by the collection agencies they have hired.

Fifth, and finally, buyers will agree that they will not resell the charge-offs. With this assurance, the sellers do not have to be concerned that any possible secondary or tertiary buyer of the charge-offs will do anything that will reflect negatively on the seller.

So what's involved in terms of processes for sellers who want to liquidate their charge-offs?

A Simple Process

Selling charge-offs is a very easy process. Your company's due diligence effort consists of preparing an electronic spreadsheet with some minimal information for any charge-off you would like to sell. The buyer of the charge-off will use this information to perform due diligence on the accounts and develop an offering price for the portfolio. If the price is acceptable to you, a purchase/sale agreement will be prepared, and the transaction will be closed. The entire transaction, from the time the buyer receives your spreadsheet until closing, usually takes no more than one to two weeks depending on the portfolio's size.

If the parties will have a forward flow arrangement, no due diligence will be required after the first transaction. The parties will agree on a price for subsequent transactions, and the purchase/sale agreement for the first sale will provide the terms for all subsequent sales. The only document required for each new sale under such an arrangement will be a bill of sale. At the time of each sale, the seller will simply e-mail the buyer a spreadsheet of accounts it wishes to sell. The buyer will then pay for the charge-offs by overnighting a check or making a wire transfer of the purchase funds.

Concerning back-up documentation, upon the first sale the parties will agree on how the back-up documents will be made available to the buyer. Today, most of the documents are stored electronically, and the buyer is either given limited access to the seller's database or the seller burns the data to a CD or DVD.

See for Yourself

Potential sellers of charge-offs can see firsthand how the process works by using TBF's proprietary evaluation tool. A company like TBF takes on a wide variety of charged-off assets from a broad array of financial institutions. These institutions are not just lessors but also banks and other types of financial services companies. Companies can easily get an idea of how their portfolios are valued by visiting the online entry form that TBF provides at http://www.tbfgroup.com/chargeoff.html.

While many of TBF's clients are portfolio and risk managers of Monitor 100 type companies, TBF is also gaining business from the leaders of mid-size companies and brokers. TBF recently joined both the National Equipment Finance Association and the National Association of Equipment Leasing Brokers to better understand the interests of the members of these smaller, yet similar, trade groups. TBF has also been working to streamline its process even further to make selling charge-offs easier for its customers. For example, TBF can accept charge-offs that date back four years from the date of last payment, and this is easier for finance companies to compile because they are using better systems than when TBF first introduced this concept to the industry.

But the bottom line is this: since charged-off assets have been removed from the seller's books as having no value, the purchase price that TBF pays is a "recovery" for accounting purposes; therefore, the total purchase price goes directly to the seller's bottom line as profits. In today's tight market, what asset-based lender can afford to pass up revenue generated, almost literally, from nothing? •

ABOUT THE AUTHOR

Brett Boehm is the principal/director of business development for TBF Financial, LLC. Headquartered in Deerfield, Illinois, TBF has been the leading buyer of distressed equipment leases and other forms of commercial obligations since its inception in 1998. A 1998 graduate of The John Marshall School of Law and an attorney licensed in the state of Illinois, Boehm has been with the company since its founding.