



# Commercial Debt Buyers – A Source of Needed Cash in a Down Economy

By Michelle Rodriguez, President, HSW Financial

---

**Selling distressed debt increases liquidity and improves operating efficiencies for equipment leasing and finance companies.**

## Disposition of Debt Portfolios

There have been few times historically where the need for liquidity within the financial sector has been so great. Today's tight capital and credit markets demand that financial institutions seek all viable options for maximizing returns and creating increased liquidity. There are few options for generating large amounts of ready cash than spinning-off non-performing portfolios (which in some cases have already been completely written-off) to meet today's need for improved balance sheets.

While the sale of mortgage backed securities and commercial mortgage backed securities has been well documented of late, finding secondary markets for commercial lease portfolios is still a relatively new concept for many financial institutions. Companies like HSW Financial, which provide both pre and post-collections solutions for equipment leasing and finance companies, have built their business models around the expectation of slower and low percentage returns. They shoulder the time value burden of your debt. For portfolio and credit managers, the intrinsic value of a debt-selling transaction is that the systems of the debt buyer enable you to walk away with short-term cash; the debt buyer assumes all associated cost, management, and administration of the debt. Buying another company's low or zero-valued assets may not seem viable to the outsider's eye, but providers of after-collections solutions have flourished because of years of experience in this specialized function within the equipment leasing and finance industry.

As the trend toward disposition of non-performing lease portfolios continues to burgeon, equipment

leasing and finance decision makers are jumping onto the "some cash for nothing" bandwagon as a way to stem the tide of a rapidly waning economy.

## Confirming Account Viability and Value Scoring Technology

It is a daily struggle for equipment leasing and finance companies to control costs and increase revenue, particularly with bad debt losses going directly against the bottom line. Assessing the collectability and value of delinquent accounts even when there is underlying collateral can be a challenge in the equipment finance industry; however, there is a way for lenders to assess risk, manage current delinquent accounts, and resolve final bill accounts to minimize losses and costs.

Most leasing and finance companies have implemented scoring technology which they apply throughout the lifecycle of an account and embed into their IT and collections system. A collection resource center allows all accounts to be internally scored based upon user-defined parameters and built-in complex algorithms that incorporate everything from payment history, accuracy of data, geography and census data, years in business, prior bad debt account balance, size of the account due, and many other factors. This information can be compared and merged with the lessee's credit score to determine how much of a risk an account poses. Anything below a certain score is a risk. Anything above a compiled score gives you confidence that this is historically collectable. Scoring technology is also helpful when the final bill



has not been paid and is subject to charge-off. Accounts with a passing score can be retained and not sent to a collection agency, thereby saving collection agency fees.

### **Benefits of Selling Bad Debt and Selecting a Debt Buyer**

It is hard to run the collections operation for an equipment leasing firm. Every penny counts and every delinquent payment affects corporate cash flow. Worse, every uncollected dollar is evident in the bottom line. Until recently, when your collection agency finished doing what it could to recover debt, it was the end of the road to funds recovery.

Selling equipment leasing portfolios has changed the way leading financial firms manage bad debt recovery. Low or Zero-valued assets are being transformed into instant cash – the windfall revenue associated with selling debt goes directly to the bottom line. As a financial decision maker, you increase your corporate cash without sacrificing quality of service and without spending a penny. Selling dormant bad debt can immediately provide your company with additional liquidity and positively impact the balance sheet. In addition to increasing your cash flow, you reduce the uncertainties associated with your bad debt and the debt buyer assumes all the administrative nightmares associated with non-collectible accounts. As a debt seller, your decision making and goal setting should revolve around a “total satisfaction” end result. The key factors that will determine success in the debt-selling relationship and transaction are:

- You must receive a fair price for your bad debt receivables;
- You must ensure that the purchaser of the debt, as the new owner, affects collections in such a manner as to minimize complaints;
- Your organization must recognize and support the debt-selling process and the positive impact of selling your distressed debt, and;
- Your debt buyer must address client inquiries immediately with perspective and knowledge of the industry or it will negatively impact your organization.

### **The Process of Selling Debt**

The process of selling unrecoverable lease portfolios is relatively simple. Accounts are evaluated and priced for a small portion of their face value. You

receive an expedited infusion of cash, you forward the specific portfolio to the provider of after-collections solutions, and your collectors never have to see those accounts again. You immediately receive a fair price for your bad debt instead of waiting months (and often years) hoping to be paid.

The process works like this...First you receive a proposal from a provider of after-collections solutions for a single or multiple portfolio purchase. The result of this type of transaction is that open-ended collections within your organization now have a definitive life span and value (no more indefinite placements with unknown results, particularly when there has been prior collections activity). An analysis of your current collection agency’s rollover report or actuarial report is used to determine the optimal point of sale and appropriate pricing matrix to maximize the value.

Once your outstanding receivables have been brought to the proper aging, you then have the opportunity to sell your accounts on a monthly basis. These forward flow monthly sales are at a pre-determined aging point and at a negotiated fixed price to enable you to have ongoing predictable revenue for your old debt.

### **Summary: Immediate Liquidity for Distressed Debt; Immediate Transfer of Accountability and Cost**

There are many benefits to selling non-performing debt including:

- The immediate impact to earnings and net income that affects the bottom line EBITA number. For organizations looking for earnings spikes, often at end of quarter or at fiscal year-end, this can be an untapped source of revenue not previously considered;
- No more waiting months or years without a guarantee of return (a true benefit when you factor in the time value of money);
- Predictable revenue ongoing from a debt sales program;
- Your billing centers can push calls related to old debt to the after-collections solutions provider’s call center and not deal with the lengthy non-paying inquiry (allowing resources to move on to paying current customers);
- You can reduce or reallocate staff resources;



- No more monitoring agencies and balancing multiple statements;
- The entire analysis is done without cost or obligation to you, and;
- All post-sale results are accomplished without complaints from the lessee.

**The equipment leasing and finance industry is experiencing a need in the marketplace for a way to help recover monies from low and zero-valued assets. Providers of after-collections solutions create instant relief on non-performing portfolios as well as generating a much needed source of cash.**

#### **About the Author**

**Michelle Rodriguez is President of HSW Financial, one of the nation's leading commercial debt buyers. HSW specializes in acquiring and servicing both performing and non-performing equipment leasing portfolios. More information can be found by visiting the company's website at [www.HSWFinancial.com](http://www.HSWFinancial.com)**