

The Changing Face of the Commercial Debt Buyer

by Michelle Rodriguez, President, HSW Financial

What perception comes to mind when you hear the phrase *commercial debt buyer*? Is it positive, negative or do you come up with anything at all? Do you have an accurate understanding of the role commercial debt buyers play in today's business climate? In the text that follows I'm going to debunk some stereotypes and provide you with a road map of how you can immediately utilize the services of an institutional commercial debt buyer to increase liquidity, improve performance, and generate enhanced return on investment.

Have you noticed that doing the same things, in the same ways isn't producing the same results that were once so easily achieved? While you'll receive no argument from me that we're working through the toughest economic cycle of this generation, the fact remains that some financial institutions are thriving while others are struggling to keep their doors open. So my question is this – What are successful banks, credit companies and equipment leasing firms doing that the others are not? The answer is that they are innovating around industry norms and changing the thought paradigms within their organizations to allow them to successfully navigate a tough, complex, and rapidly changing market.

Having worked in capital markets for more than 13 years, it has been my experience that average companies focus on managing risk, successful companies focus more on maximizing opportunities than managing risk, but that the best companies are able to do both by consistently exploiting opportunities in a risk managed environment - enter the institutional commercial debt buyer...

Before I go any further I want to dispel a few common misperceptions. Institutional commercial debt buyers in most cases are not the same thing as collections agencies or factoring companies. The high cost of dealing with factoring companies, and the loss of control & slow return of capital when contracting with collections agencies, simply doesn't offer the flexibility required to maximize operating efficiency and portfolio returns. While collection agencies and factoring companies still exist, and there will likely always be a need for such entities, they simply cannot extend themselves to offer the broad array of services of an institutional debt buyer.

In less than a decade the commercial debt buying industry has evolved far beyond the opportunistic investment mentality that gave birth to the industry. Today, institutional debt buyers are customer-centric entities that have closely aligned their service offerings with the needs of financial institutions they serve. Commercial debt buyers

have become very sophisticated professional services firms offering capital markets and investment banking expertise, private label servicing and recovery capabilities, portfolio evaluation, risk management and consulting services, and a comprehensive training and education platform. Today's commercial debt buyers even have the ability to source equipment domestically, place it abroad into foreign markets, and service the accounts on behalf of clients' to create positive arbitrage in current market gaps between domestic supply and foreign demand.

As we've all witnessed in recent months, few things impact the health of a financial institution the way liquidity does. There is simply no denying that when capital is constrained and institutions become illiquid, things become tenuous at best. What's interesting to me is that I rarely speak with a bank or financial institution that isn't interested in generating liquidity by monetizing zero value or low value debt. But then I'm also amazed at how few of them avail themselves to this opportunity that is so readily available to them.

Being able to quickly price and close on a complex portfolio, and handle post-closing servicing & recovery activities on a private label or branded basis simply affords financial institutions a streamlined, turnkey resource to off load risk and generate liquidity without taxing already over burdened internal resources.

Best of all, working with commercial debt buyers has been engineered to provide the maximum amount of efficiency for the financial institution. Liquidating either performing or non performing portfolios is both simple and fast. Accounts are evaluated and priced at a negotiated discount from their face value. Upon closing, the financial institution selling the portfolio receives an expedited infusion of cash, the specific portfolio is forwarded 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 aged debt.

In summary, just a few of the representative benefits of selling your portfolio to a commercial debt buyer are as follows:

- 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.

If you are a credit officer, portfolio manager or executive looking to drive returns and optimize internal operating performance, then working with today's new breed of commercial debt buyers could be the answer for a whole host of issues facing financial institutions in today's complex economic environment.

About the Author:

Michelle Rodriguez is President of HSW Financial, one of the nation's leading commercial debt buyers. Michelle has more than 13 years of commercial capital markets experience having previously worked for such firms as GE Capital, First Sierra Financial, American Express Business Finance and Key Bank. Michelle lends her expert advice periodically to CNN 650 Talk News Radio. Michelle is a member of the Equipment Leasing and Finance Association; the National Equipment Finance Association; Debt Buyers International and the National Association for Professional Women where she was recently nominated Women of the Year in Finance. Michelle holds a Bachelors of Science. Michelle is also active within her community she's a member of the Galleria Chamber of Commerce Education Committee and she holds a position as Chairman and CEO for the New ADDition Foundation. **The New ADDition Foundation** was formed to help address the challenges associated with early childhood development issues, adversely impacting inner-city youth. For more information about

Commercial Debt Buying you can visit one of their local workshops on Commercial Debt Buying 101 or please feel free to email directly: michelle.rodriquez@hswfinancial.com.

About HSW

HSW is the leading buyer of commercial lease portfolios and a premier provider of private label servicing supporting the equipment leasing and finance industry. HSW is not a collection agency, nor do we compete with our clients by originating leases as our focus is solely on adding value to our client's needs. This is why the country's leading banks, equipment leasing and finance companies turn to HSW in order to improve their liquidity. HSW has a successful track record of creating operating leverage, velocity, and economies of scale for many of the nation's largest financial institutions. More information about the company can be found at www.HSWFinancial.com.