Found Money in Lost Causes:
Write Off Your Bad Debts—and Generate Revenue at the Same Time

By
Brett Boehm, Principal/Director of Business Development
TBF Financial, LLC

Leasing companies know all too well the challenges of doing business today. While lease financing appears to be rebounding, the challenges of generating revenue in today's market are as difficult as ever. That's why today, more than ever before, lessors are poring over their general ledgers, searching for new ways to generate revenue. What many don't realize is that a reliable and steady stream of potential revenue is probably staring right back at them from their balance sheet.

They just have not learned to recognize it.

The fact is, it's easy to overlook—an often innocuous little line item. That potential revenue stream is their uncollectible or non-performing equipment leases, commercial loans, and lines of credit. It's sitting there, right on their balance sheet, written off and going nowhere fast. It's often overlooked because no one ever seems to know quite what to do with it. Lessors or lenders just know it's been written off and it's a liability.

Well, a growing number of leasing companies and commercial lenders have learned they can sell these written-off debts and generate immediate cash by doing so. And by creating a regular process to liquidate their charged-off debt, they can generate an equally steady revenue stream.

I know all this firsthand because I'm one of the people who are buying lessors' charged-off obligations. Since 1998, my father Robert and I have built our company, TBF Financial LLC, to become the leading purchaser of non-performing equipment leases and commercial loans. In fact, we have just completed the best year in our company's 15-year history, purchasing more than $150 million in charged-off leases and written-off loans. This is more than we have ever seen in a comparable time period at TBF, so we suspect perhaps the value of selling written-off

accounts is becoming more obvious, and a growing number of lessors, finance companies, and banks are seeking out buyers to see for themselves how easy it is to transform charged-off debt into revenue—and do so on a regular basis.

Here’s How It Works

The easiest way for lessors to understand how they can generate revenue from selling their charged-off leases is to understand how buyers of charged-off accounts operate. It’s simple: companies like mine buy non-performing equipment leases, commercial loans, and lines of credit. Every equipment lessor or asset-based lender has them—a pile of uncollectible, past-due commercial lease or loan obligations—but up until now, only a few realized they held value. *We* know they have value, and we are experts at determining exactly what that value is before we buy them.

Once we have purchased them, we attempt to collect on them. For the lessors or lenders whose non-performing accounts we have bought, the benefit to them is that they have been able to off-load a written-off debt from their balance sheet—and, of course, receive payment for it. These lessors or lenders have already exhausted the collection process, so the “asset” we are buying from them is something they often consider worth very little. When they receive real money for these non-performing accounts, up front upon signing a purchase agreement with us, they are generating immediate revenue. It transforms a liability into a profit line-item on their books.

At TBF, we have found that the combination of paying our sellers up front for something they consider worthless and doing so with a simple and straightforward purchase process holds a great appeal to the seller and often leads to a long-term relationship of regular sales. Lessors and lenders often find that selling their charged-off leases or non-performing commercial accounts is a great way to help keep their balance sheet clean, especially toward the end of a fiscal year, when they are often looking to both clean up their ledger *and* increase revenues. In fact, many leasing companies who have seen the revenues that can be generated in a year-end sales blitz are now starting to extend their non-performing account sales throughout the fiscal year and thereby creating a steady revenue stream. These lenders have come to realize the simple truth

surrounding any commercial debt portfolio: the sooner they liquidate it, the more they're going to get for it. These will never hold more value than they do at the point when they have been written off the lender or lessor's books as uncollectible.

The KISS Principle in Action

And keeping the process as easy and uncomplicated as possible helps ensure first-time sellers become regular sellers of their charged-off accounts.

The first priority for successful buyers is to create a simple process for sellers to use. For most sellers, their due diligence effort will consist of preparing an electronic spreadsheet with some basic information for any account they would like to sell. The company buying the non-performing accounts then performs its due diligence of this information on the accounts and develops from it an offering price for the portfolio. If the price the buyer offers is acceptable to the seller, a purchase/sale agreement will be prepared, and the transaction will be closed. With the best buyers, the entire transaction, from the time the buyer receives the seller's spreadsheet until closing, usually takes no more than one to two weeks, depending on the portfolio's size.

Once such an initial transaction has been closed with a seller, an account for ongoing regular sales can be established with the seller. The advantage of such an account is that much of the due-diligence process can be waived for future transactions. The best buyers will work with their repeat sellers to 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 simply e-mails the buyer a spreadsheet of accounts it wishes to sell. The buyer will then pay for the portfolio by overnighting a check or making a wire transfer of the purchase funds. This streamlining of the process proves mutually beneficial for seller and buyer: the seller receives payment in cash up front, and the buyer can immediately begin the process of collecting on the paper it has just bought.

And there's another benefit to the seller: they no longer own the written-off debt; they have completely relinquished any ties to it. This means they will not be associated with any possible fallout that might emerge from the collections process that the buyer might undertake. It's understood that most sellers of written-off paper either have their own in-house collections function or they outsource that function directly to a collection agency. The non-performing accounts they are selling are almost always accounts where, to some extent, an effort has already been made to collect but it has been unsuccessful. Clearly, the sellers have written them off for a reason, and one of the biggest reasons is that they have reached that point where they no longer want to pursue the collections process.

Keeping Your Hands Clean—*and* Creating Revenue

Let's face it: collections work can be an unpleasant undertaking. A default never represents a happy time for any obligor, and the collections effort is not a pleasant task for the lessor or the lender. Especially today, in a tight economy with many companies struggling to regain a toehold, they are employing every tactic imaginable to make any collections process against them as arduous and lengthy as possible.

By selling these written-off debts, sellers can redeploy employees who would otherwise be required to monitor these accounts and eliminate any liability for a collection agent or collection agency behaving badly. Unlike collection agencies, which are essentially agents of the lessor or lender and working under the lessor or lender's name, the buyer of non-performing paper acts on its own behalf, as the title holder to the account. The sale of the portfolio to the buyer is an arms' length transaction without recourse, so the seller is totally out of the picture going forward. So the seller gets the best of both worlds: complete disassociation from the bad debt while still getting to apply the proceeds of the sale to their bottom line as profit--which has the biggest impact of all.

And I will add one final observation about commercial debt buyers: unlike collection agencies, which are often motivated to pick only the low-hanging fruit from the accounts they are given, commercial debt buyers are experts at reaching higher by identifying collectible accounts and

successfully collecting on them. Because of their expertise at recognizing value, they are able to offer substantial prices for the non-performing accounts they buy—and do so at the point of sale.

I certainly can't speak for all buyers of non-performing commercial paper, but I can say that the value we offer will always be evident as an alternative for companies that are accruing uncollectible commercial accounts and not realizing any revenue from them. To the extent that buyers of such accounts can provide an alternative that generates real revenue from an essentially worthless line item on a lessor or lender's ledger, I think they will always have a role to play. Selling commercial obligations that collection agencies have failed to collect converts a "worthless" asset into profits with very little effort. It's a practice that's showing many leasing, finance, and bank executives how to create revenue from an area where they have always thought none existed.

-30-

Brett Boehm is the principal/director of business development for TBF Financial LLC. Headquartered in Deerfield, Illinois, TBF has been the leading purchaser of charged-off equipment leases and other forms of non-performing commercial obligations since its inception in 1998. A 1998 graduate of The John Marshall School of Law, Boehm has been with the company since its founding.