

Are You Collecting Those Bad Tenant Debts? **by Deborah Everly**

The multifamily industry nationwide is fast learning a long-term business strategy that banks and consumer finance companies have long since come to factor into their day to day operations. Namely, it's the notion that selling charged-off receivables to the debt-purchasing industry is becoming a practical, low-risk alternative to tabling unpaid rents and related bad debt indefinitely. You gain incremental revenues for the non or under-performing accounts and just hand off the "headache" part of the equation to experts like us.

That is to say, we pay you cash up front for the right to permanently acquire your non-performing accounts and then we use our professional and proprietary methods to collect what is still legally due.

Debt Purchasing in the News

Certainly, the debt purchasing industry has earned all manner of national publicity lately, surrounding public stock-offerings of our largest counterparts. Most business and financial news reports, however, automatically link debt purchasers almost exclusively to businesses granting consumer loans, such as bank and auto finance and mortgage companies.

Although the debt-purchasing industry does owe a measure of gratitude to banks and other consumer lending institutions, as being the foundation on which we were all built, property managers and owners I've talked to are largely surprised to learn that our wider portfolio these days includes everything from defaulted utility receivables and health club memberships to delinquent cell phone bills.

Incremental Revenues from Co-Existing Collection and Debt Sales Strategies

Indeed, only recently is the multi-family housing industry discovering what banks have know for awhile now – that selling charged-off receivables is a viable alternative to indefinite headaches. Although a one-time sale of accumulated, uncollectible accounts is common, our experience is that progressively, companies are looking to debt sales as a longer-term strategy.

Recognizing that unpaid debts are a recurring reality, creditors are of late scheduling periodic sales as part of their long-term business plans to better forecast returns on their collection efforts.

Seasoned sellers determine the best recovery strategy for their companies and debt sales is not always the only component involved. Note that the debt sale approach is not necessarily in lieu of using traditional collection agencies, but rather can serve as a value-added step when conventional recovery efforts have been exhausted. Often, clients will start with a large sale of older receivables that are no longer generating significant returns, because they see the benefit of refocusing their resources on higher-yielding efforts. Then, for example, they may continue with a mix of internal and third party

collections for more current delinquent accounts. Clients who become more comfortable with this process will then incorporate a periodic portfolio sale of accounts when they have reached a certain age or level of collection activity.

Mutually Beneficial Opportunities

If property managers are hesitant to embrace the concept of selling their debt, perhaps it's only because the very concept of debt-selling and purchasing is so new to their industry. For that matter, until just a few years ago, companies in the utility, health care and telecommunications fields were not readily perceived as credit grantors by debt purchasers, and rental housing providers were also in this category. Frankly, by and large, the multifamily industry has been overlooked by debt buyers. *Until now, that is.* Recent signs indicate that the "courtship dance" between debt purchasers and property managers and owners has begun in earnest. Select debt purchasers have quietly begun running advertisements in periodicals geared toward multifamily property owners and managers, while financial managers from these same businesses have been visiting debt-purchasing conventions and trade shows. Very quickly, property management-related debt is becoming a new source of "non-conventional" business for debt buyers. Of course, yesterdays non-conventional acquisition can easily become tomorrow's traditional client base.

There is an interesting misconception about debt purchasers that multifamily administrators have expressed with regard to our pursuit of their industry. Because the average amount of a charged-off lease is often less than \$1,700 based on an average default of a one or two-month rental payment, they are surprised that we're interested in their debt. Additionally, managers tell me that defaulted-tenant "security deposits" almost never equalize the overall costs of reconciling the recovery of defaulted payments or in covering actual damages to the property. Increasingly, decision-makers are realizing that the sale of these unpaid balances due can be a mutually beneficial option for residential property owners as well as for debt purchasers.

Perhaps entirely because debt-purchasing is usually described in media reports as this "billion-dollar industry," property managers and their accountants are equally surprised to learn that many of our telecommunications (cell phone bill) defaults average \$600 per account or less, that utility-industry defaults can often be \$400 or less or that even some medical / healthy care defaults can average as little as \$250 to \$375 per account. Of course, we're interested in those types of low-dollar numbers on volume, volume, volume, but the fact remains that the average residential rental default recently falls within our business parameters.

This depends on other typical factors such as length of default, state and local laws applicable to your situation, the language of the original agreement and any remaining variables such as the amount of your still-existing documentations that we need after the sale to assist in locating responsible parties.

So, we believe that partnerships between established debt purchasers and the residential property owners, whether your business is the lease and management of apartments,

manufactured homes or gentrified student housing, are flush with mutually beneficial business – ones that have been overlooked for far too long.

In the meantime, debt purchasers across the board are learning all we can about the variables that help make up your industry while property owners and managers are becoming more familiar with the leading players and how we can benefit your recovery strategy. Increasing your organization's bottom line, reducing its liability to higher revenue-yielding efforts can be among the most visible results of selling your charge-offs to a trusted debt buyer.

Debt-Buyers Court the Multifamily Industry

From our view, what's driving the new initiative is that even the largest companies within their respective industries, whether it's multifamily, banking, telecom or any of the other growing fields addressed here, have all come to realize that a refocusing on your core competencies is a smart way to do business. Many companies do not have the resources or want to develop the competencies to do the often tedious skip-tracing and other time consuming high-overhead online research that goes into locating and professionally contacting and challenging a delinquent tenant or co-signer to live up to their end of the original rental agreement.

Keep in mind that debt purchasing and corresponding robust collections efforts are exactly what the debt industry provides. ***We pay you up front for the accounts you have deemed uncollectible and you get an immediate boost to your bottom line.*** Once we own your previous debt, we then legally and professionally pursue it to its conclusion in our company's name.

And because established debt-purchasers are not only bound by law and ethics, but by the desire to obtain repeat business, former tenants of yours are accorded the same professional courtesies and forthright handling that you would expect your own company to carry out in the same situation.

Long term alliances between property managers and debt-purchasers make good business sense and the value of these relationships will continue to grow as we learn more about your specific needs – and you, in turn, learn more about the many processes and competencies we can bring to your business situation.

Any relationship that lets property managers do what they do best – expertly managing real estate inventory and providing tenant or customer or tenant satisfaction – while letting us do the earnest, challenging work of professional debt purchasing and recover, has got to be a relationship that's also just rife with mutually beneficial possibilities. Finally, if you're a fan of black-and-white movies, you might even say that as far as property managers and their new friends, the debt purchasers, go – much like Humphrey Bogart said to Claude rains at the end of the classic movie "Casablanca" – "Louie, I think this is the beginning of a beautiful friendship."

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