

Debt purchase at EOS

Simply solvent

In times of poor payment behaviour, securing liquidity is more important than ever. Selling debt portfolios provides quick liquidity and frees up lines of credit.

Many companies have them. Folders full of money that are neither well-hidden nor secured behind sturdy vault doors. Usually they are simply stored in large cupboards in the administration offices: outstanding debts. In Europe, bad debts and delays in settling receivables are very high on the list of reasons for corporate insolvencies. Justus Hecking-Veltman, CFO of the international EOS Group, warns: "If outstanding payments are not pursued rigorously, this can endanger a company's cash flow."

Quick liquidity is an option provided by selling debt portfolios. This process involves the selling of overdue, dishonoured receivables and loans to a purchaser such as the EOS Group.

Before the purchase takes place, the buyer first discusses the receivables portfolio with the seller in order to gain an impression of its current value. This as-is analysis, along with a random sample from the receivables package, constitutes the basis of the purchase price calculations. In the process, the individual receivables are classified according to their type, age degree of securitization, liability constellations, order of priority, amount, handling method and, above all, probable default rate. Statistical projections and their own empirical experience also help purchasers to calculate a realistic price for the receivables. If both parties are agreed, they secure the transaction by contract. In this way, all of the rights and duties of the original creditor devolve upon the purchaser of the receivables.

Selling debt strengthens core business

Selling debt offers further advantages to sellers: immediate liquidity. They have part of their outstanding receivables paid out, which enables them to adjust their balance sheets while passing on the risk of default to the purchaser. This, in turn, enables companies to improve their ratings. Additionally, sellers reduce their costs in staff and materials by entrusting the entire debt collection process to the purchaser of the receivables portfolio. The funds saved can then be reinvested in core business activities. In this way companies can secure their liquidity instead of ploughing it back into the settlement of receivables. Administration, recovery and settlement are just a few of the time-consuming and cost-intensive factors that can be minimized by selling on debt. As Mr Hecking-Veltman explains: "The point where receivables are dishonoured marks the beginning of a complex process which encompasses the writing of first reminders, debt collection on customers' premises and balance-sheet management. For the overwhelming majority of companies, these are not part of their core competencies."

The important point for the seller is to seek a trustworthy partner who has the appropriate knowledge and experience in the field of debt purchase.

Although every time a receivable is sold the defaulting payer is notified that the receivable is being handled by the buyer or some other service provider, the defaulting party often associates his unpaid bill and its handling with the original creditor. “Debtors must be treated with sensitivity rather than being seen as a source of money. This approach upholds the company’s image and prevents the sale of the receivables from turning into a boomerang for its business strategy,” emphasizes Mr Hecking-Veltman.

Links

- BDIU: <http://www.inkasso.de/presse/herbstumfrage/index.html>
- DFV: <http://www.factoring.de/index.php/factoring-aktuell/bz-1-hj-09>
- EZB: <http://www.ecb.int/stats/money/surveys/lend/html/index.en.html>
- FENCA: <http://www.fenca.org/index.php?page=surveys-2>

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