

# Back to Basics, Continued

## —What’s a “Book of Business” Worth?

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*This content was published prior to the combination of Dentons Sirote. Learn more about Dentons Sirote.*

It is not easy to know what a portfolio of accounts receivable is worth. Net outstandings are surely going to suffer some write-offs. A lender’s decision to finance 80% of a finance company’s net outstanding balances, really has nothing to do with establishing a value. So, what do you do about negotiating to sell your receivables or purchasing another company’s receivables? How do you fairly determine value?

Traditionally, there are five factors that go into the decision process:

- Rate of return: First, a buyer must determine what rate-of-return the buyer is seeking and the seller has established by initially setting the APR. This determination will define how much of a discount a buyer demands or how much of a premium a buyer is willing to pay.
- The type of accounts: Secured accounts are valued more highly than unsecured accounts because the likelihood of collection is generally greater with secured credit.
- How strict the creditor was in originating its accounts: If the underwriting standards are clear and followed, it is likely that the account portfolio will not be a sloppy mess.
- Age and work history of the accounts: Accounts that have been lingering unworked for a long time are seldom worth much.
- Quality of the documentation: The underlying contracts that comprise the accounts are a good indicator of the value of the accounts. Documentation that is inconsistent with the law and regulations devalue a portfolio, while documentation that is crisp and conforming should alleviate the ever-present concern about “buying a lawsuit.”

For our larger consumer finance companies, they have long ago determined their standards for buying and selling portfolios of accounts receivable. Smaller companies may not have this history and should be prepared to carefully analyze the opportunity when it arises.

**Please note:** This is the ninety-eighth blog in a series of Back-to-Basics blogs, in which relevant and resourceful information can be easily accessed by clicking [here](#).

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