

TRAILBLAZERS

Just over a year ago, Trail Book Buyers directors **James Turk** and **Mark Osborn** saw a gap in the trail book buying market for a service that didn't charge brokers to see trails that were up for sale. As they explain to MPA, it's a model that has received excellent broker feedback



MPA: Tell us about what you do.

James Turk: We buy and sell mortgage and financial planning trail books from brokers and planners. They have a number of reasons why they'd want to sell: they could be exiting or changing aggregators, they might be looking to capitalise their business, or they may have to for personal reasons. But avenues available to them are quite limited, so we're there to give them an avenue to sell their book and give buyers an opportunity to buy those books.

We're not agents – we don't act on behalf of either party. The buyers do their own due diligence and make their own assessment of the book and what they're willing to pay for it.

The sellers do not pay us any fees, marketing costs or commissions on the sale of their book. We add a buyer's premium to the sale price; our buyers are willing to pay a little bit extra for the opportunity to purchase through us and to make use of our service. Our recent sales reflect that in addition to avoiding these selling costs we have been able to provide our sellers with above industry market average prices for their books.



MPA: Do buyer and seller interact with each other at any point?

JT: They'll need to do due diligence, and that usually includes a time for them to catch up. They might want to

see a few details about clients and verify the facts and trail figures. And obviously they're going to want the broker who wrote the loans not to be competing with them for those clients in future. So there are going to need to be some warranties.

They will ask for the information that they want to see; we present them with that information – trail statements and that sort of thing – and they make a decision on what they want to pay for that book. The due diligence is very much just to verify the facts, and that will happen once we've selected a buyer.



MPA: Do you help to facilitate the due diligence, or is that solely up to the buyer?

JT: We're not agents for the buyer; they'll need to be confident about what they're doing themselves. So they will need to meet, and we facilitate that, but, for it to be effective due diligence, the information needs to be verified directly by the buyer.

Mark Osborn: We facilitate some of the information, being the trail statements, the details surrounding the broker that's looking to sell their book, and maybe why they're selling it. So the buyer has got some sort of insight into what the selling broker is looking at doing. And on that basis, and given that they've viewed the trail statements and have done that side of it, it's really just at the final stages when they meet up.



MPA: Is it also up to the buyer to set up non-compete clauses?

JT: Our agreements cover that pretty strongly – and other warranties that you would normally have in an agreement are covered.

MO: And the broker that's selling his trail book, generally speaking, is aware that they're losing the rights to that client within the non-compete clause



James Turk

of the contract. And conversely the buyers will want to ensure that they've got 100% confidence from the selling broker that those clients are not going to be touched in any shape or form, so within the due diligence they cover that off and within the contract it explains it in black and white.



MPA: Can you tell us about your histories and why you decided to offer this service?

JT: We've been involved in buying books for over 10 years. So we've got a history and the expertise to know what books are worth in the industry. We know about the process and dealing with different aggregators. And we decided to offer the opportunity to other buyers in the industry to buy books where it's not very easy to source those themselves.

There have been a lot of participants come and go in the industry, and they all have different ways of approaching it and different services: business brokers, buy-sell facilities, direct buyers... They have different levels of success, and some of them stick around and some of them move on. But we just felt that, with our experience over the long run, we were able to improve on the models that are out there and remove some of the risks for both buyers and sellers.



MPA: What are your points of difference?

JT: We don't charge for access, we don't take deposits and we've got a national profile so we can source books anywhere. Some of the buyers out there are limited in their market; they're only looking to buy in a specific area, with a specific aggregator or a specific-sized book.

MO: We are able to deal with brokers on all different levels that are looking to buy books and grow their businesses through pretty much any aggregator or lender. We're not tied to any particular group. Our clients are Australia-wide, and one of the big reasons we're doing what we're doing is to give brokers the opportunity on all levels nationally to be able to acquire books.

I've been in the mortgage broking industry as an active broker for over 20 years. So, since the inception of trail, I've come to appreciate and understand the way it works. Being close within the mortgage broking industry certainly gives us a better understanding of what banks, aggregators and trail books are like.



MPA: Do you encounter problems with buying and selling trail books that are with different aggregators?

JT: Most of the transfers of books that we do don't involve the transferring of a book from one aggregator to another. Ordinarily a broker could buy a book that's with an aggregator they don't write business through – and this isn't always the case – and the aggregator who's currently paying those trails just ends up paying the purchaser. So the book won't actually transfer to their aggregator; it will stay with the



Mark Osborn

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current aggregator but is paid to them now. And in most cases they can do that without committing to writing new business with that aggregator. But that's not always the case; certain aggregators won't allow that.

MO: Some aggregators charge a fee for service, and may charge a small administration fee for the continuing payments of the trail. Whereas the alternative type of aggregator might be charging a percentage split on the trail and commission. So they're reluctant to transfer it over to another aggregator because they'll be losing their split on the trail.

MPA: Are there any common issues with buying or selling trail books that brokers should be aware of?

JT: In terms of buyers, it's important for them to be comfortable with what they're buying. A lot of people come to us and want to snap up the first opportunity that comes along, but it might not be the most suitable for their needs. As we don't charge for the opportunity to see these books, we recommend that people take a look, make sure they're comfortable, and if not then wait for the next one. Our model allows for them to wait for the right opportunity.

The other thing is to do their due diligence and verify what they've been told about the book. You need to know what you're buying.

For potential sellers, one of the major issues is the need for PI cover. People might leave the industry and let their PI cover lapse. A lot of aggregators will have it in their agreements that they need to maintain PI cover to be entitled to the trail. You don't want to be in the position where you decide to sell your trail down the track and you find that you can't do it because you haven't maintained your PI cover or face having to pay for a whole new policy instead of obtaining run-off cover when they exit.

Keep an accurate and up-to-date database of your clients and maintain a relationship with them. If you haven't dealt with them for years and years, it's going to be less valuable to a buyer who's looking to take over that relationship.

Finally, a lot of people are confident about the quality of the book, but they don't realise that the day that they stop trading as a broker, those clients when they need something will go to another broker and drop off their trail book. That book is going to drop off quite significantly in the first few years unless someone's there to manage those clients. **MPA**

CASE STUDY

Werribee-based LJ Hooker mortgage broker Ian Prince explains the hows and whys of selling his trail book

Why did you sell? Were you exiting the industry?

At one point I was, but I haven't. There was a benefit in bringing cash towards my use for a period of time, so there was a cash need as well. So it was a liquidity situation, I suppose you could say, at some point. At one stage I was looking to get out of the industry, but I got back into it. I didn't leave for long; I was out for about a month and a half to two months. There were a couple of ideas I had planned, and they changed, and I thought, "No, I'll get back into it".

What was the process?

I initially made the call and spoke to James – who I've known probably for about five or six years, and that's how I got wind of his business – and he gave me some idea of what sort of sale price I'd get for my trail book. I went through the process of gathering information with him, so that he could give me a more informed price, which he did. And then we went through the process of the documentation. I'm with LJ Hooker, so we had to do a bit of work with them – and through the aggregator, PLAN Australia. Once we went through that process it was fairly straightforward; we all signed off and away it went.

Did you have any contact with the buyer?

I didn't speak directly with him, but any questions I had were certainly answered through James. I've known James for five or six years and I had a fair bit of trust in what he was telling me too, so, with that past experience, I felt quite comfortable with the whole process. With the buyer, I wanted to get a bit of information first, and they were quite open with the information they gave me to make me feel comfortable, let's put it that way.

Did your trail book sell for what you were expecting?

Yes, definitely market value. It was right where we expected it to be. In fact, it was a fraction better than I was anticipating in some ways too, so I was quite happy.

You're broking again now. How does the non-compete arrangement work?

Part of the agreement obviously was that I couldn't go back into the book. And I think if the book decreases by a percentage over the next two years then there's a clawback, which is understandable. And it was a fair and reasonable figure too.

How was dealing with LJ Hooker in selling the trail?

They were great. They were understanding of my circumstances and they had to get involved in a couple of periods where they had to provide their professional indemnity insurance that I worked under their portfolio with. And they had to sign off on the actual documentation as well. That had to be done across the board because they're the franchise owners.

How long did it take to make the sale?

Probably six weeks, and that was happening around the Christmas period as well. It was quite seamless, and what I expected.

