

TRAIL BOOK BUYING: YOUR 10-POINT CHECKLIST

Trail Book Buyers' **James Turk** and **Mark Osborn** offer 10 vital considerations that all brokers should bear in mind before taking on a trail book

1 KNOW YOUR MOTIVATION AND PLAN THE TRANSACTION ACCORDINGLY

Are you looking purely to acquire trails from a cash flow perspective, are you looking to build you client list – or is your motivation a combination of the two? If you're looking for cash flow your primary concern should be the integrity and longevity of the loans.

If you're looking for customer relationships you should plan for the transfer of the relationship including:

- obtaining contact details;
- planning an introduction;
- ongoing marketing;
- and integration with your existing database.

Acquisition vehicle, tax planning, contractual terms and pricing will all depend on what you are trying to achieve. Professional advice should be sought to ensure the outcome matches these objectives.

2 BE AWARE OF THE TERMS WHICH GOVERN THE PAYMENT OF THE TRAILS

Brokers should review and understand the introducer agreement and any additional terms concerning the conditions on which the aggregator has agreed to pay the trails to the purchaser and under which circumstances it may suspend or terminate payments entirely. You are buying a contractual right so you should know exactly what you are buying.

3 WHO ARE YOU BUYING FROM?

If you're buying from a company you need to consider how long after the sale of its trail the company will continue to exist. Certain warranties that are standard in most purchase agreements may be worthless if the company is wound up or deregistered. Purchasers should therefore obtain warranties not only from the company but also the directors and key loan writers where possible.

4 NON-COMPETE CLAUSES

These need to be not just from the company but also from whoever wrote the loans that form the trail book. Often the owner of the book will be a company or person related to the main business writer. If they are benefitting from the sale of the book they should agree to sign-up to non-compete clauses. Furthermore a purchaser should identify key brokers who are or were staff or contractors of the company selling the book. If they have relationships with the clients or access to client data and do not have non-compete clauses in their contracts then this will open the book up to the risk of wholesale churn.

5 DUE DILIGENCE

A purchaser will often receive much of the information on which it decides to purchase a book verbally. It is important to verify as much of this information as possible. In particular contracts, trail statements and client details should be verified

to the maximum extent possible. The identity of the seller, ownership and rights to the trail by third parties should also be questioned and verified. In all cases company searches should be conducted.

6 BE COMFORTABLE WITH THE PERSON YOU ARE PURCHASING FROM

If you don't believe they are an honest operator this may cause problems in the future. Fraud and dishonesty can lead to termination of payments of trail, breach of agreements with lenders and aggregators and legal claims by borrowers. Issues post settlement that may also arise include trying to recoup clawbacks of upfront commissions and churn.

7 SETTLEMENTS/DEPOSITS/HANDING OVER INFORMATION

You should avoid the payment of deposits as much as possible and ensure that everything required to be done at settlement is prepared for in advance. If the vendor is providing information, databases, or any assistance at settlement these should be handed over simultaneously or prior to handing over funds. Once you hand over the settlement funds it is often difficult to get cooperation or timely action from a vendor.

8 PAYMENT

Never hand over money without first receiving the approval of the transfer from the

aggregators in writing. Most introducer agreements require the consent of the aggregator to assignment of the rights to trail. Without this you do not own anything so you should not hand over settlement funds. The aggregator should provide in writing that it approves the transfer, when the transfer will take place and to which loans it applies.

9 MAKE THE CONTRACT REFER TO THE PURCHASE PRICE AS A MULTIPLE OF THE TRAIL

If a purchase is delayed and the book drops in value in the meantime you do not want to pay for trails that you will not receive or overpay. Therefore the contract should state that the price is a multiple of the trails received by the vendor in the last commission run before settlement. In that way the price reflects the most up-to-date information.

10 USE UP-TO-DATE INFORMATION

Often a purchaser will make a decision on whether to purchase a book and pricing and then have some time pass before the transaction actually goes ahead. In this case you should ask for up-to-date information and review the purchase and the pricing. Even a single loan being paid down, going into arrears or dropping off entirely can make a significant difference to the makeup of a small book. Never make a decision on out-of-date information. **MPA**



James Turk



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James Turk and Mark Osborn are directors of Trail Book Buyers. Visit trailbookbuyers.com.au for more information.

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buyers 

I am very pleased with the price I received and James' fast response - Grace Lee (Sydney)

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