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OPINION

Credit card broker due diligence is a necessary thing in this day of CUs looking to sell card portfolios

The credit card portfolio debate gets more intense every week.

Nearly every trade publication in recent months has included news about another organization planning to buy portfolios, another credit union selling their portfolio, or someone urging credit unions not to sell.

With so many buyers and competition in the market, credit unions have never faced so many options for their credit card portfolios. As the market continues to get crowded, many credit unions will turn to portfolio brokers to help them find the best price, terms and fit when looking for a suitable partner.

But, not all brokers are alike. In fact, they differ greatly in the amount and quality of offers they can bring you, their experience with credit unions, and the manner in which they collect money from the transaction. Before you commit to using a broker, it pays to do your research.

Affiliations

The first thing you should find out from your prospective brokers is whether they are affiliated with an institution that buys portfolios. This has important implications when it comes to receiving multiple competitive bids.

Typically, an affiliated broker will present your portfolio to a single "favored" institution first, giving them the first right of refusal. If this affiliated buyer chooses to bid on your portfolio, the bidding process is essentially closed and you will not be presented with additional, possibly more competitive, offers.

An affiliated broker will solicit bids from other buyers *only* if their affiliate declines to bid on your portfolio. Because these other bidders are in direct competition with the broker's affiliate, they may approach your portfolio with skepticism – and their offers will certainly reflect this.

In contrast, an independent, non-affiliated broker will provide you with multiple, simultaneous bids from a number of potential partners. This ensures that you're receiving a competitive market value for your portfolio and that you have the greatest partnership opportunities to consider.

Keep in mind that Reg 703 requires credit unions to get competitive bids when selling securities, or demonstrate some analysis that they received a fair price. The same logic should apply when selling loan portfolios – get multiple bids before you commit to a portfolio buyer.

Fees and Commissions

Most brokers earn a fee or commission *only* if you sell your portfolio. If you're concerned about being pressured to sell, choose a firm that offers portfolio growth and consulting services as well. These firms will be more likely to help you find strategies for achieving your goals, whether it be keeping or selling the portfolio.

Whether the broker charges you, the portfolio buyer, or both parties, the fee is typically very small when considering the difference in premium you can achieve by using a broker in the first place. Do not be overly focused on the fee rate because (a) most brokers charge similar fees and (b) the most important factor in finding the best price and fit is choosing a broker that will maximize the competition for your portfolio.

I have seen comparable deals close the same week to the same buyer with significantly different premiums based on the exposure the sellers obtained – and the differences are often considerably larger than typical broker fees. Good brokers are worth their fees, and this should be evident when you check with credit unions they have worked with in the past.

You may also find that some brokers don't charge a fee at all, but they may expect you to invest the proceeds of your portfolio sale into other programs and investment products they provide. While the fee savings is appealing, I would approach these situations with caution since I tend to prefer a more direct and clear arrangement without unknown future costs or restrictions.

Competition is a wonderful thing when it is working for you – and it absolutely can and should be when you are selling a portfolio!

Be sure your broker can bring at least three bids from different buyers for side-by-side comparison at the same time. (If your broker does not present all bids at the same time, they may be favoring one buyer over the others and "rigging" your options.) Comparing price is an obvious first step – but equally important are the terms and how you feel about each buyer as a long-term business partner.

Keep in mind that portfolio buyers have done this many times before, while you have probably never done it. If they know they are directly competing with other buyers for your portfolio, and that you are working with an experienced broker (that is not affiliated with them), they will put their best foot forward to win your business.

It follows that you should not accept a "take it or leave it" non-negotiable selling process – even if there is more than one buyer involved. Good buyers will work for your business, and it is likely that you will see something in one bid that you want to ask for in another – whether it is price or terms. In spite of what people might say, virtually everything is negotiable. A good broker understands that negotiation can create a better deal and fit for all involved, and they should not try to hasten the deal by limiting your choices.

References

Your prospective broker should provide you with credit union references, including credit unions that sold their portfolios and those that chose not to. Find out if they were pressured by the broker to sell, how they were treated throughout the entire process, and what insight they have now that the process is complete.

Because selling a credit card portfolio is something that most credit unions will do only once, it is important to choose a broker that will best represent your interests in the marketplace.

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