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2002 Bankruptcy Losses on Credit Card Debt Reach $18.19 billion

Credit card issuers lost $18.19 billion on personal bankruptcies last year according to an article in the January issue of the *Nilson Report*. This total represents a 15.1% increase over the losses from 2001. These losses include loans originally classified by card issuers as credit losses rather than bankruptcy losses, since many debtors file for bankruptcy protection after their line of credit has been cut off. Not all issuers subsequently reclassify losses from credit to bankruptcies.

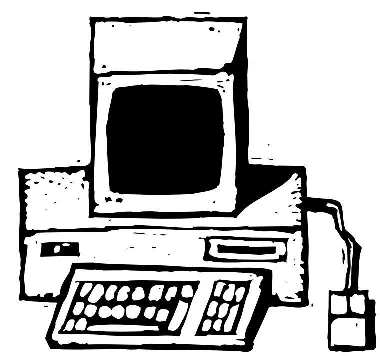
Even though bankruptcy losses reached an all-time high last year, they were less than they would have been if consumers hadn't had such widespread access to debt consolidation through home-equity loans. When consumers consolidate debt by paying off various card balances with a secured line of credit, card issuers are off the hook because the equity lender assumes all the liability. Often, consolidation proves an insufficient solution and the consumer ends up filing for bankruptcy anyway.

The report goes on to say that the percentage of total credit card charge-offs due to bankruptcies will continue to rise. In 2000, card issuers charged off $47.49 billion in credit card debt, of which $12.55 billion, or 26.2%, was due to bankruptcies. The *Nilson Report* expects some $76.46 billion to be charged off in 2005, with $21.37 billion, or 27.9%, due to bankruptcies.

Source: The Nilson Report

New Format for *The Paper*

The next issue of *The Paper* will be sent to members in a format similar to ACA's *News Link*. This format is quicker to navigate, presenting all information immediately, allowing readers to choose the articles they wish to explore in depth. The new format will also include direct links to information and registration for upcoming ABP meetings and teleseminars. *The Paper* will be sent in this new format via email to members on a bi-monthly basis beginning with the May/June issue.



MARK YOUR CALENDAR

ABP Session at ACA Convention

Tuesday, July 8, 2003

Las Vegas

Buying and Selling Distressed Debt – Perspectives of the Industry

Join Benita Weaver, assistant vice president and asset sales manager at Bank of America, along with the Asset Buyers Committee, as they discuss current and potential trends in the debt buying industry.

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ABP Dallas Meeting Audio Tapes for Sale!

The six tape set of the Asset Buyers Program (ABP) Year-End Debt Sales Roundup, held in Dallas on Nov. 23, 2002, are currently for sale through ACA's Member Services department. Presenters at this meeting, from the areas of financing, purchasing, selling and lobbying, include:

- ABP Committee Members
- Arthur Lipper, III, British Far East Holding, Ltd.
- Bruce Gay, Monticello Consulting Group, Ltd., Matt Markee, Jim Markee & Associates
- David Rosenberg, Unifund; Andrea Petro, Foothill Capital; Sean McVity, Keefe, Bruyette & Woods, Inc.
- Benita Weaver, Bank of America

Topics include:

- Attracting Capital for Distressed Debt Acquisition
- What Buyers are Looking For
- New Markets
- Financing the Purchase
- Vision of Sales
- Future of the Debt Marketplace

All handouts provided at the meeting will be included with purchase. ABP members pay the discounted price of $49.50, ACA members pay $79.50 and non-members pay $159.00.

If you couldn't attend the Dallas ABP meeting, or if you would like a recap of the meeting presentations, order a set of tapes today!

To order a set of ABP meeting audio tapes, contact ACA's Member Services department via email, *sales@acainternational.org* , or by phone, (800) 269-1607.

Benefits of the ABP Web Pages

Take a look at the Asset Buyers Programs (ABP) section of ACA's Web Site, under Special Programs. On the ABP Web pages, members will find:

- ABP products
- Description of membership benefits
- List of ABP Committee members and contact information
- Searchable ABP Roster
- Current and past issues of The Paper
- Upcoming ABP meetings and teleseminars
- An ABP application (recruit new members!)

Take advantage of your membership benefits, and utilize ABP's Web pages!

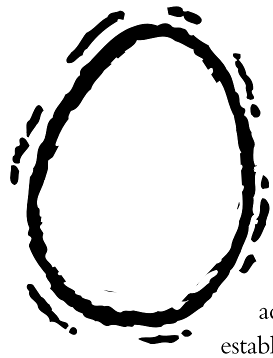
Make sure to regularly check the ABP section of ACA's Web Site for the most current ABP information at *www.acainternational.org* .

Start planning for the ABP annual meeting to be held in October!
Watch for further information in *The Paper*.

The Next Golden Egg?

Investors Are Interested In Debt Buyers . . . Again

by Michael Ginsberg



With the substantial transactions that companies are completing in today's market, it's no wonder financial buyers are seeking additional opportunities in the debt buyers' space.

This heightened interest may be attributed to the developing nature of the space; less than ten years old, debt buying is maturing and beginning to stabilize as an industry through the development of more sizeable players and the inception of two industry associations. Perhaps equally important is the continued receptivity of creditor grantors to sell their receivables.

In many ways, the current state of debt buying is very similar to the debt collection industry in the mid 1990s. At that time, most agencies were still independent companies owned by sole practitioners. But an aggressive merger environment quickly changed the space as companies began their acquisitive ways.

Now that several sizeable transactions have occurred in the debt buying industry, investors may be preparing for an aggressive round of consolidation here too.

Tye Hanna of Worldwide Asset Management recognizes the initial signs of a trend. "You have a downturn in the market and companies like Parthenon are looking for places to invest," he says. "These are strategic investors and they see an opportunity."

Hanna believes we will see continued activity and diversification, noting that Portfolio Recovery Associates' registration documents indicate the company intends to expand into third party collections.

And why not? Promising financial returns in a depressed economy are bound to attract attention.

"Investors are interested in debt buying organizations because they can make money more quickly than in the stock market," says Dennis Hammond, president of The Debt Marketplace, a firm that specializes in educating buyers and sellers on all aspects of marketing delinquent receivable portfolios. Hammond notes that he has even seen a few firms with brokers, testing the investor waters.

The space is made even more attractive by anticipated growth in certain segments. While most portfolio sales are still post charge-off and originate with bankcards or within financial institutions, this market is rapidly becoming saturated. Predicted growth in healthcare and telecom is certainly helping to drive this renewed interest and the belief that the government may start selling receivables presents a huge growth market for would-be investors.

The effect this potential influx of capital will have on the industry itself is unclear. What effect, if any, these larger, stronger buyers would have on creditors and their willingness to sell portfolios at certain prices remains to be seen.

Jack Lavin, CEO of Arrow Financial says "Generally speaking, increased investment activity is good for the industry because it helps create more discipline and stronger infrastructure for debt buying companies."

Hammond agrees, stating "There may be a slow-down in sales from long standing sellers, but there are a lot of new sellers out there. It could impact prices, but we haven't seen much change in six months."

A warning to owners and investors alike: in the past organizations flush with capital have been tempted to overpay and have ultimately spent themselves out of business. The survivors have learned the lesson.

"In the end, it all goes back to knowledge and the capability in analytics of those buying the accounts," says Hammond.

Hanna agrees. "These are not investments in mom and pop start-ups. This activity involves well established debt buyers who know what they are doing. Even with lots of capital, these guys aren't going to overpay for paper. They are going to buy wisely."

Hanna advises buyers to "stay the course" by continuing to make smart investments and not succumbing to the temptation to overpay.

One thing is clear - early consolidation and cash-heavy debt buyers mean that the owners with less financial strength need to prepare themselves for the future, as they will continue to encounter larger and financially stronger competitors in the marketplace.

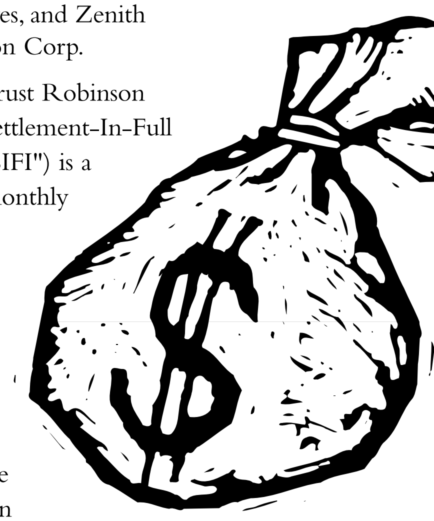
Owners should also be aware that the debt buying industry has attracted sophisticated investors. Whether owners intend to raise investment capital or sell their company to someone who does, understanding their businesses' competitive position today can greatly enhance the owner's position down the road, as interest in the debt buying industry continues to grow.

Mike Ginsberg is President and CEO of Kaulkin Ginsberg. Since 1989, the Kaulkin Ginsberg team has provided information and advice to the Accounts Receivables Management/Customer Relationship Management and other business service industries. Ginsberg is a member of the board of the Institute of Merger and Acquisition Professionals (IMAP), a member of the Association for Corporate Growth (ACG), and a member of ACA International, the Association for Credit and Collections Professionals (ACA). For more information visit www.kaulkin.com.

Benchmark Information for Debt Buyers

Debt buying collection yields are different today than they were two or three years ago, but by how much? How are my debt collection efforts doing relative to the industry average? The SunTrust Robinson Humphrey SIFI was designed to try to answer these questions.

- JANUARY MIXED: SIFI 1/03 collectability levels continued to show m/m growth across all payment tranches except for S2 (payments between $500 and $1,000), which declined 26% m/m. The largest tranches, S3 and S4 (payments between $1,000 and $7,000), showed double-digit m/m growth. On a y/y basis; however, all four payment tranches declined.
- ANALYSIS: A combination of post-holiday seasonal lift and mortgage refinancing helped boost January m/m results.
- FEBRUARY OUTLOOK: Continued seasonal growth anticipated in February, helped by the beginning of the tax refund season; however, y/y results will likely continue to be depressed by tough comps and war uncertainties.
- SIFI CONTRIBUTORS: Arrow Financial Services, Century Liquidation, Oliphant Financial Corporation, Phoenix Credit Solutions, Risk Management Alternatives, and Zenith Acquisition Corp.



The SunTrust Robinson Humphrey Settlement-In-Full Index SM ("SIFI") is a proprietary monthly research tool designed to give investors and debt buyers an overview of the relative strength of the debt collection market and the direction of the U.S. economy. The SIFI measures the success of collections agencies in collecting the bad debts that they have purchased, specifically the ratio of Settlements-in-Full (SIFs) and Payments-in-Full (PIFs) versus the face value of the debt at acquisition. We gather data on this ratio in four categories based on the debt amount: less than $500, $500-$1,000, $1,000-$3,000, and $3,000-$7,000. It should be noted that the total dollars collected by an agency typically represent a small fraction of the face value of a bad debt portfolio, and that SIFs and PIFs represent a subset of those payments (typically 10-40%).

Source: SunTrust Robinson Humphrey

Please Welcome ABP's Newest Members:

Terry Masch, *Credit Plus Solutions Group, Inc., Harrisburg, Pa.*
Marc Kempen, *Data-Central Collection Bureau, Fresno, Calif.*
Gerald P. Vargo, *RMB Services, Inc., Lakewood, Colo.*
Harry Cagle, *Houston Funding Corporation, Houston, Texas*
Brian Dunleavy, *TCAR Collection Services, Schenectady, N.Y.*
William Alias, III, *Security Check, Oxford, Miss.*
Laurie M. Murphy, *Risk Management Alternatives, Inc., Duluth, Ga.*
Bruce C. Taylor, *David Taylor & Associates, LLC, Tewksbury, Mass.*
David Reynoso, *Portfin Management Services Ltd., Great Neck, N.Y.*
George Terzi, *PDI Management Services, Inc., Orange, Calif.*
Brendan DeLamielleure, *Enhanced Recovery Corporation, Jacksonville, Fla.*
Steven D. Harb, *Asset Recovery Systems, LLC, Knoxville, Tenn.*
Hal Siegel, *U.S. Equities Corp, South Salem, N.Y.*

the Paper

the Paper, a publication focusing on issues affecting the purchasing debt industry, is produced for the members of ACA's Asset Buyers Program.

Editor: Karen Latchana

Visit ACA's Web site
http://www.acainternational.org

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The Association of Credit and Collection Professionals