



Bankruptcy Filings, Consumer Credit Send ARM Index Lower

A spike in bankruptcy filings and a drop in outstanding consumer credit helped drive the Kaulkin Ginsberg Index down 3.7 percent to 1250.7 in October. The index measures economic conditions affecting the accounts receivable management (ARM) industry. The index has fallen 4 percent from its high of 1303.1 in June 2005.

Contributing to that drop -- a surge in bankruptcy filings in the weeks prior to the federal bankruptcy reform law taking effect on Oct. 17.

The number of bankruptcy filings spiked from 497,000 in the second quarter of 2005 to 542,000 in the third quarter, the highest number the Administrative Office of the U.S. Courts has ever recorded in one quarter. Such a spike in filings can drive the index down since people filing for bankruptcy may pose challenges to ARM companies trying to collect debts.

Outstanding consumer credit, which dropped \$7.2 billion during October, also contributed to the dip in the index. The credit drop was the sharpest decline reported by the Federal Reserve. Such decreases in outstanding consumer credit generally lead to fewer portfolios available for debt buyers to purchase, says Paul Legrady, director of the research group at Kaulkin Ginsberg.

Also impacting the index, the market capitalization of publicly traded ARM stocks -- which includes Asset Acceptance, NCO Group, Portfolio Recovery Associates, among others -- fell from \$3.4 billion to \$3 billion.

Despite the drop in the index this month, Legrady anticipates it to level off by next month. The overall index, in general, boasts about a 5 percent increase year to year.

"I think there will be less volatility exhibited in many of the indexes contributing factors of this past month," Legrady says. "Despite the downward movement we see this month, the long term of the index will most likely continue to be positive."

Some of the economic variables measured by the index include unemployment, federal funds rates, charge-off rates, outstanding consumer credit, bankruptcy filings, market capitalization of public ARM companies and the consumer price index.

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