

the Fair and Accurate Credit Transactions Act, in particular, has specific ramifications for debt collectors.

Under the act, if a collection agency is aware that debt is fraudulent, it must give that information to the consumer, creditors and credit agencies, and is obligated to give to authorities any suspected identity theft evidence.

A firm is not allowed to try to collect or to sell any debt that is a result of identity theft, and an agency must protect and properly dispose of consumer info.

"We're seeing some wild cases, where whole credit reports were thrown into the dumpster," said Crane.

Agencies that are going to report negative information to a credit bureau must now inform the consumer of those plans, a rule that applies to debt buyers but excludes third-party collectors.

"If there is any reasonable cause to believe [information] is inaccurate, you must let a credit reporting agency know," said Crane.

Between 8.9 million and 9.9 million people were victims of identity theft at an estimated cost of \$53 to \$57 billion during a recent 12-month period,

according to an FTC survey.

Sean McVity, managing partner with Garnet Capital Advisors, a New York-based debt broker, reviewed the evolution of the debt-buying industry since the mid-1990s, when the practice was little more than a last-ditch channel to clear non-collectable accounts.

Today, McVity said, debt selling is a standard tool for managing accounts. Creditors are more aware that it's foolish to leave accounts dormant and let them lose value every day as they lapse out-of-statute and debtors file bankruptcy. Depending on the age of the loans, creditors sell chargeoffs and non-performing loans for cents on the dollar and receive an immediate cash infusion to their bottom lines.

As market prices fluctuate and are currently hovering near record highs, many creditors and issuers are finding that the net present value of the sales price they can fetch exceeds what can be returned via collections.

*SourceMedia's next collections show, the Credit Card Collections Conference, will return to Las Vegas from Oct. 11 to Oct. 13.*

### First-Quarter M&A Activity Mirrors Year-Ago Period

M&A activity in the accounts receivable management industry is off to a similar start in 2006 as compared to 2005, with eight transactions completed totaling roughly \$128 million. The same quarter last year generated 12 transactions totaling approximately \$110 million in deal value, reports Kaulkin Ginsberg Company, M&A advisors to the collection business.

In January, an undisclosed investor purchased a minority stake in Hilco Receivables, LLC, one of the largest debt purchasing companies in the U.S. Also, in early March, ClearLight Partners, a private equity firm based in California, financed the acquisition of Midwest Collection Service, Inc, a healthcare focused contingency collection agency, by its portfolio company, The Outsource Group.

"We are not surprised by the level of deal activity in the first quarter of 2006," said Mark Russell, director at Kaulkin Ginsberg. "2005 also started off comparatively slow, but ended up being another record-breaking year. The market characteristics that drove last year's deal activity are still in place, the economy is strong, lenders are providing debt with attractive terms, corporations and investment funds have large amounts of capital to put to work, and the appetite for outsourcing debt collection activities is growing."

Russell expects that deal volume will increase in 2006, but the average transaction size may decline as more deals involve larger companies buying smaller ones that strategically expand their presence in the ARM market. "Buyers with established platforms in the ARM industry will look to grow by purchasing companies that provide access to growing niche markets and complementary service offerings."

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