

Secondary Market Looking a Bit Wan

The enthusiasm of the resale market for debt portfolios has ebbed quite a bit over the past several months and the lethargy may linger well into this year, industry participants tell CCR.

"There is less buyer interest in the secondary market and prices in the secondary market have come down," says Mark Russell, a director at accounts receivable management industry consultant Kaulkin Ginsberg, Rockville, Md.

CCR's research found that resellers had less activity in the second half of 2007 than during the first half. The latter half of the year – especially the fourth quarter – was dominated by large, creditor-direct portfolios. Many resale packages went unsold even when prices were reduced, CCR found.

Russell attributes the secondary market sluggishness to relatively high prices for fresh and primary paper over the past three years. Buyers have had to pay more and accept that returns would not come as quickly, or turn around and sell the portfolio after working the accounts six months to three years.

During the fourth quarter, says Russell, creditors were selling – a plus



Wheels & Deals

The sale of commercial collection agency **Bilateral Credit Corp.**, New York City, to a private investor closed Nov. 21 in a deal handled by Milestone Advisors LLC. Terms of the deal were not disclosed. Bilateral focuses almost exclusively on commercial collections, specializing in contingency collections and accounts receivable management services. CEO Steve Muller founded the company in 1969 and will remain with Bilateral in a consulting role.

Haven Healthcare, the second-largest nursing home operator in Connecticut, filed for Chapter 11 bankruptcy after recently coming under scrutiny for patient care deficiencies. According to the filing, Haven owes its 50 largest creditors nearly \$31 million. The company cited low Medicaid reimbursement rates for its financial woes.

The state of Utah signed **Universal Fidelity**, Houston, to a five-year contract to collect the

state's delinquent receivables – an estimated \$900 million pool of criminal court fines, fees and restitution. Utah officials hope to find additional revenue, reduce collection costs and streamline collection processes. Universal also has clients in the credit card, student loan, health care, and automotive industries. The agency handles more than \$2 billion in placements annually.

MRS Associates Inc., Cherry Hill, N.J., planned to add 200 collectors and managers by the end of 2007 – an increase of nearly 33% in overall staff – to the company's existing accounts receivable management division. MRS cites expansion opportunities with new and existing clients.

Oxford Management Services, Melville, N.Y., is moving to Latitude Software as its collection platform. The change will allow the company to build on growth that occurred in

2007, including the launch of two new off-shore relationships and the relocation and expansion of its Pennsylvania site.

Elite Recovery Services, Buffalo, N.Y. plans to use TransUnion's StrategyBuilder, a software designed to help third-party collection agencies, debt buyers, creditors and collection law firms segment accounts into appropriate categories and assign treatment strategies based on the organization's criteria and business logic.

Fair Isaac Corp., Minneapolis, is partnering with Payment Reporting Builds Credit (PRBC), Annapolis, Md., to offer a PRBC Credit Report with FICO Expansion Score. The combined report will include rental and bill payment data from PRBC's repository, non-traditional credit history data from third-party sources and traditional data from Experian, TransUnion and Equifax.

for buyers of fresh paper. The negative is that the secondary market "will not get much attention." He projects the resale market will rebound but perhaps not before the second quarter.

Meanwhile, for companies that purchased on the secondary market for a couple years, "and found they're not hitting liquidation targets, their purchase prices will come in lower or they won't buy at all," Russell says.

Dave Ludwig, president of debt broker National Loan Exchange Inc., based in Edwardsville, Ill., agrees. "Especially hard hit regarding pricing are resales, which in many cases are half what they were last year. Since resales became an integral exit strategy for many buyers, and hence a variable in their liquidation model, this decline also has impacted the original price paid," he says.

Card Portfolio Price Ranges

	Fresh	Prime	Secondary	Tertiary	Quad/ Quint	Out of Statute
Kaulkin Ginsberg	12%-15%	9%-11%	6%-8%	3%-5%		
Garnet Capital Advisors	11.0%	8.2%	7.0%	5.2%	2.4%	0.8%
National Loan Exchange	12%-14.5%	5%-9%	4%-8%	3.5%-5%		

Money and Strategy

Lou DiPalma, managing partner for Garnet Capital Advisors LLC, a Harrison, N.Y.-based debt broker, says the credit crunch of 2007 has not dried up funding for debt buyers, but has made borrowing more expensive.

"Money flow for purchased receivables has not tightened – but they have to pay more for the money they borrow and they have to put more of their own equity in the deal," he says.

Russell at Kaulkin Ginsberg agrees: "We have not seen any tightening of lending amounts but banks want you to prove that you know what you are doing. Buyers are not always getting 100% financing – more like 80/20, because the lender wants the buyer to have its own equity in the game," he says.

"Where the money is drying up is from hedge funds. It's expensive money [and] it's abundant. As a result, certain players did deals they otherwise would



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