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Deep in debt? Try to get a better settlement deal

Bad economy's irony: Savvy debtors may have more room to negotiate



By Connie Prater

The price that debt buyers pay for bad credit card debt portfolios has declined in recent months, according an account receivables industry analyst.

This behind-the-scenes development in the debt buying industry may be of interest to consumers who find themselves in arrears and getting calls from debt collectors.

According to research conducted by Rockville, Md.-based Kaulkin Ginsberg, the prices debt collection companies and debt buyers pay for portfolios of bad credit card debt are falling compared to a year ago. Among the reasons, according to Kaulkin director Mark Russell: the increased amount of delinquent [credit card debt](#) that has been sold and resold in recent months as the economy tanks and more credit cardholders default on their accounts.



Supply and demand

As the supply of bad credit card debt goes up, the price of these portfolios is going down. Prices have dipped by 10 percent to 50 percent depending on the age of the debt, according to Russell's data, based on research from debt buyers and analysis of recent portfolio transactions in the credit card sector.

"In 2005, there was a lot of entry in the debt buying business and they had no problem going to Wall Street and getting capital," says Bob Hunt, a senior economist with the Federal Reserve in Philadelphia and author of ["Collecting Consumer Debt in America."](#) "That certainly had an effect in terms of bidding up prices. At that time, it was clearly a demand effect. Now there is sort of a bunch of effects happening at the same time. More supply of bad debt being sold by creditors, perhaps less demand for debt as the cost of capital for these firms has risen."

He adds: "Every one of these things sort of suggest that the price of debt has fallen."

Wriggle room?

So if bad debt prices have gone down, does that give debtors any additional wriggle room to negotiate lower settlement payout amounts?

Unpaid credit card debt is typically sold by credit card issuers to debt buyers for pennies on the dollar. That is, if you owed \$1,000 in credit card debt, a debt buyer may buy your debt as part of a multi-million dollar portfolio of other deadbeat accounts. The buyer may pay only 5 cents to 10 cents on the dollar (or \$50 to \$100) of your original \$1,000 debt obligation. Buying the debt gives the collector the right to seek and collect the full \$1,000 debt from the consumer. If the debt buyer collects the full \$1,000 from the consumer, the company has logged a \$900 to \$950 profit. Of course, the debt buyer must deduct from this amount the expenses (salaries, equipment, postage and other costs) associated with tracking down the money owed.

Says Russell from Kaulkin: "With debt buyers, potentially there could be a little more bargaining room if they have access to some level of cash."

He adds: "I believe that a debtor could have a bargaining chip if they can show that they have the ability to pay; if they can show that they can have a large payment."

Debtors with access to cash who are in the position to pay off the debt in full, or pay off the settlement amount in full (rather than stretching it out over a series of installments), may be able to get more favorable settlements, Russell says.

A deal might look something like this: "With a \$2,000 debt, say you can put \$500 down upfront and



then pay \$50 a month going forward," says Russell, who likens the negotiations to buying a used car. "If I do this, could you reduce my debt from \$2,000 to \$1,000. That's the kind of thing that debt buyers may be amenable to."

Hunt notes that not everyone will be able to take advantage of these circumstances. Let's face it. Some people are not skilled negotiators. Often consumers do not negotiate settlements themselves. Debt resolution specialists or accredited [consumer credit counselors](#) may be more savvy at these kinds of negotiations. Hunt says, "Those settlements at the end of day are going to reflect the kind of cash flow and liquid assets that consumers have right now."

A note: Beware of the potential tax implications of negotiating to pay a lesser amount than you owe in credit card debt. The Internal Revenue Service requires creditors, including debt buyers, to file 1099-C tax forms [reporting forgiven credit card debt as income](#).

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