

## Debt Collectors Are Struggling

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designed to prevent misleading  
or harassing consumers.

Bad information about bills can also lead collectors into problems. In some cases, bad-debt portfolios that collectors purchase haven't been well managed by previous owners, and they may show debts as unpaid even if they were paid or forgiven.

Collection agencies, which are required to inform debtors when they acquire a debt, often keep track of debtors even if they are unable to pay for several years, and then pursue payment after they start working again.

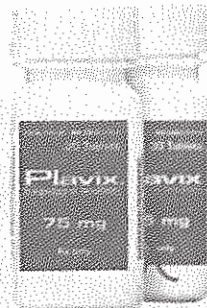
Because collecting on unpaid bills has become more difficult, debt buyers have become more cautious about what they purchase, and the price of unpaid debt portfolios has fallen.

Mr. Neeb of Affiliated in Omaha says that public utilities used to be able to sell uncollected debt that was 12 to 24 months old for three to four cents on the dollar. "Now, you're looking at two to three cents," he said.

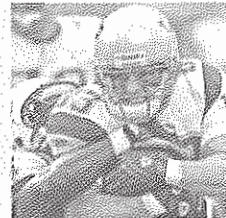
The slump also hurts businesses that supply equipment and services to debt collectors. **Soundbite Communications Inc.**, a Bedford, Mass., company that makes automated robo-callers for debt collectors, told investors recently that it expects sales to agencies to decline in the second half of this year.

"Their ability to actually collect payment is significantly reduced because more and more debtors are simply unable to pay," said Soundbite's chief executive, Peter Shields, he said. As a result, debt-collection agencies are "becoming more selective in their spending."

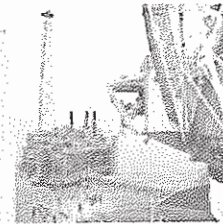
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THE WALL STREET JOURNAL.

Wednesday, November 12, 2008 B1

## Even Debt Collectors Have Hit Hard Times

BY WILLIAM M. BULKELEY

This should be the best of times for America's debt collectors, since never has a society been so in hock. But ironically, much of the debt-collection industry is struggling because there's little cash left to squeeze from strapped consumers.

"People joke with me that my business must be great," said Mark Neeb, president of **Affiliated Group**, an Omaha, Neb., collection agency. "I would say the opposite is true. Our business flourishes when the consumer has money."

Debt collectors either work on consignment for creditors, keeping 20% to 25% of what they collect, or buy portfolios of un-

paid debt from creditors and then try to collect enough to make a profit. When the people behind on their bills aren't classic deadbeats but are truly tapped out, debt collectors also get pinched.

**NCO Group Inc.** of Horsham, Pa., which is owned by an investment arm of **J.P. Morgan Chase & Co.**, said it posted a \$14.8 million net loss in the quarter ended June 30 because of "lower-than-expected collections" on accounts receivable it had acquired.

**Asta Funding Inc.** of Englewood Cliffs, N.J., said its profit for the nine months ended June 30 fell 79% to \$8 million. The decline partly reflected a revaluation of the collectibility of a \$300 million debt portfolio it

had acquired the year before.

**Encore Capital Group Inc.**, a San Diego debt buyer, said third-quarter profit fell 30% to \$3.8 million after its impairment provision for debt—an accounting term for debt it doesn't think it can collect—rose to \$7.3 million from \$2.4 million. And **Debt Resolve Inc.** of White Plains, N.Y., said big losses at its debt-collection unit led to a second-quarter loss of \$4.2 million.

"More and more accounts are going out to debt collectors, but it's harder than ever to collect," said John Nemo, a spokesman for **ACA International**, a Minneapolis-based trade group that includes 3,500 of the country's estimated 4,500 collection agencies.

Last year, bill collectors re-

covered \$40 billion in bad debt, according to a study by **PricewaterhouseCoopers**. The state of the U.S. collection industry, with \$17.5 billion in annual revenue, provides a window into the economic downturn and how consumers are faring.

"There may be no other industry that has such immediate knowledge of consumer liquidity," said Paul Legrady of **Kaulkin Ginsberg Co.**, a Rockville, Md., consulting firm that advises collectors and others who manage accounts-receivable. The company publishes the **Kaulkin Ginsberg Index** of indicators such as corporate charge-offs of unpaid debt. "There's been a clear downward trend for the past year," Mr. Legrady said.

Critics say that as debt-collection agencies struggle to recover the costs of bad debt they have acquired, some are abusing debtors with harassing phone calls or illegal threats.

The national association of state attorneys general reported in September that complaints about debt collectors had vaulted to No. 1 on its annual survey of consumer complaints, replacing home repair and construction. The Federal Trade Commission said that last year it received some 70,000 consumer complaints about bill collectors, about double the number of five years ago.

Debt collectors are governed by federal and state regulations

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