

Pity the Debt Collector

by Kate Murphy Jan 27 2009

With plenty of people behind on their loans, this ought to be a golden age for professional debt collectors. It's not. Here's why.



Photograph by: David Gould

These should be boom times for debt collectors with more Americans in arrears than ever. After gorging on credit over the past five or so years, consumers owe more than \$2.57 trillion, according to the latest Federal Reserve estimate.

But while debt collectors are undeniably booking more business with nervous creditors eager to chase down overdue accounts, that doesn't necessarily translate into increased profits.

"You can't get blood from a stone," says Michael Ginsberg, president and CEO of Kaulkin Ginsberg, a consulting firm for the collection industry in Rockville, Maryland. "In this economy, a lot of people just don't have the money to pay up right now."

Of the 6,500 debt collection agencies in the U.S., most are small shops with less than \$10 million in annual revenue. Seventy percent are contingency collectors, meaning they get a cut of what they collect. The remaining 30 percent are debt purchasers, which buy debt for pennies on the dollar and keep all they collect.

Contingency players are reporting record placements from businesses, says Rozanne Andersen, executive vice president of ACA International, the industry's trade group. Increasingly, they're also hearing from troubled municipalities eager for help in collecting overdue taxes, parking tickets, and even library fines.

The downside, she says, is that "recoveries have been much lower than expected." So low that despite more clients with enormous debt portfolios, collection agencies aren't making any more money and, in many cases, have begun to lose money. "They're feeling crunched," she says.

Debt purchasers are having an even rougher time, says George Van Horn, a senior analyst for market research firm, IBIS Worldwide in Los Angeles. Not only are they finding it difficult to collect on debts they've already bought, he said, but they also "can't get financing due to tight credit to buy anything else that might offer a better pay out."

The largest player by far in the collection industry is privately held [NCO Group](#) of Horsham, Pennsylvania, with more than \$1 billion in revenue in 2008 and 11 percent market share. It has both debt purchasing and contingency debt collecting divisions and, like its many smaller competitors, has been struggling.

"Collectability has become a serious issue," says Brian Callahan, NCO's vice president of financial reporting. Citing that and the company's dim prospects for getting acquisition capital, Standard & Poor's last month cut NCO's credit rating.

Adding to the industry's woes are recent federal and local privacy laws that have made it harder for debt collectors to gain access to information about debtors. "We're having to spend a lot more time on accounts before we collect," says Callahan. "Finding people has become the art of this business."

Moreover, the practice of bundling and securitizing of debt has obscured who exactly is liable. "With the complexity of the documentation, it's more of a guessing game now," said Van Horn at IBIS Worldwide. "It raises the costs of chasing down debt."

Companies like [LiveVox](#) in San Francisco that provide automated dialing systems have been rushing to offer more features like automated skip tracing and prioritization of calls according to the likelihood of repayment.

"Debt collectors are looking for technological efficiencies to save them and we are looking to capitalize on that," says John McNamara, chief marketing officer at LiveVox. He says his company last year doubled the number of customers it serves.

Financial pressures in the fragmented debt collection industry have forced more mergers and acquisitions. "We've entered a compression cycle," says Andersen at ACA. A report released by Kaulkin Ginsberg pegs the total value of these deals at \$2 billion for 2008, up from \$1.7 billion for 2007.

The consolidation began even before the economic shocks and bank failures of this past summer. So instead of being recession resistant, Ms. Andersen says, the debt collection industry is rather a bellwether for the wider economy: "It feels the downturn first and is also the first to feel the recovery."

No sign of the latter, yet.

<http://www.portfolio.com/news-markets/top-5/2009/01/27/Trouble-for-Debt-Collectors>

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