



At The Crossroads: The State & Future of the ARM Industry

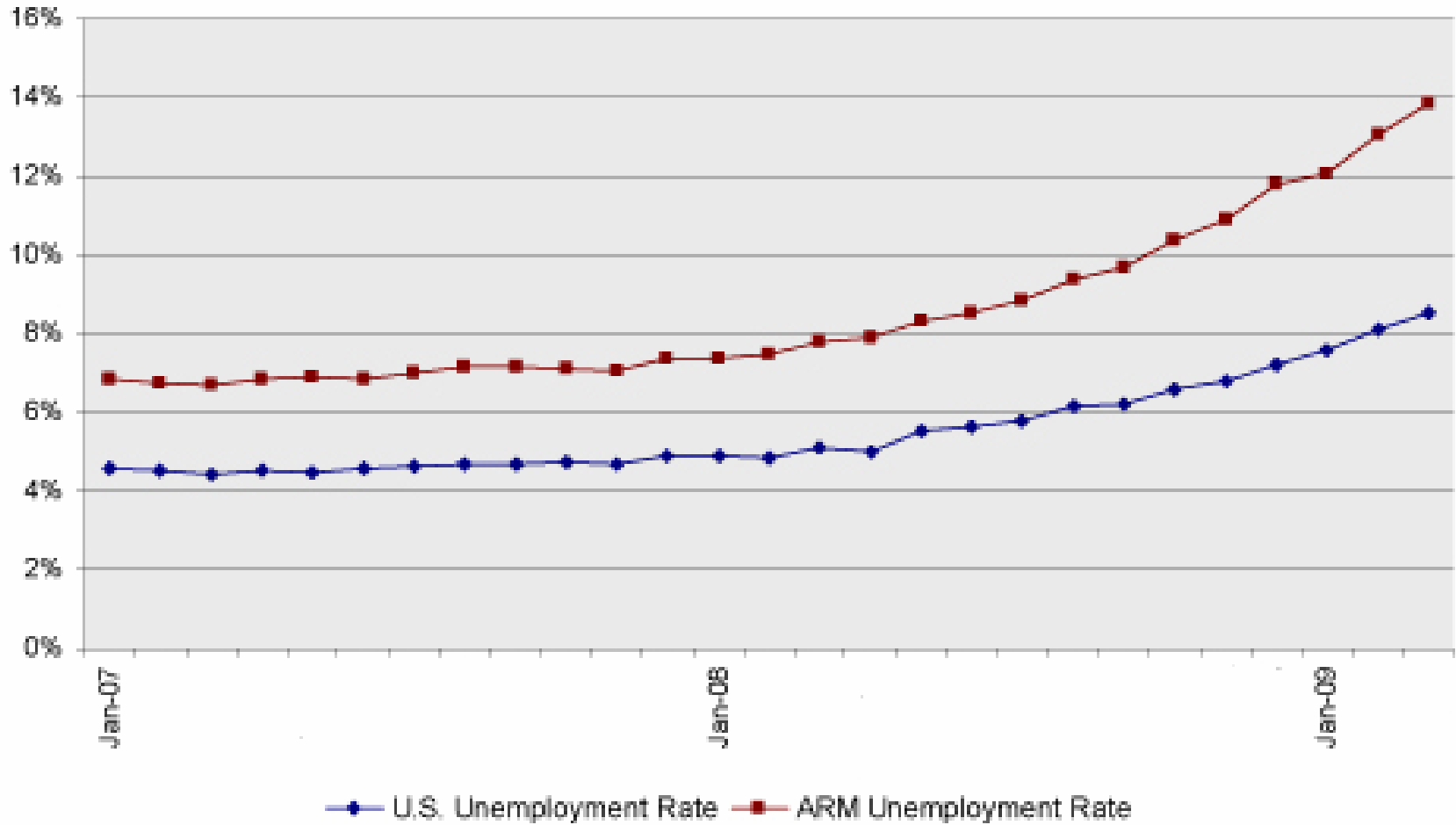
by
Mike Ginsberg



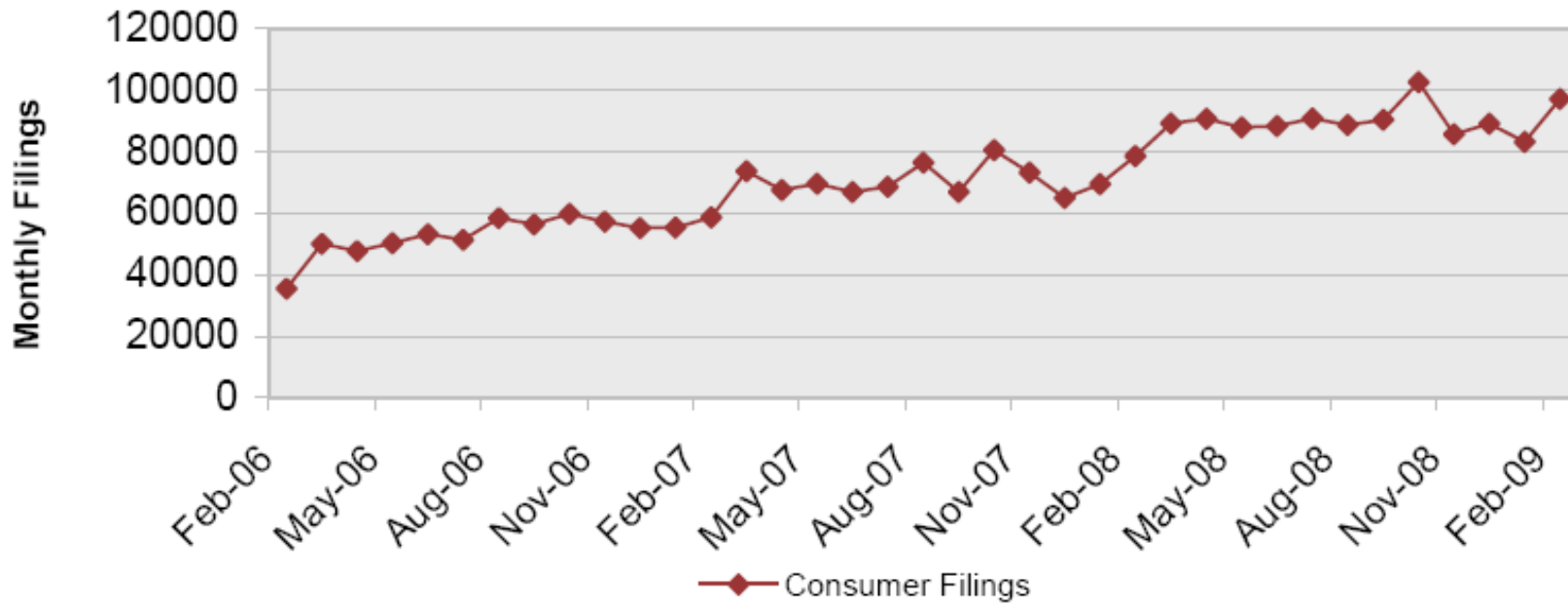
Today's Topics

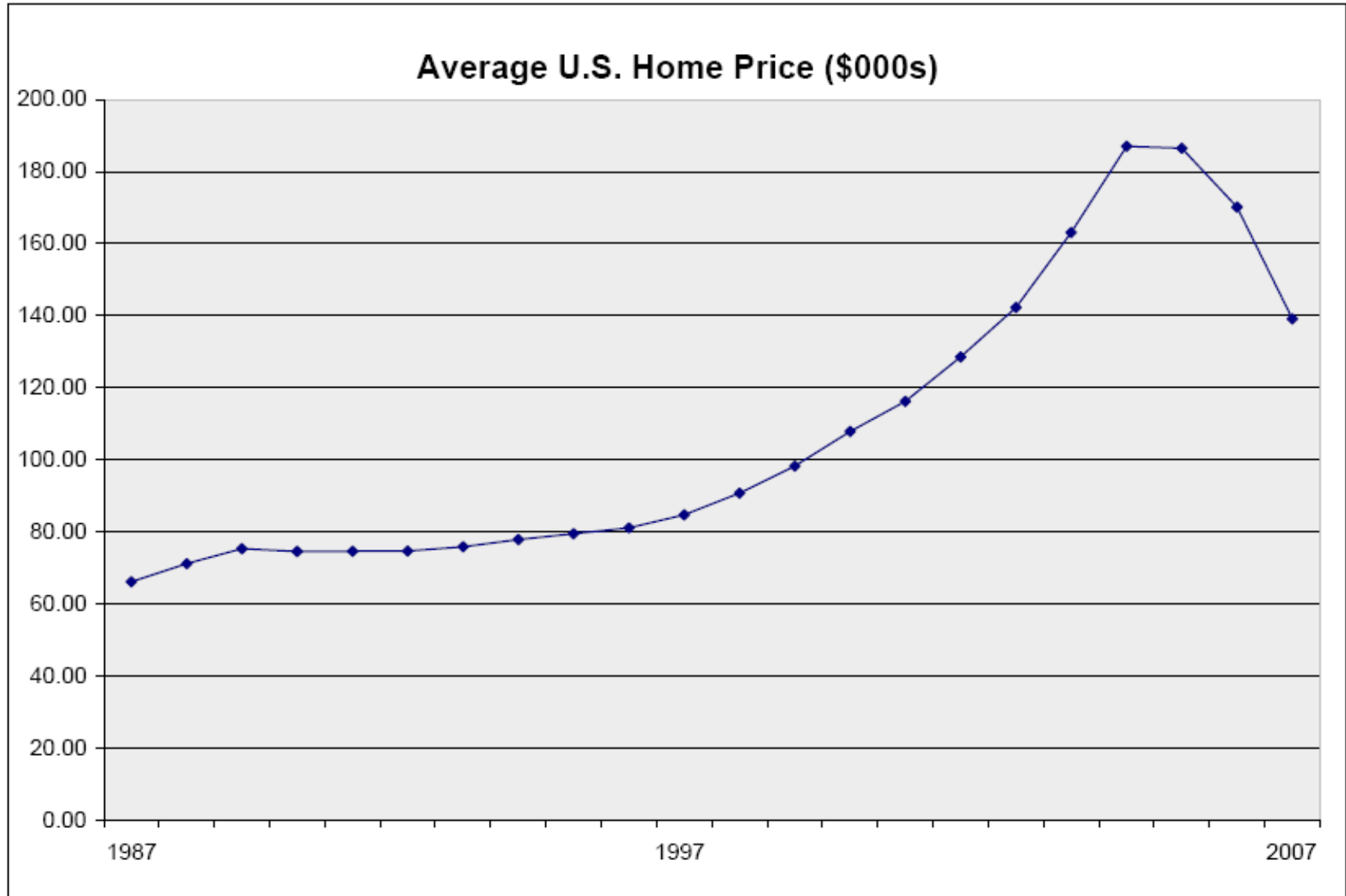
- Economic Indicators Impacting Recoveries
- ARM Market Trends
- Sector Performance
- M&A Activity
- What Can We Expect?

Unemployment Rates



Consumer Bankruptcy Filings





ARM Market Trends

- Credit markets remain very tight
- Government stimulus programs not producing desired results
- Credit & Debt Collection Confidence Survey results down
- Media attacks on the industry
- ARM servicers balancing financial performance & growth

Sector Updates

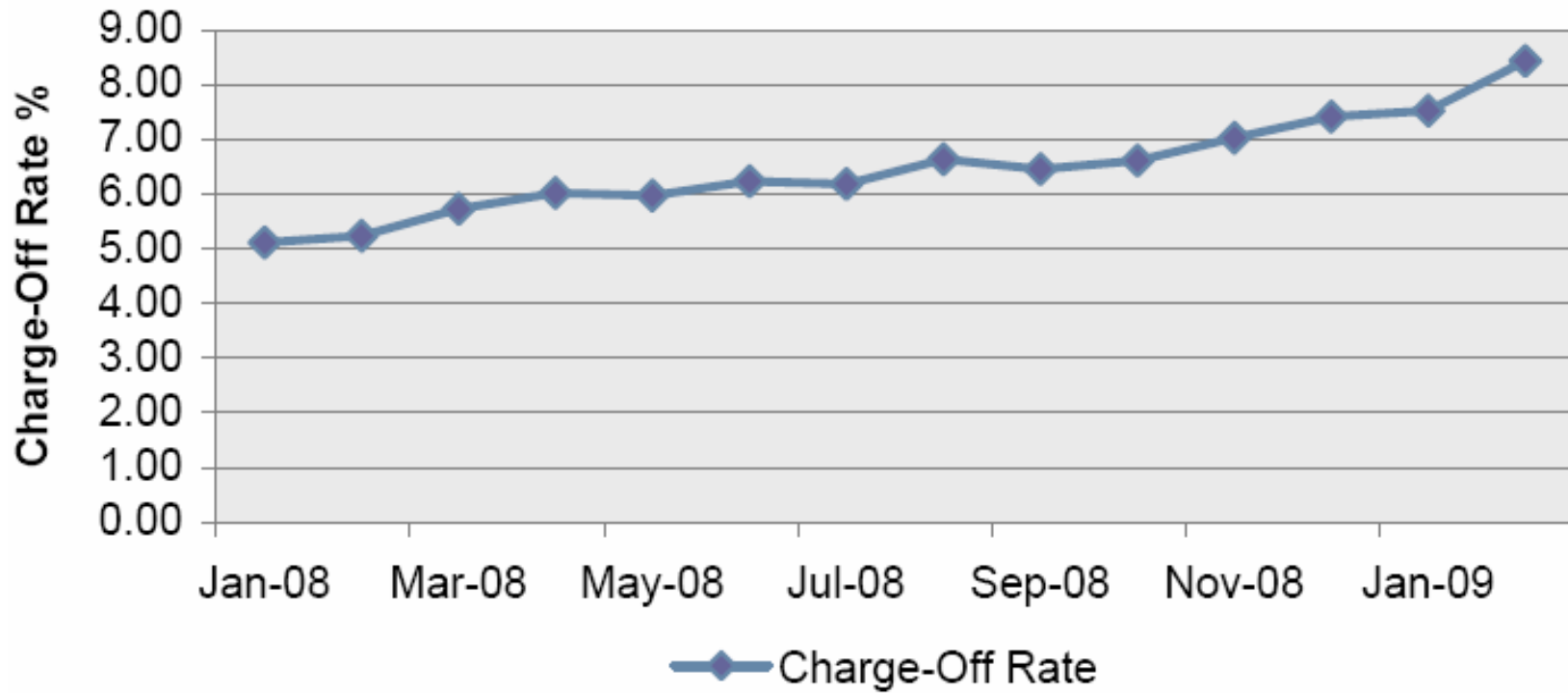


- Placement volumes have increased across virtually all sectors
- Commercial liquidation performance remains steady
- IRS ends PCA pilot program
- Recession's impact on healthcare collections varies greatly by region
- New Department of Education contract was awarded in January 2009
- States are turning to collection agencies
- Federal healthcare reform a renewed priority

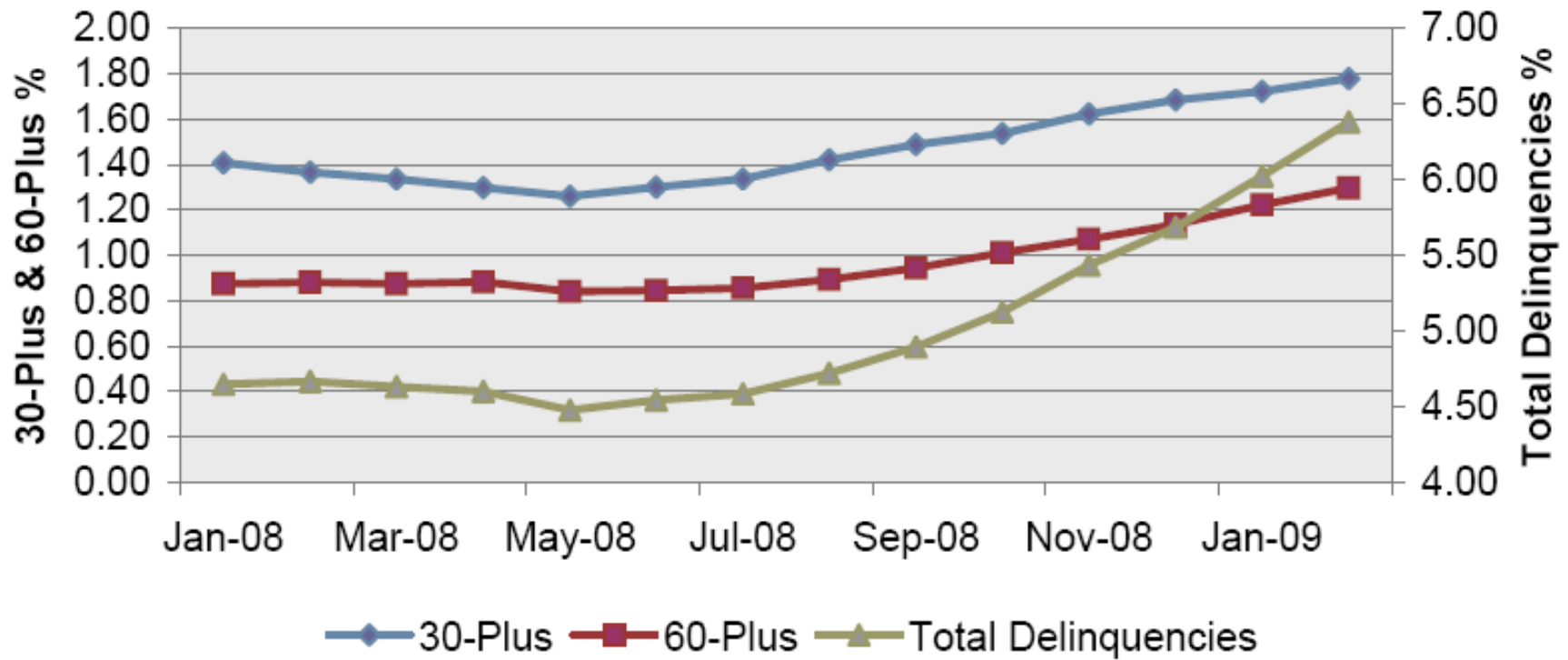
Macro Trends in Credit Card Sector

- Continued increase in outsourcing, decrease in debt sales
- Charge-off & delinquency rates continued to rise
- Total outstanding credit card debt declined
- Liquidations improved but down from Q108
- Debt portfolio price declines continued
- Market in midst of massive clean-up process

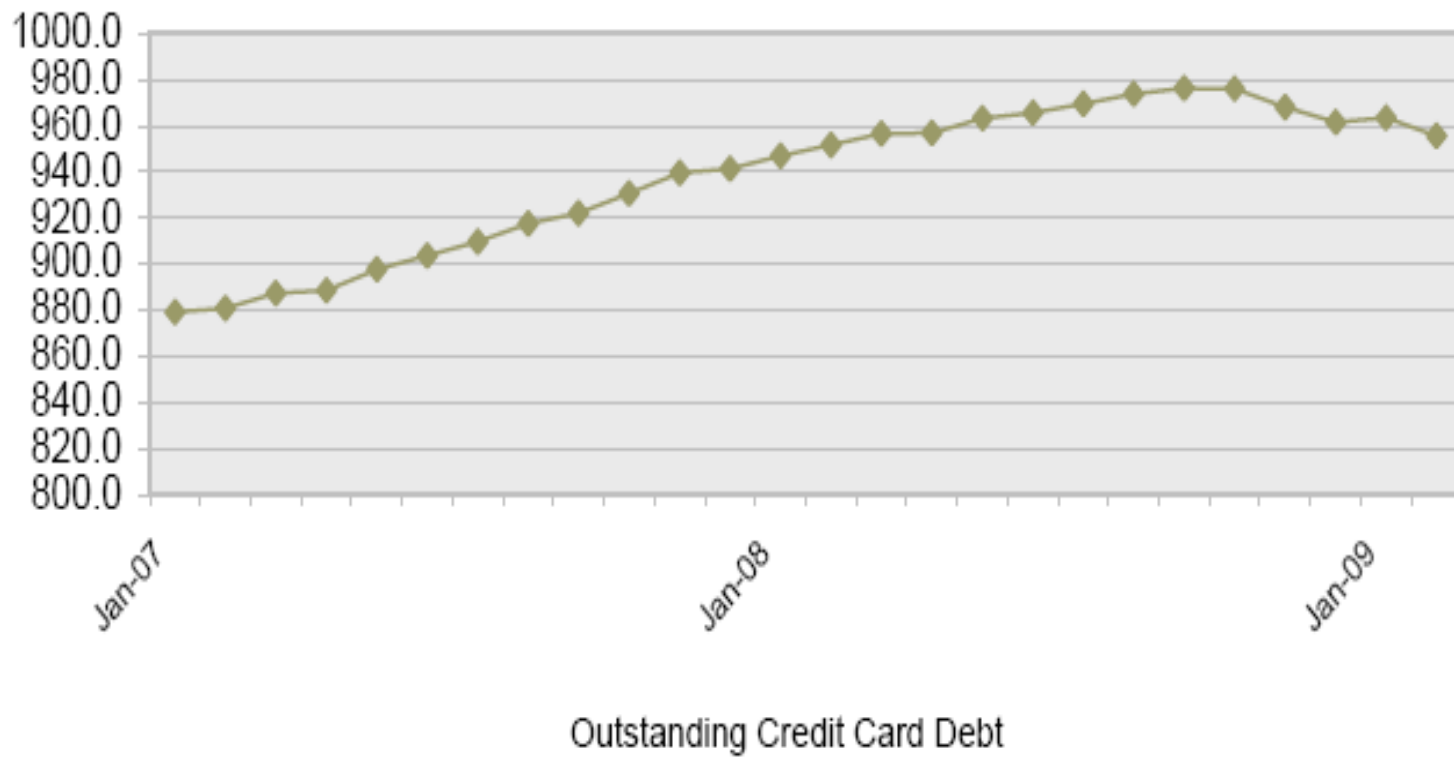
Credit Card Charge-Off Rates



CCPI Delinquency Rates



Changes In Total Credit Card Debt



Liquidation Performance Comparison

Stage of Delinquency	Q107 to Q108 Avg. Liq. Decline	Q108 to Q109 Avg. Liq. Decline	Small Balance Liq. Decline	Large Balance Liq. Decline	Q107 to Q109 Avg. Liq. Decline
Fresh	20% – 25%	35% – 40%	15% – 25%	30% – 50%	55% – 65%
Primary	25% – 30%	30% – 35%	15% – 25%	30% – 40%	55% – 65%
Secondary	25% – 30%	30% – 35%	15% – 25%	30% – 40%	55% – 65%
Tertiary	20% – 25%	25% – 30%	20% – 25%	30% – 40%	45% – 55%
Quads	20% – 25%	25% – 30%	20% – 25%	25% – 30%	45% – 55%

Primary Factors Contributing to Liquidation Declines

- Substantial reduction in settlement & payment in full volumes
- Increased unemployment & under employment rates
- Decrease in average monthly payments
- Improved liquidation performance results pre charge-off
- Substantial increase in supply of placements



Portfolio Pricing by Stage of Delinquency

Stage of Delinquency	Price Range Q107	Price Range Q108	Price Range Q109	1-year Price Decline	2-year Price Decline	2009 Price Predictions
Fresh	\$.12 – \$.17	\$.09 – \$.12	\$.05 – \$.07	40% – 50%	55% – 65%	\$.04 – \$.06
Primary	\$.08 – \$.12	\$.05 – \$.08	\$.03 – \$.05	30% – 45%	55% – 65%	\$.025 – \$.04
Secondary	\$.055 – \$.09	\$.03 – \$.05	\$.02 – \$.03	30% – 40%	60% – 67%	\$.0175 – \$.025
Tertiary	\$.03 – \$.05	\$.0125 – \$.03	\$.01 – \$.02	20% – 33%	60% – 67%	\$.01 – \$.0175
Quads	\$.01 – \$.025	\$.005 – \$.0125	\$.005 – \$.01	20% – 33%	50% – 60%	\$.004 – \$.01

Primary Factors Contributing to Price

Declines:

- Declining actual liquidation performance
- More costly financing
- Increasing unemployment rates & declining home values
- Greater uncertainty regarding future liquidation performance
- Higher costs associated with liquidating portfolios
- Greater supply with same or less market demand
- Substantial reduction of pricing in re-sale market
- Potential changes in legislation

M&A Activity

- Q1 Deal Value & Volume
 - M&A activity driven by industry & select strategic buyers
 - Some financial buyers seeking distressed companies
- Valuation Metrics for ARM Companies
 - Collection agencies still trading on a multiple of adjusted EBITDA
 - Debt buyers predominantly valued based on assets under management

Future Trends

- Unemployment rates will continue to increase into 2010
- Charge-off & delinquency rates will continue to rise in 2009, decline in 2010
- More pressure on agency & legal networks as outsourcing continues
- Portfolio liquidation rates will drop substantially post tax season

Future Trends

- Decline in public auctions for portfolios sales, increase in private structured transactions
- Debt buyers & collection agencies/law firms will form partnerships to purchase/service select portfolios
- Consolidation/attrition among servicers & debt buyers



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