

Kaulkin Ginsberg sends *INSIGHT* each month to provide you and others in the Accounts Receivable Management (ARM) industry with valuable content designed to assist you in making strategic business decisions.

We hope you enjoy this issue. Comments are always welcome at hq@kaulkin.com.

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Every year at the DBA International conference, you hear people say, "Things sure are different from a year ago." Well, here we go again. 2008 is shaping up to be another year for change in the debt buying industry, with changes underway in legislation, data security, and in pricing, to name a few.

The press is more sensitized to stories of consumer hardship in a slow economy, and more negative publicity about "zombie debt" has been published in the mainstream media lately. Popular opinion, in turn, drives the attention of legislators – a fact which has a greater impact. Even if the Federal Trade Commission does not make recommendations on reforms to the Fair Debt Collection Practices Act this year, states like Wisconsin and Michigan have already placed limits on the statute-of-limitations for collecting debt.

But there is some good news. In the courts, a potentially damaging class action lawsuit against a major law firm and several large debt buyers was recently adjudicated in U.S. district court. The suit challenged almost every component of the debt buying process – including the legality of collecting on a purchased debt. We provided litigation support services to one of the named defendants in this suit. The detailed report we submitted was the primary means to educate the court about the industry.

The court ruled in favor of our client's motion for summary judgment dismissal of the case. The judge's order specifically mentioned our report as one of the key factors in the ruling. This is one instance where a very important lawsuit ruled in favor of the industry!

In this issue of *Insight*, Director Mark Russell details the more immediate effect on debt buyers of the decline in credit card portfolio pricing, and makes some pricing predictions for the rest of 2008. Also, Analyst Dimitri Michaud looks at the state of data security legislation and the need for a uniform standard to mitigate growing compliance costs.

I'm pleased to be part of a live teleseminar on the state of M&A in the industry, along with other members of our advisory team on Wednesday, April 2nd. We'll share our observations and then open the phone lines to your questions. Details are included in this newsletter. I hope you'll join us on the call.

Sincerely,

Mike Ginsberg
President & CEO



Getting Current on Pricing in the U.S. Credit Card Debt Purchasing Market

By Mark Russell, Director

The U.S. debt purchasing market has experienced a significant increase in sales volume over the past six months, particularly within the credit card sector, which continues to generate roughly 80% of the total U.S. debt purchasing activity. The driver of this increased activity is a substantial reduction in portfolio prices across all stages of delinquency.

The following table summarizes the change in price ranges that have been shared with us anecdotally by debt buyers, and confirmed through recent portfolio transactions within the credit card sector. Certain transactions are occurring outside of these price ranges, and these typically involve forward-flow arrangements and one-off situations in which historical collection activity and liquidation results justify a higher sales price.

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Getting Current on Pricing in the U.S. Credit Card Debt Purchasing Market (*Continued*)*(Continued from page 1)*

	Price Range a Year Ago	Current Price Range	% of Price Range Change
Fresh	\$.12 – \$.17	\$.09 – \$.12	10% – 30%
Primary	\$.08 – \$.12	\$.05 – \$.08	20% – 33%
Secondary	\$.055 – \$.09	\$.03 – \$.05	25% – 40%
Tertiary	\$.03 – \$.05	\$.01 – \$.03	25% – 50%
Quads	\$.01 – \$.025	\$.005 – \$.015	25% – 50%

The primary reasons for the reduced prices include an increase in sales volumes and a decline in liquidation rates. Sales volumes have increased significantly because many credit issuers have seen their charge-off rates rise as a result of the sub-prime mortgage meltdown and recessionary economic conditions, and are feeling pressure to liquidate their delinquent accounts more quickly. Debt buyers who have historically utilized the re-sale market as part of their liquidation strategy are also trying to sell portfolios, but most of these “re-sales” are experiencing higher price discounts than portfolios acquired directly from credit issuers because they lack documentation and have already been serviced by at least one purchaser.

The current market conditions are also to blame for the reduced portfolio liquidation rates, as most debtors no longer have access to their home equity lines to pay off or settle their debts, and they have less disposable income for monthly debt payments because of higher food, fuel and utility costs.

While most debt buyers are ecstatic about the price reductions, and as a result have substantially increased their debt purchasing levels, some are taking a more conservative approach to debt buying and believe that price reductions still have farther to go before appropriate rates of return can be realized. Some of these debt buyers believe that prices may fall back to their pre-2002 levels when fresh paper traded for \$.06 or less – if the real estate market and economic conditions continue to decline throughout

2008. While this perspective has merit given everything we are reading in the news these days, my predictions for the rest of 2008 are less severe, and include the following:

- Prices for fresh and prime portfolios will either remain in their current ranges or potentially decline another 5-10%
- Secondary and later-stage portfolios may decline an additional 10 – 20%
- The re-sale market will start to pick up again in the second half of the year as more debt buyers become attracted to the acquisition opportunities

My predictions assume that the revised price ranges already take into account the impact from the current economic and market conditions and the potential for further degradations in the portfolio liquidation rates. They also allow for some level of further price declines if the market conditions become worse than what debt buyers have budgeted into their pricing. I also acknowledge that debt buyers will eventually be inspired to return to the re-sale market to seek out better acquisition opportunities than what is available from credit issuers.

It is clear that the U.S. credit card debt purchasing market has undergone substantial changes in the past six months, and while I can't predict with 100% accuracy what the rest of the year will hold, I do believe that, barring a major recession or spike in the unemployment rate, the reduced price ranges will be enjoyed for the rest of 2008 and will continue so long as we endure the current economic and market conditions.

Mark Russell manages M&A transactions for Kaulkin Ginsberg. To confidentially discuss your business interests, please contact Mark Russell at 240-499-3804, or by email at mark@kaulkin.com.



Live Teleseminar “An Insider’s View on the ARM M&A Market” – Wednesday, April 2, 2008, at 1PM ET

Members of our advisory team will share insights into:

- **M&A trends** unfolding in 2008
- **Valuation trends** and buyers interested in ARM companies, including:
 - Large debt collection agencies and law firms
 - Small to mid-sized collection agencies & law firms
 - Debt purchasing companies

Participating in the discussion:

- Mike Ginsberg, President & CEO
- Mark Russell, Director
- Michael Lamm, Analyst

This is an invitation-only event. If you have not received an invitation but would like to attend, please contact Anne Strong at 240-499-3816 or email anne@kaulkin.com.

Data Security Standards May Become More Complex

By Dimitri Michaud, Kaulkin Media Consumer Finance Analyst

The Federal Trade Commission's recently-released report, "Consumer Fraud and Identity Theft Complaint Data," shows that for the seventh year in a row, identity theft was the number one consumer complaint category. Recent high profile breaches such as the one at TJX Co. – the parent of retailer T.J. Maxx – have served to further intensify the public and regulatory scrutiny focused on the issue. This issue of data security will continue to present difficulties for both the creditor and ARM community.

The already fractious regulatory landscape is worsened by the possibility of further legislative change. As businesses continue to grapple with how best to comply with the existing federal regulations laid out in the Gramm-Leach-Bliley Act, the Fair Credit Reporting Act, and the Fair and Accurate Credit Transaction Act, several bills introduced into the 110th Congress carry the potential to alter data security regulations, including:

- The Federal Agency Data Privacy Protection Act (H.R. 516)
- The Data Accountability and Trust Act (H.R. 958)
- The Data Security Act of 2007 (H.R. 1685)

Whether or not additional legislation will prove more effective at addressing data security concerns is debatable. What is certain is that the issue has yet to be remedied for

either the private sector or the federal government, as evidenced by the accidental, unauthorized release of information by the Department of Veterans Affairs in 2006.

As it stands, the risk to reputation associated with a data breach, along with the legal ramifications of noncompliance, have pushed the development of a number of standards, but these same forces have also added to the complexity and costs associated with compliance. Whether these costs become prohibitive should be of concern to the financial services industry.

In sum, data security continues to be a vexing problem for both creditors and the ARM industry, and though no uniform standard exists, the cost and liability associated with compliance should continue to push the discussion of creating such a standard.

Dimitri's complete executive brief on data security will be available later this month in the [Research section of insideARM.com](#).

Dimitri analyses trends in strategic receivables management within the consumer finance sector, including the banking, credit card and mortgage markets. Contact Dimitri at 240-499-3840 or by email at dmichaud@kaulkin.com.

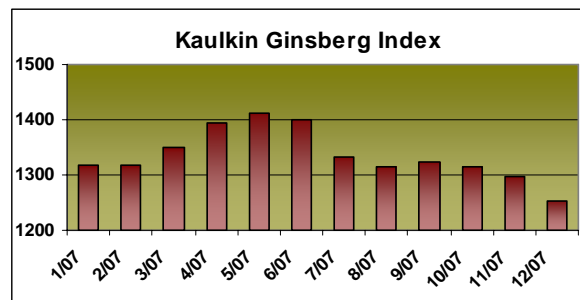


ARM Economic Conditions Continue to Worsen

By Paul Legrady, Director

As the U.S. economy has slowed, the Kaulkin Ginsberg Index (KGI) has dropped to its lowest point in two years. The KGI is the leading indicator of economic conditions affecting the accounts receivable management industry (ARM). It has dropped another 5.2% in the fourth quarter of 2007 to 1253.5. This means that economic conditions are making it more difficult to collect bad debt, and we anticipate seeing further decreases in the Index in the coming months.

During the fourth quarter of 2007, the KGI was weighed down by four of its seven contributing variables: the unemployment rate increased, the market capitalization of publicly traded ARM companies fell dramatically, the federal funds rate decreased, and the number of bankruptcy filings across the country increased. All of these factors reflect increasing difficulty in recovery or liquidation of bad debt.



For more information about the Kaulkin Ginsberg Index, see www.kaulkin.com/research/kgi.

Paul provides advisory services for Kaulkin Ginsberg. Contact Paul at 240-499-3818 or at plegrady@kaulkin.com.



Upcoming Events

Watch your mail! To help you plan ahead, Kaulkin Media mails out a Calendar of Events for the industry four times per year. The calendar for Second Quarter is being mailed this week. If you aren't on our mailing list but would like to be, please send an email to hq@kaulkin.com with your current mailing address. You can also review a complete listing online at www.insideARM.com/events.

If you would like to meet with us in person at one of these upcoming shows, please email hq@kaulkin.com to schedule a confidential discussion.

NCHELP's Debt Management Conference

March 30-April 2, Lake Buena Vista, FL

Director Paul Legrady will be in attendance, and is available to meet with you during this show.

ACA Intl's March for Success

April 9-11, Las Vegas, NV

Michael Lamm from our advisory team and Michael Klozotsky from our analyst group will be on hand at this event focused on healthcare collections.

About Kaulkin Ginsberg

We've been providing ARM professionals, owners, and investors worldwide with value-add advice, expertise, and information to make well-informed decisions for 16 years. We offer a full array of strategic advisory services to support you through almost every stage of your company's lifecycle, from strategic analysis, to growth and exit strategies – including M&A. The Kaulkin Ginsberg family of companies also includes Kaulkin Media, the leader in providing timely news, analysis and information on the recovery of debt in all industries and publisher of the most

popular sources of industry information such as insideARM.comTM (formerly CollectionIndustry.com) and *The ARM Insider*TM. Kaulkin Information Systems creates secure and affordable workflow, document, and business process management technologies (www.kistrack.com). Read more about Kaulkin Ginsberg at www.kaulkin.com.

What can we do for you?

To discuss your business needs in confidence, send an email to hq@kaulkin.com or call us at 301.907.0840.