

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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It's been a very busy year on Wall Street, and our heads are still spinning from the Fannie Mae/Freddie Mac and AIG bailouts, the government-supported sale of Bear Stearns, the bankruptcy of Lehman Brothers, and the fire sale of Merrill Lynch, WaMu, and Wachovia. No doubt, another major financial institution will fall by the time we finish publishing this newsletter.

The natural question to ask is; how will all this affect your business? In [my recent blog on insideARM.com](#), I outlined some of the trends we can see developing.

What we do know is that ARM service providers, debt buyers, and credit grantors have been closely scrutinizing receivables management for some time already, and this will only escalate to levels of critical importance in the near future. Read on for our most recent Kaulkin Ginsberg Index, which reflects the ongoing challenges in recovery efforts.

Changes in the financial markets are likely to have an impact on everyone from college students, to self-pay insurance customers, to owners of businesses. In this issue of *Insight*, we cover some issues that reach each of these segments.

Finally, we plan to address the current M&A climate in detail in our next invitation-only **M&A Teleseminar coming up on Tuesday, October 21**. If you would like an invitation to participate, please contact Anne Strong at 240-499-3816 or by email at anne@kaulkin.com.

Sincerely,



Mike Ginsberg
President & CEO
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College Class of '09 to Graduate with a Major in Credit Card Debt

By Dimitri Michaud, Consumer Finance Analyst

The credit crunch continues to take its toll, and our tracking of the student credit card market indicates that many of this year's seniors are facing a "perfect storm" of severe financial struggle after graduation. The convergence of higher student loan debt, student attitudes toward credit card debt, and a dim employment outlook are just some of the factors that will cause difficult circumstances for some graduating college students this year.

Government loans and grants have failed to keep pace with educational costs, and ten percent of student borrowers already rely on private loans to bridge the gap. The recent credit crisis has impacted the ability of students to obtain these private

loans, however. Over the summer, more than two dozen lenders, including Bank of America, Citigroup and Wachovia, stopped or curtailed their private lending to students.

Separate studies by the American Council on Education and by U.S. PIRG both found that roughly 25 percent of student credit card holders used their cards to pay for some portion of their tuition. With major lenders now limiting the availability of private student loans, we may see that percentage of college students paying a portion of tuition on credit cards increase.

On top of this trend, student attitudes toward credit may also be a factor in increased credit card debt. More than 25 percent of college students think it is reasonable to use their credit cards as a

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College Class of '09 to Graduate with a Major in Credit Card Debt (Continued)

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means to raise cash, according to a recent National Association of Retail Collection Attorneys (NARCA) survey. The NARCA survey also revealed that 31 percent of those polled [did not worry about college student credit card debt](#) because they believed they could pay back outstanding balances once they were out of school and earning a regular paycheck.

This optimism may be ill-founded. Unemployment numbers for individuals between the ages of 16 and 19 - years that encompass a good portion of the college student population - rose steadily in May, June, and July - from 18.7 percent, to 18.1 percent, to 20.3 percent respectively. This means that many students were unable to earn income during the summer break, and the outlook for employment after graduation may be similarly bleak.

Students are using credit cards as a last resort to pick up the slack when they have difficulty getting loans or jobs to cover their expenses. With fewer loans and jobs available, more students may find themselves rich in knowledge, but deep in debt come graduation day.

For a copy of Kaulkin Ginsberg's report [The Student Market for Credit Cards: Issues and Trends](#), or for more information on college student credit card debt, visit the [Free Reports](#) section of [insideARM.com](#).

Dimitri analyzes 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.



KGI Reflects Ongoing Challenges with Recoveries

By Paul Legrady, Director

The Kaulkin Ginsberg Index (KGI), the leading indicator of economic conditions affecting the accounts receivable management (ARM) industry, continued to lag over the second quarter of 2008, when credit issuers and receivables management companies experienced increased challenges collecting chargedoff consumer debt. Although the index rose a modest 1% in the second quarter, it remains down 10% year over year.

Given the recovery data we've seen over the past few months, we shouldn't read much into the slight increase this quarter. By all accounts, recoveries remain challenging, and as the economy continues to slow through the second half of this year, this trend should continue.

Four of the Index's seven contributing economic variables fell significantly in the second quarter. The index was buoyed mainly by the increase in chargeoff rates experienced by financial institutions; the index assumes that as chargeoffs increase, more business is available to companies in the accounts receivable management industry.

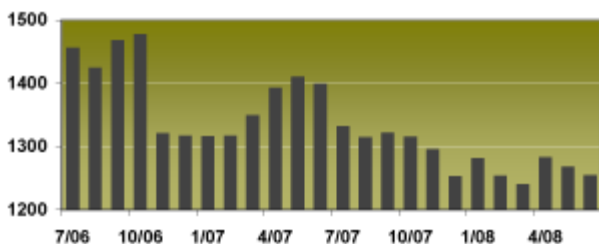
Variable	June 2008 *	Q2 Change *	Effect on KGI *
Unemployment Rate	5.5%	-13.8%	Down
Federal Funds Rate	2.0%	-23.4%	Down
Charge-off Rate	1.24%	27.8%	Up
Outstanding Consumer Credit	\$2.59T	1.1%	Up
Total Market Cap of ARM Stocks	\$1.41B	-2.1%	Down
Bankruptcy Filings	276,150	-12.6%	Down
Consumer Price Index	218.8	2.5%	Up

* See "How is the KGI Calculated" at www.kaulkin.com/go/kgi-methodology

For more information about the Kaulkin Ginsberg Index, Contact Paul Legrady, Director, at 240-499-3818, or at plegrady@kaulkin.com.



Kaulkin Ginsberg Index



CareFirst BlueCross BlueShield Won't Take a Charge

By Michael Klozotsky, Healthcare Analyst

Monetary transactions between consumers and fast-food sellers have historically been in cash. Who wants to pay interest charges on a Filet-o-Fish? But in the 21st century, consumers increasingly value the efficiency of electronic payment methods, even for these types of gastronomic impulse purchases. It seems logical then, that for higher priced, recurring, and invariable payments, buyers and sellers might champion electronic payment method.

Not so for CareFirst, Inc.

CareFirst, Inc. is a not-for-profit, non-stock, parent company of CareFirst of Maryland, Inc. and Group Hospitalization and Medical Services, Inc. According to its website, it is the largest health care insurer in the Mid-Atlantic region, serving nearly 3.1 million members. At the start of 2008, CareFirst had a combined self-insured membership of almost 900,000 in DC, Virginia, and Maryland alone.

None of those self-insured members can pay their monthly premiums online with a credit or debit card.

Welcome to the dark ages.

For a large company like CareFirst whose customers remit the same amount of money to month after month, year after year, the "Sorry, no credit" policy is not only archaic, it sets into motion the machinery of delinquent receivables. Stamps and envelopes cost money. Writing out "One hundred eighty three and 00/100" takes time. And the US Postal Service is less than punctual.

Not to pick on CareFirst, but the larger point is that operational efficiencies are important in the management of receivables, and an adherence to antiquated, inefficient systems is a prevalent problem throughout the U.S. healthcare system. Perhaps CareFirst should think about catching up with McDonald's when it comes to getting paid. But as it stands now, all those Big Macs bought electronically will be catching up to its members' arteries long before the insurance company ever sees the light.

Michael Klozotsky conducts custom research projects and writes publications focusing on accounts receivable management issues in the healthcare industry. Contact Michael by email at mklkozotsky@kaulkin.com, or at 240-499-3836. Be sure to check out his [blog](#) in the [insideARM blog center](#).



10 Major Steps in The Process of Selling a Business: New Executive Brief

From Kaulkin Ginsberg's Strategic Advisory Team



The sale of a business is typically the single-most significant event in an owner's business life. As most owners have never sold a business, any apprehension is understandable. If you are contemplating or preparing for the sale of your company, we believe it's critical to understand the typical components of a deal so that you will be ready to embark upon this journey. And

it is a journey. Each transaction is different and comes with its own special circumstances.

To illustrate this process, we've written a new executive brief, *10 Major Steps in the Process of Selling a Business*. Here is an excerpt from one critical step in the process:

Step 8: Engage in Due Diligence

Once a letter of intent (LOI) is executed with one buyer, the process of confirmatory due diligence begins. In this

process, the buyer scrutinizes all the aspects of the company with the goal of confirming what has already been presented. They will want to review client and vendor contracts, licensing, systems, staff, benefits, visit the office(s)...Everything! Imagine the class bully holding a kid upside down by his ankles to shake out everything in his pockets, and you get the idea! They will also want to meet with company accountants to review financial statements. They may require a financial audit. A buyer could assemble a small army of accountants, lawyers, and operational due diligence professionals to turn over every stone. This phase is critical in the sale of a business, and being well prepared ahead of time can help smooth the process considerably.

The signing of the LOI is also when the clock starts ticking. In other words, the LOI will stipulate that the deal must close within a specified timeframe, during which due diligence typically occurs on an exclusive basis. If the deal doesn't close within that timeframe, the LOI expires and unless both parties agree to an extension, everyone can go back to their business of either talking to other buyers or searching for other sellers, as the case may be.

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10 Major Steps in The Process of Selling a Business: New Executive Brief (Continued)

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We recommend that sellers do a fair bit of due diligence of their own, prior to signing the LOI if possible, to make sure they know the buyer and understand their intentions after the sale. This is particularly important if the seller will remain at the company post-sale for any period of time.

This article is excerpted from the latest executive brief from Kaulkin Ginsberg's Strategic Advisory Team,

[10 Major Steps in the Process of Selling a Business](#). *This report is available on [insideARM.com](#)'s Free Report section. To receive a copy by email, contact Marketing Director Anne Strong at 240-499-3816 or by email at anne@kaulkin.com.*

For a confidential discussion on the sale process, contact Michael Lamm, Associate, at 240-499-3808 or by email at mlamm@kaulkin.com.

Upcoming Events

Kaulkin Media prints and mails out a quarterly calendar of industry events to help you plan ahead. If you would like a copy, please let us know at hq@kaulkin.com and indicate your current snail mail address.

In addition, you can review a complete listing of industry events online at www.insideARM.com/events.

If you would like to set up a confidential meeting with a member of the Kaulkin Ginsberg team at one of these upcoming shows, please email hq@kaulkin.com and let us know when you would be available to meet.

[Financial Services Collections Conference](#)**October 22-24, Las Vegas, NV**

Mike Ginsberg will be hosting a Q&A Session with issuer & agency executives on Friday morning of the conference. Other members of our team will be on hand during the conference as well if you'd like a confidential meeting.

[Credit & Collection Symposium of the Americas](#)**October 28-30, Miami, FL**

This conference covers credit & collection issues for the U.S. Hispanic and Latin American markets. Mike Ginsberg will be hosting a panel at the show on cross-border business opportunities.

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 since 1991. 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.com](#)[®] (formerly CollectionIndustry.com) and The ARM Insider[™]. 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.