Overview of the Collections Industry†

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Collecting Consumer Debts: The Challenges of Change

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*: The views expressed here are the author's and not necessarily those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

†: Thanks to Chris Ody & the Payment Cards Center

Who Does Collections?

Employment of Bill & Account Collectors (2004)		
Sector	Number	Share
3rd Party Collection Agencies	94,282	20.7
Finance & Insurance	90,333	19.8
Health Care	70,136	15.4
Wholesale & Retail Trade	57,961	12.7
Legal & Accounting Services	22,309	4.9
Government	11,837	2.6
Other	103,034	22.6
Total	456,161	100.0

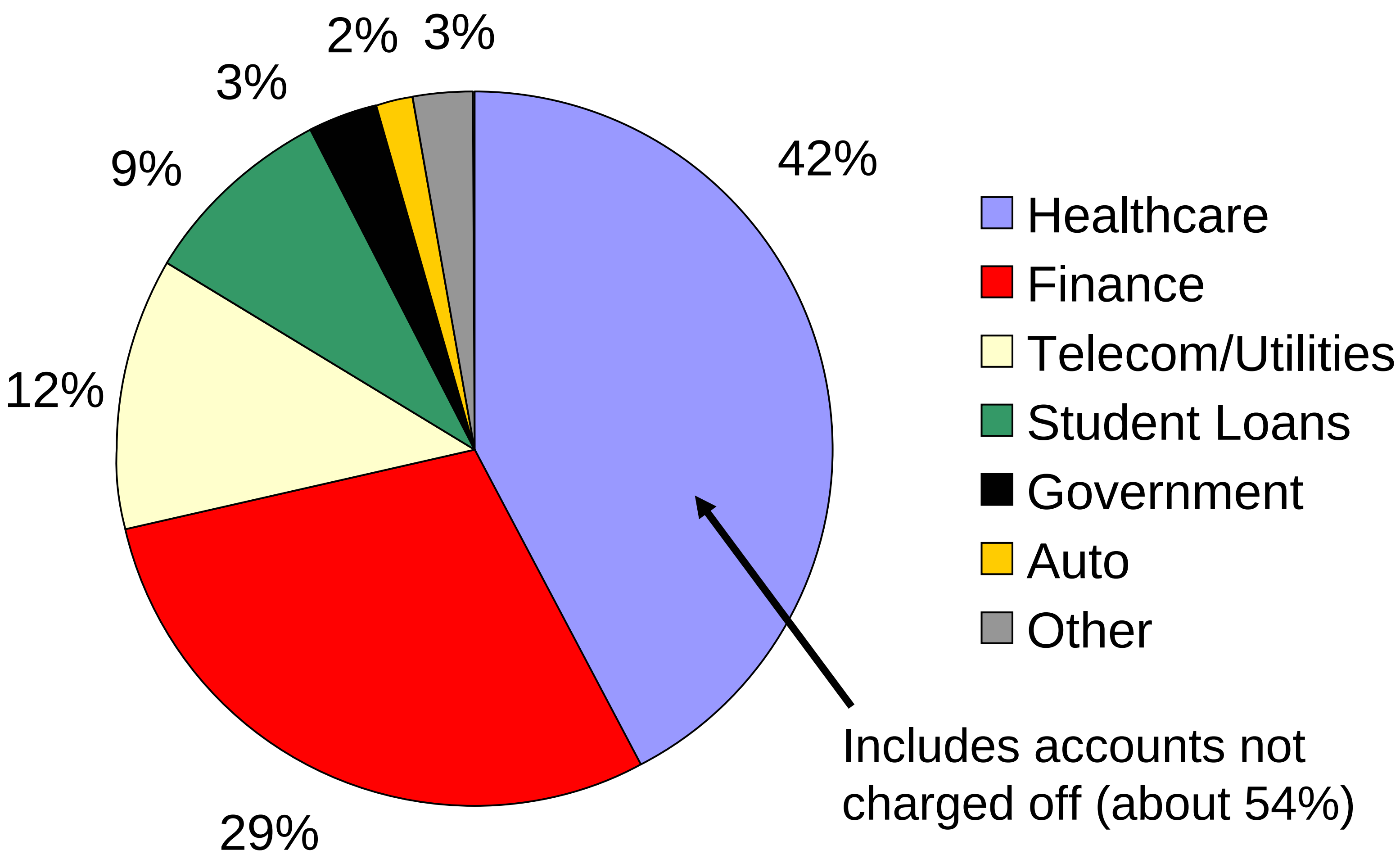
Source: Bureau of Labor Statistics

A Snapshot of 3rd Party Collections Industry

- Approximately 4,600 active firms
  - 4,100 engaged in collecting consumer debts
- Employed 152,000 in 2007 (but little growth since 2003)
- $40 billion recovered for creditors in 2005 (est.)
- Total Industry Revenues of $11.4 billion in 2005
  - 69 Percent from consumer debt (in 2002)
- 1 billion consumer contacts a year
- 2002 Activity, relative to 1972 levels:
  - Real Consumer Credit: 3.3x
  - Collection Industry Jobs: 4.3x
  - Real Industry Revenues: 6.1x

Sources: Census Bureau, Bureau of Economic Analysis, Bureau of Labor Statistics, Board of Governors, & PriceWaterhouseCoopers

Customers of 3rd Party Collectors (2006)



Source: ACA International Top Collections Markets Survey

(3rd party) Collections Performance

Median values for collecting on all forms of debt in 2005:

- The Recovery Rate is 16% of face value of debt
- Gross Collections are $68 per account
  - On a balance of $442
- The Commission Rate is 28% of gross collections
  - Commissions are $21 per account
- Expenses are $17 per account
  - Profits are $2 per account
- Gross collections per collector are $402,000

Conclusion: *Collections is a Volume Business*

Source: 2005 ACA International Benchmarking Survey

Keys to Effective Collections

- Recruit and train productive staff
  – Being a bill collector is a unique occupation
  – State & Federal regulations are complicated
- Acquire lots of accounts (on favorable terms)
  – Relationships with creditors & other clients
  – Some firms purchase delinquent accounts outright
- Triage these accounts
  – Screening & collection scoring systems
  – Monitoring bureau activity
- Contact as many good prospects as possible
  – Automated dialers
  – Efficient skip tracing (locating new addresses)

The Collections Business is Changing

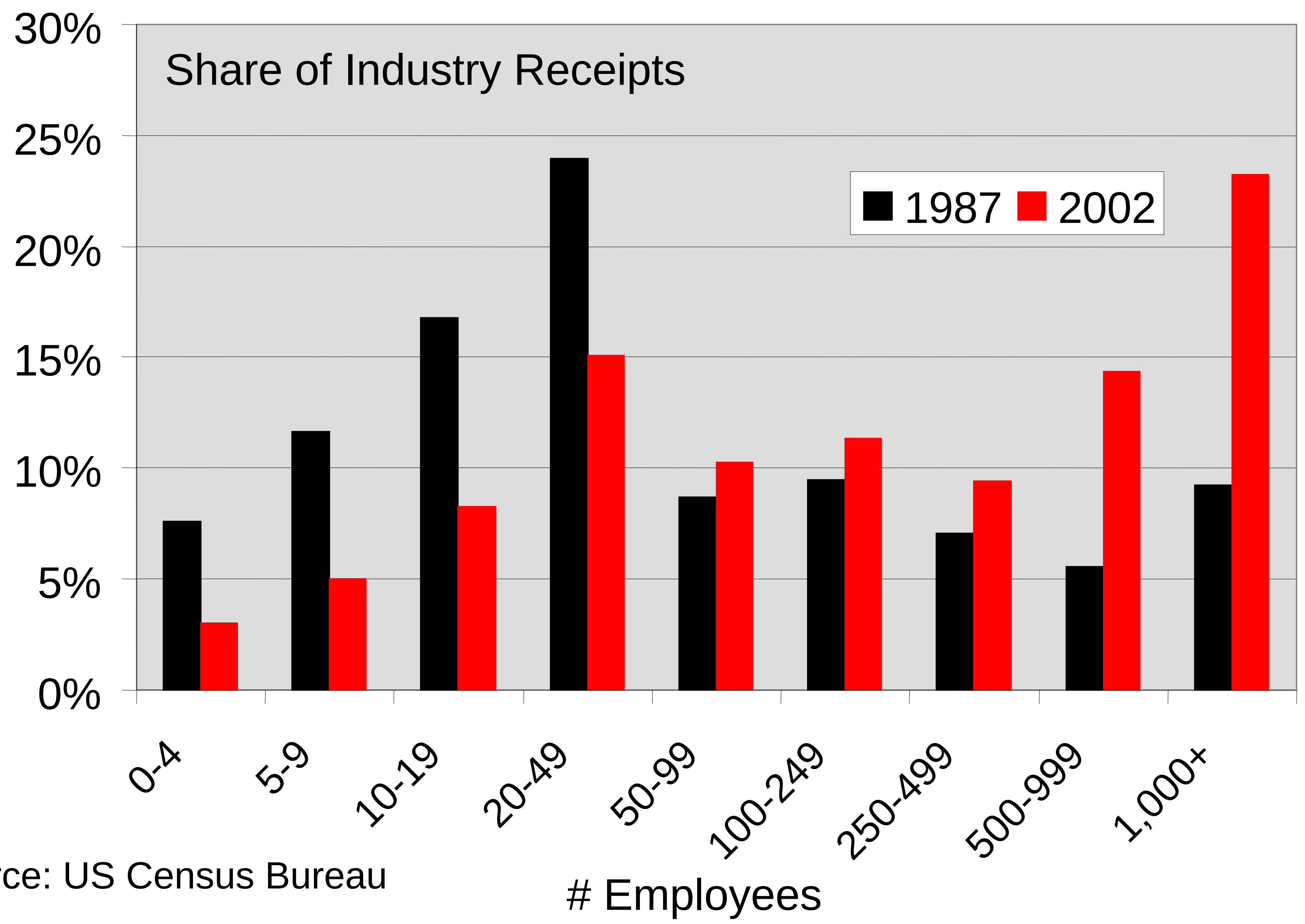
- Technological advances
  - Falling costs of information technology
  - Better & less expensive credit bureau data
- Increasing concentration of lenders

Credit Card Loans on the Balance Sheets of Banks & Thrifts* (share held in the 4 largest portfolios)	
1995	26%
2005	79%

*: Excludes loans held by institutions that do not file Call Reports, & securitized assets. 2005 share reflects the pending merger of Bank of America and MBNA.

- Creditors now sell significant amounts of defaulted loans

3rd Party Collections Firms Have Grown



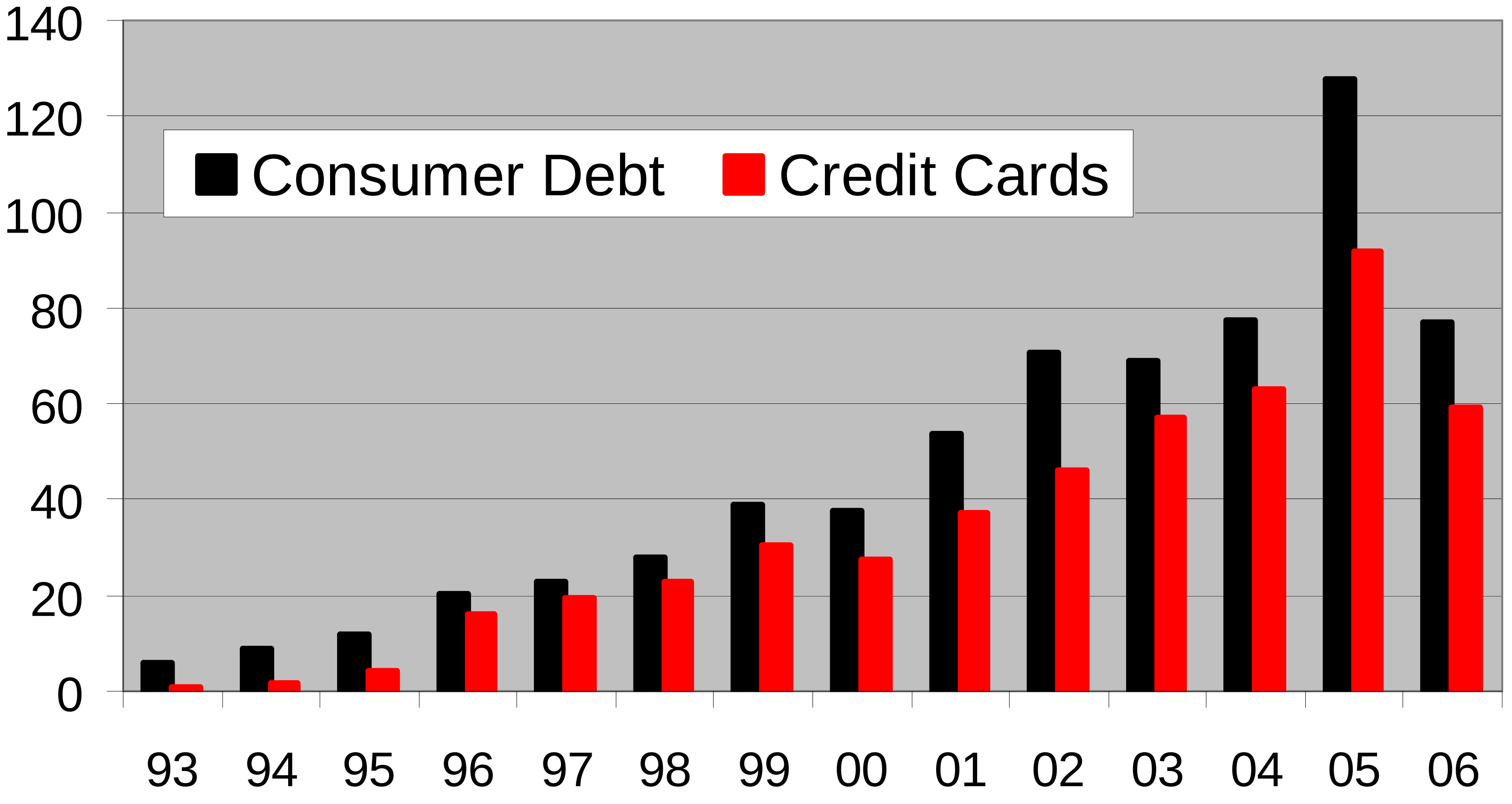
Source: US Census Bureau

Concentration of 3rd Party Collections

	Percent of Industry Revenues			
	1987	1992	1997	2002
4 Firms	11.4	9.9	14.0	19.2
8 Firms	17.2	14.3	17.9	25.6
20 Firms	24.7	22.1	24.9	35.2

Source: US Census Bureau

Bad Consumer Debt Sold ($ Billions, face value)*



*: Includes re-sales of debt. Note: credit card charge offs fell in 2006

Source: Nilson Report (835, 857, 880)

Aspects of the Debt Buying Market

- Collections from purchased debt: $2.3 billion (est. 2005)
  - 19% of industry receipts (est.)
- This market is relatively concentrated
  - 10 firms bought 81% of bad credit card debt in 2006
- Sources of capital to purchase bad debts:
  - Wall Street has invested at least $500 million
  - Several firms have gone public (20% of purchases)
  - Some firms have sold asset backed securities
    - Repaid from collections on the underlying debts
- Bad debt prices have been rising (at least though 2006)
  - Average price of $1 in bad cards loans was 5.3 cents
- These accounts are often re-sold several times

Sources: PriceWaterhouseCoopers, Nilson Report

Observations

- An ideal collections system efficiently sorts between
  - Consumers who are unable to repay a valid debt &
  - Consumers who are unwilling, but able to repay it
- If this fails, there may be a role for government
  - Priority creates an incentive for creditors to race for the consumer’s assets or cash flow (garnishment)
  - A response to imperfect sorting may be to raise the implicit cost of not paying through harassment
- We typically see two forms of government intervention
  - Bankruptcy statutes & limitations on creditor remedies
  - State or federal regulation of collections activity
- But these interventions can impose costs of their own

Evaluating FDCPA 30 Years On

- The collections Industry is changing rapidly
  - In part due to technology
  - In part due to changes in their clients' industries
- Evidenced by some important trends
  - Increasing size of collections firms
  - Increasing concentration of the industry
    (but there is typically significant entry too)
  - Disintermediation of non-performing loans
- There is little formal research on the collections process
  - What little there is rather old
  - Stands in contrast with vast research on bankruptcy
- There is much to be learned, and much data to gather

What Explains Rising Complaints to FTC?