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Debt sale in 2009: Warm optimism in an icy climate.

If the climate was chilly back in December (when I wrote here about the worsening European debt sale and purchase sector), it's decidedly icy now. Over the last three months, the rate of decline has accelerated further and made the situation even more challenging for us all. On the back of tightening lending criteria and rising unemployment, the collections industry has seen a move towards longer-term payment plans at the expense of full settlements. In turn, this means lower revenues, decreasing profitability and reduced resources available for investment.

Base rates may be at an all-time low, but they've made little impression on the wholesale lending markets and investors are demanding higher returns as compensation for increased risk. These conditions have led to more selective bidding amongst some purchasers; some, indeed, have exited the market altogether. As lenders' in-house collection teams have struggled and charge-offs have risen, new portfolios have been put up for sale, often containing more re-performing debt than we had previously seen. The result of this increase in supply and decrease in demand has been a rapid price fall, with some asset class prices having halved and other portfolios finding no buyers at all.

So is it all doom and gloom? I don't think so. While the medicine may be unpalatable now, the patient could emerge stronger in the long run if our industry takes this opportunity to embark on a healthier regime. Purchasers who enjoy the competitive advantage of secured funding lines can now be much more selective, buying higher quality portfolios as a basis for future growth. We can also expect benefits from a much stricter lending environment, and avoid the mistakes plaguing us now. And, together, debt sellers and buyers can work on strengthening the framework of the industry. The recent past has been about short-term thinking and a focus on price alone. Now we have the chance to construct a future around longer-term partnerships, solid economics and sound business ethics.

This co-operation can take many forms. We should explore innovative co-financing arrangements including vendor financing, success-related payments and other ways of sharing risk and reward. In turn, this could lead to stable prices that are more sustainable over time. And by focusing on sharing knowledge with partners, working transparently and acting responsibly, we create a fertile environment for strategic alliances that are better able to ride out these times of adversity. Whether the industry is able, or willing, to adapt remains to be seen. One thing is sure, it will take several months to find out, so watch this space!