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Debt Sale in Europe: A Growing Sector in Turbulent Times

As we approach the end of the year, the European debt sale and purchase market looks quite different than it did 12 months ago. At the time, the negative effects of the wider financial turmoil had not yet filtered through to the pricing of distressed consumer assets. To the contrary, we saw new entrants buying their way into the market and incumbent purchasers defending their positions. Longer-term revolving agreements were increasingly becoming the norm and prices were reaching their historic peaks. In short, it was a sellers' market.

How different things look now. Tightening credit conditions have caught up with all participants in the sector, including debt purchasers and their clients and customers. The latter are feeling the effects of the economic slowdown paired with a reduction in access to consumer credit. The collection industry is witnessing a decrease in collection performance and secured long-term funding is becoming a competitive advantage rather than being the norm. Whilst certain countries, such as Spain, have already seen a significant drop in distressed asset prices, in others, including the UK and Germany, certain sellers have so far been more shielded.

Looking into the future, this is likely to change. With over €2bn of unsecured consumer assets up for sale at the end of 2008 in the UK alone and with demand being at best stable, a fall in prices is inevitable. We will see more selective bidding, focused on certain asset classes. Contractual agreements will be of shorter duration, and lower-cost portfolios might gain in popularity. Outsourced servicing should play a greater role as an alternative to asset sale, with many collectors seeking cash flows without the requirement to put up capital that is now in short supply and sellers unable to achieve pricing at a level where divestment makes sense from an NPV perspective.

Whilst the short-term environment looks tough for both lenders and purchasers, significant opportunities appear on the horizon. Falling asset prices should create a basis for strategic relationships based on sustainable terms and there is an increasing incentive for lenders and purchasers to work together to create innovative portfolio financing structures. Many participants in the sector will benefit in the long-term, but getting through the next 12 months will be a more pressing immediate priority.