



January 2009

Transparency: in difficult times, let's see clearly.

What were you doing this time last year?

Perhaps you were taking special measures to defend your positions against all-comers in the crowded and bustling debt sale marketplace. Or maybe you were a first-time entrant, buying your way into an increasingly hot and competitive market.

Either way, the climate then was about longer-term revolving contracts, with repeat purchases at agreed volumes and prices. And those prices were achieving all-time highs. But that was 12 months ago and, as 2008 has proved, a year can be a very long time in the debt sale industry.

No sector, with the exception of insolvency practitioners, is immune from the downturn. In our industry, its effects are plain to see. Customers are finding it more difficult to afford full settlements and, as a result, the collections industry has seen falling revenues. To make matters worse, corporate funding is in shorter supply than ever and long-term secured lines are becoming the exception rather than the rule.

Not just price. Partnership.

This has led to a new climate. Those purchasers who are active are becoming considerably more selective, while others have simply exited the market altogether. At the same time, there is more distressed debt up for sale as in-house collections have struggled and charge-offs have risen. As supply has increased and demand has dwindled, the net effect on prices has been inevitable. We're also seeing smaller portfolios bought as a one-off, while some asset classes are being shunned.

So what's gone wrong? Clearly, global developments in the economy and the lending market have been dramatic. But it's a little simplistic, and convenient, just to file the problem under 'external forces'. There are certain negative factors which, in our industry, are entirely home-grown. As the marketplace became increasingly competitive, many sellers started to focus on price alone at the expense of other partnership criteria. Now, as the market contracts, we have a timely opportunity to re-establish some of the sound business principles that used to form the basis of many successful long-term relationships.

Transparency: the vital ingredient

A key constituent part of successful partnerships is transparency; in other words, the open and honest communication of accurate information. Transparency is a crucial concept as it should permeate every stage of the purchase process. Before signing the contract, a transparent, detailed description of the portfolio content and relating processes gives potential purchasers comfort about the asset type in question. Data requirements include accurate customer details, as well as individual, month-by-month payment information with as long a history as possible. Additionally, it's crucial to allow ample time for on-site due diligence, especially for new participants who will be unfamiliar with the seller's assets and in-house processes. All this will serve the seller well, since more data means more confidence, and more confidence leads to higher prices.

At contract stage, a clear understanding of the parties' objectives helps to structure agreements that are mutually beneficial. If the objective is to achieve predictable and stable pricing, a forward-flow agreement becomes an option. An open-book test, conducted in the spirit of transparency, can help the buyer understand the asset better and make it more likely that he can guarantee future prices. During roll-out, sellers need to inform purchasers as soon as the portfolio content or other corresponding procedure has changed. For example, new underwriting, collection or third party policies can significantly alter the contents of the portfolio – and, therefore, its value to the buyer.

No, transparency is not a miracle cure for the industry's ills. But it can go a long way to re-establishing trust and creating a solid basis for future growth. While success will depend heavily on macroeconomic factors beyond our control, transparency is firmly within our grasp. Let's not miss this opportunity and risk damaging a market that still offers exciting long-term opportunities for buyers and sellers alike.