

Understanding the Model: The Life Cycle of a Debt¹

“Life of a Debt: Data Integrity in Debt Collection”

An FTC – CFPB Roundtable

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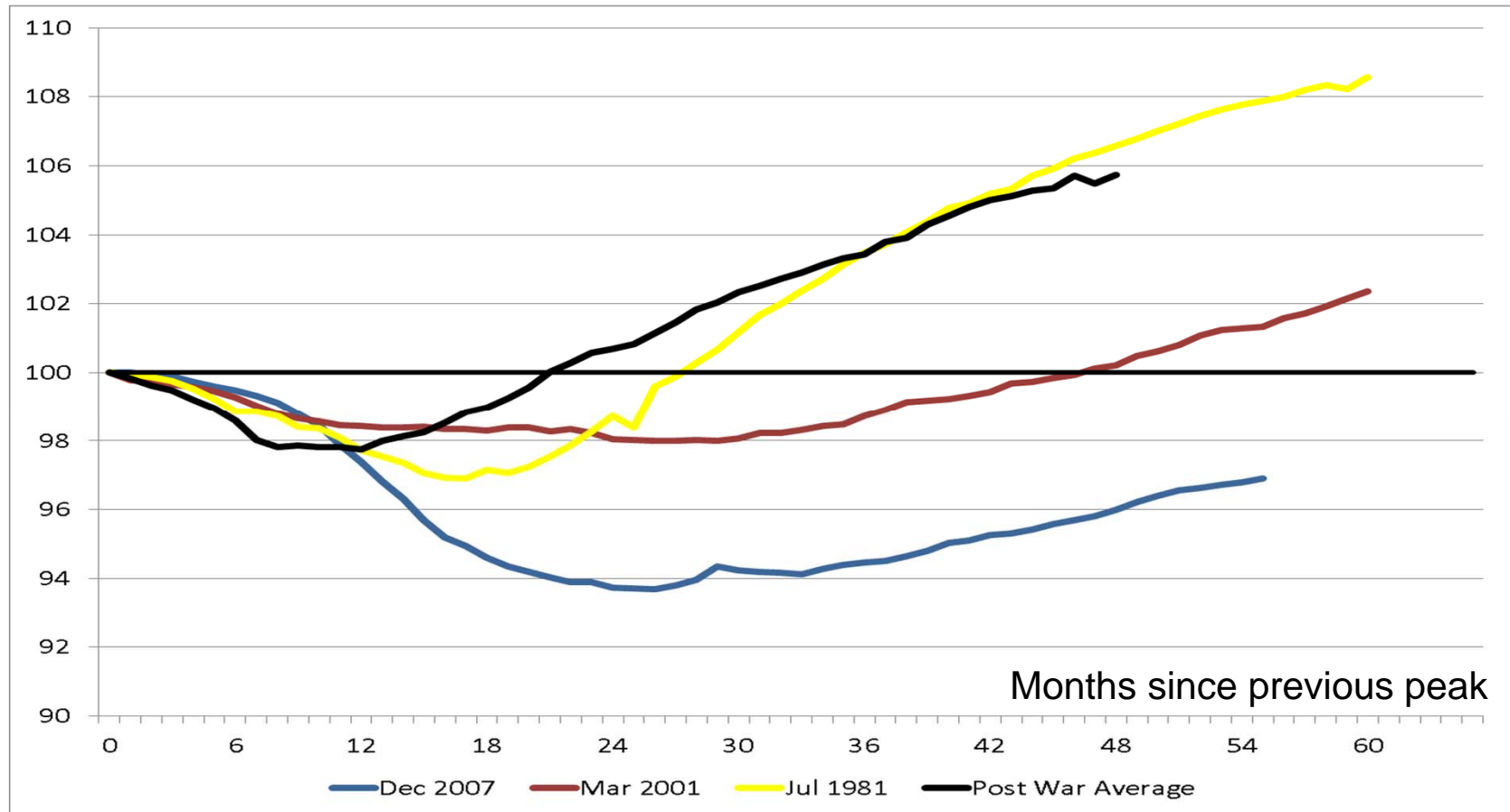


¹ : The views expressed here are those of the speaker and not necessarily those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System. No statements here should be treated as legal advice.

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Macroeconomic Context: Labor Markets

Total jobs as a percentage of previous business cycle peak



Sources: Bureau of Labor Statistics & author's calculations

Macroeconomic Context: Household Net Worth

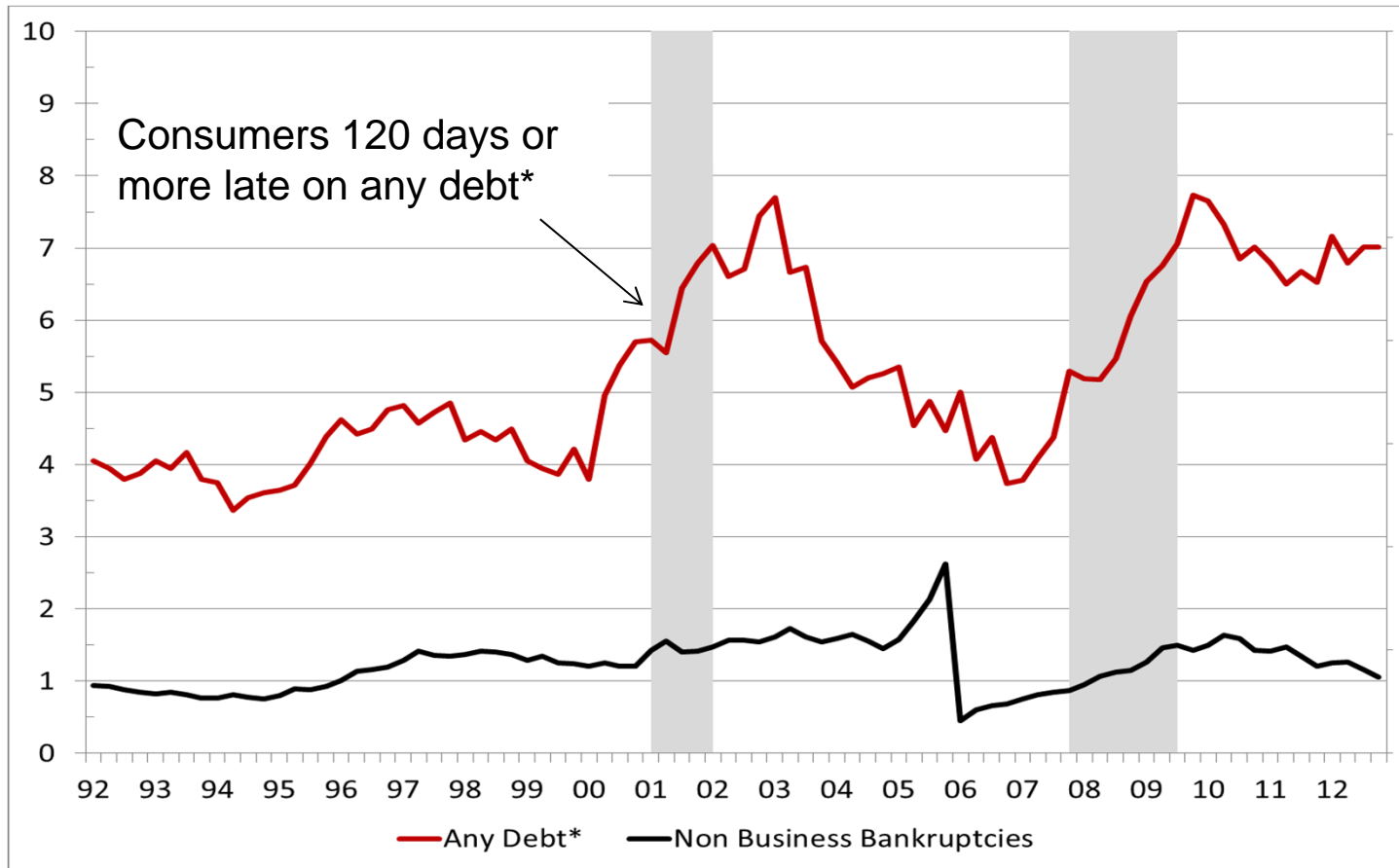
Trillions, 2005\$



Sources: Board of Governors, Flow of Funds & author's calculations

Borrowers in Trouble

Millions

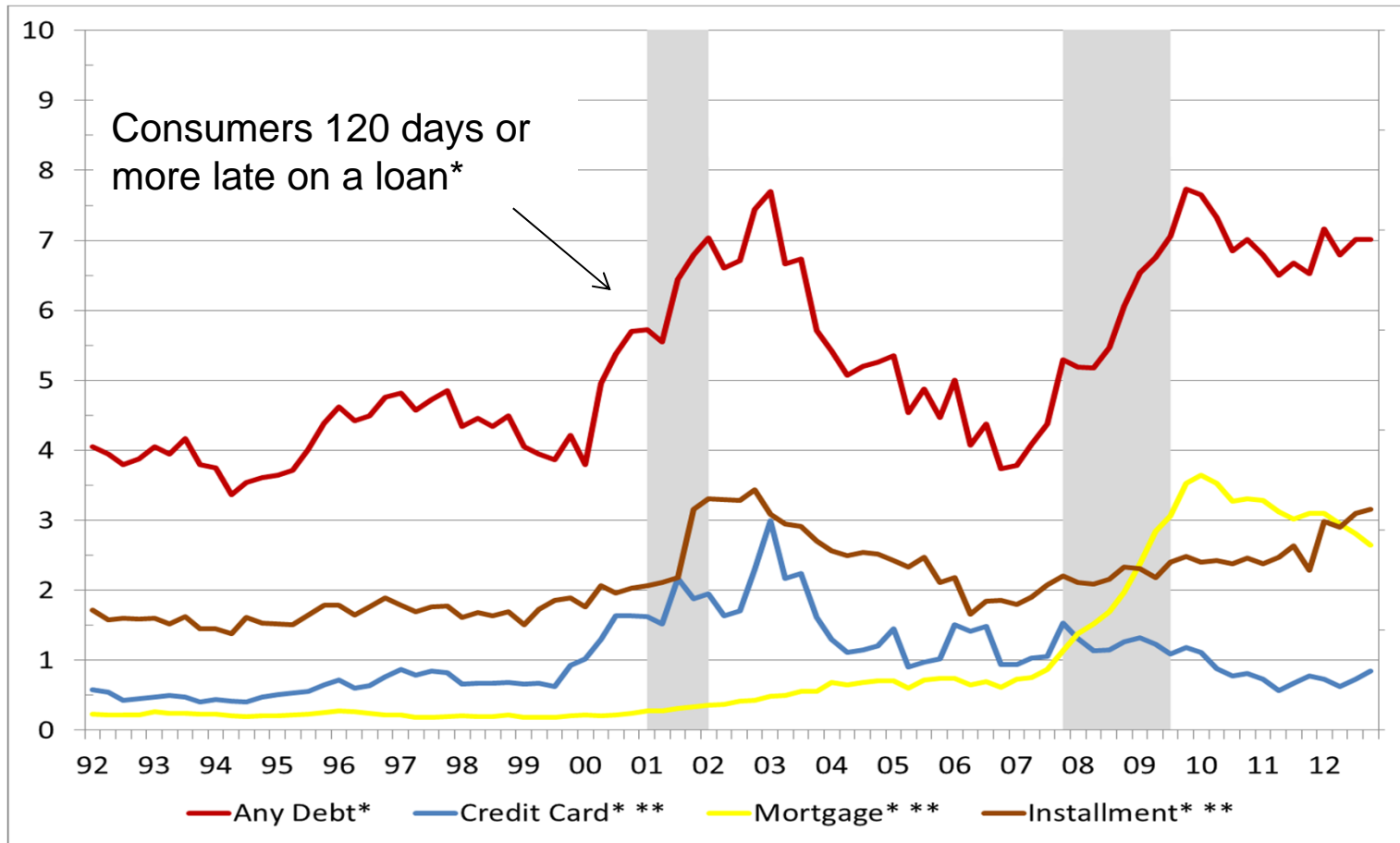


Sources: Administrative Office of U.S. Courts, TransUnion Trend Data, & author's calculations

*: Excludes accounts charged off

Composition of Serious Delinquencies

Millions

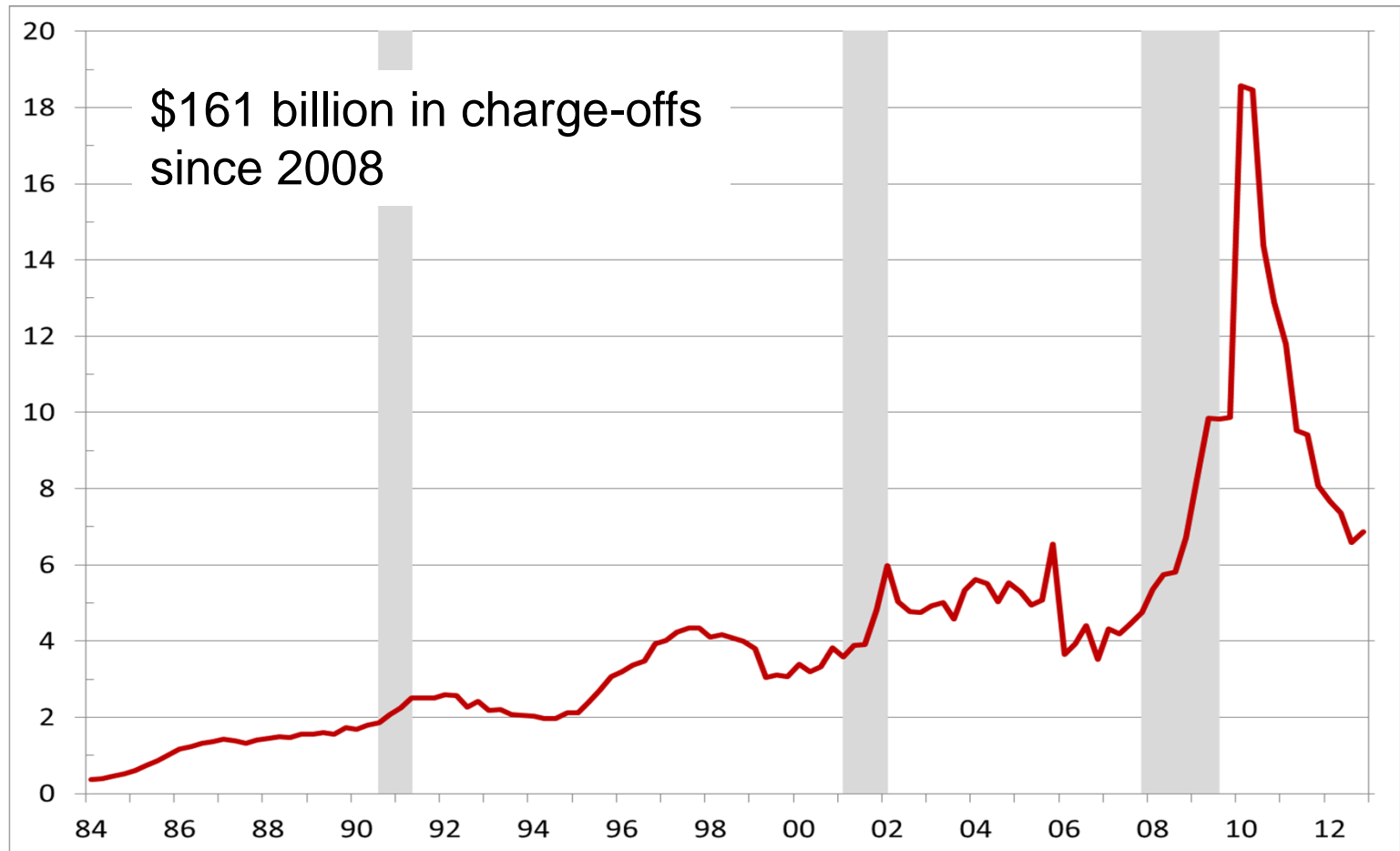


Sources: TransUnion Trend Data, & author's calculations

*: Excludes accounts charged off; **: These categories are not mutually exclusive

Credit Card Loans Written Off

Billions, \$2005



Sources: FDIC, BEA and author's calculations.

Consumer Collections Involves Myriad Participants

- Consumers who owe financial or non-financial debts
- Organizations who are owed funds
 - Lenders of all sorts
 - Non-financial firms serving consumers
 - Governments owed taxes, fines, etc.
- Third-party collection firms & debt buyers
 - Specializing in collecting debts owed to others
 - Mostly on a contingency basis
- Service providers
 - Credit reports, location services, collections scoring
 - Call centers, auto-dialers, software & computers

A Myriad of Participants (continued)

- Collections attorneys (at least 700 active firms)
 - Obtain judgments, liens, garnishments, etc.
- State or local courts (literally thousands)
 - Structure and process is highly diverse
 - Not always automated (especially in small claims)
- State governments and the federal government
 - Legislation governing collections occurs at both levels
 - Federal law sets a floor, not a ceiling
 - Creditor remedies and process are mostly state law
- Regulators and Attorneys General
 - State licensing requirements are common
 - CFPB examination authority for larger firms

Who Does Collections?

Domestic Employment of Bill & Account Collectors (2012)		
Sector	Number	Share
Third-Party Collection Agencies*	98,310	25.5
Finance & Insurance	88,600	23.0
Health Care	60,870	15.8
Wholesale & Retail Trade	28,870	7.5
Legal & Accounting Services	18,030	4.7
Government	10,020	2.1
Other	81,290	21.1
Total	385,890	100.0

Source: Bureau of Labor Statistics & author's calculations

*: Calculated as the number for NAICS 561400, *Business Support Services*, less call centers

The Third-Party Collections Industry ~ 2010

- Approximately 4,200 firms
- Employment of 143,000
- About \$54 billion in gross collections revenue (est.)
- Industry revenues of \$11.7 billion
 - 70% from consumer collections (in 2007)
- More than 1 billion consumer contacts per year
- Growth relative to 1972 (controlling for inflation)
 - Consumer credit: 3.6 x
 - Industry employment: 4.7 x
 - Industry revenue: 6.7 x

Sources: Census Bureau, Bureau of Economic Analysis, Bureau of Labor Statistics, Board of Governors, Ernst & Young, & author's calculations

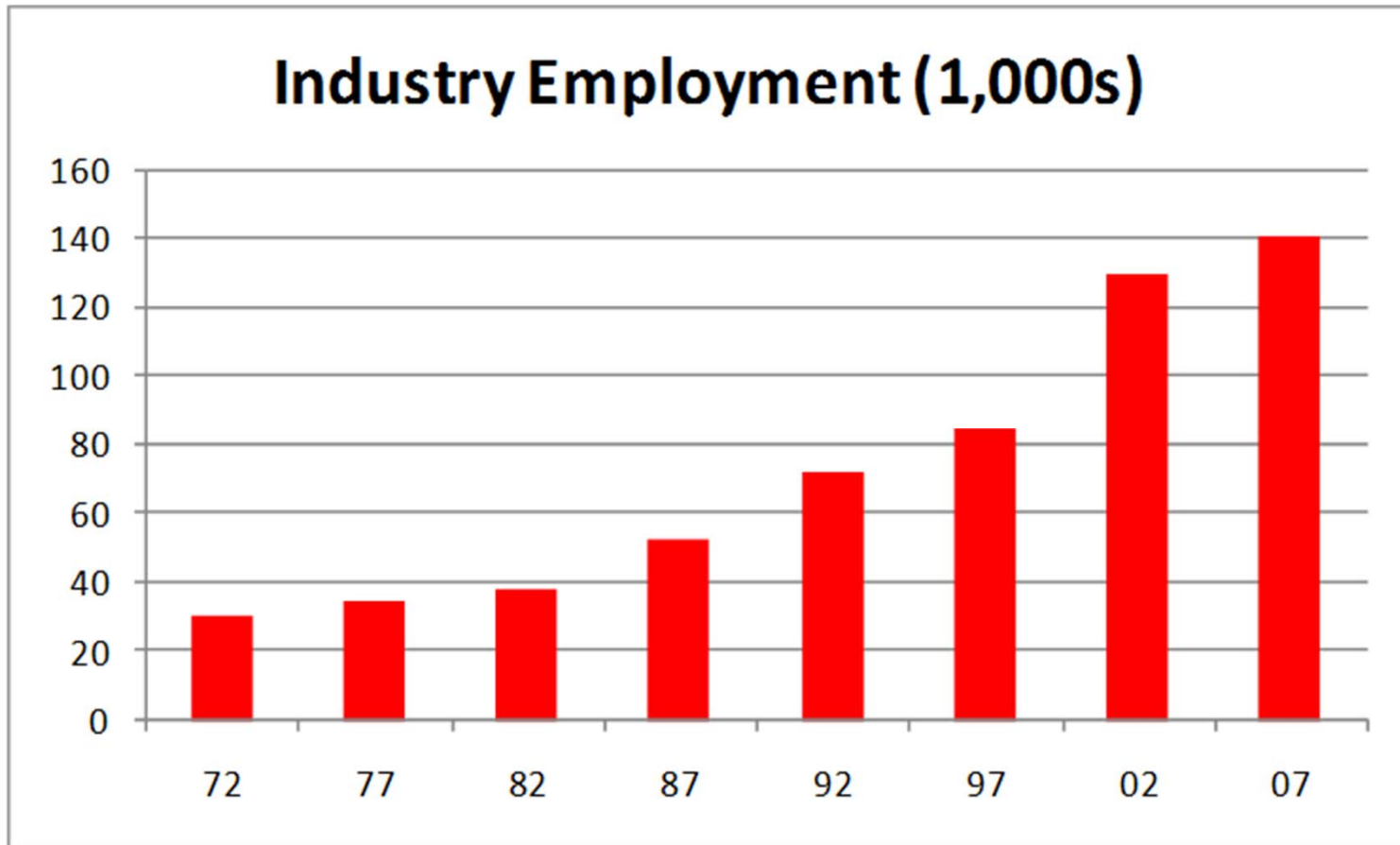
Third-Party Collections Performance (2011)

Median values:

- The Recovery Rate is 13% of face value of debt
- Gross Collections are \$69 per account
 - On a balance of \$538
- The Commission Rate is 26% of gross collections
 - Commissions are \$22 per account
- Expenses are \$16 per account
 - Profits are less than \$2 per account
- The median firm acquires 69,000 new accounts per year
 - On behalf of 200 clients
 - Mails 11,000 letters per month

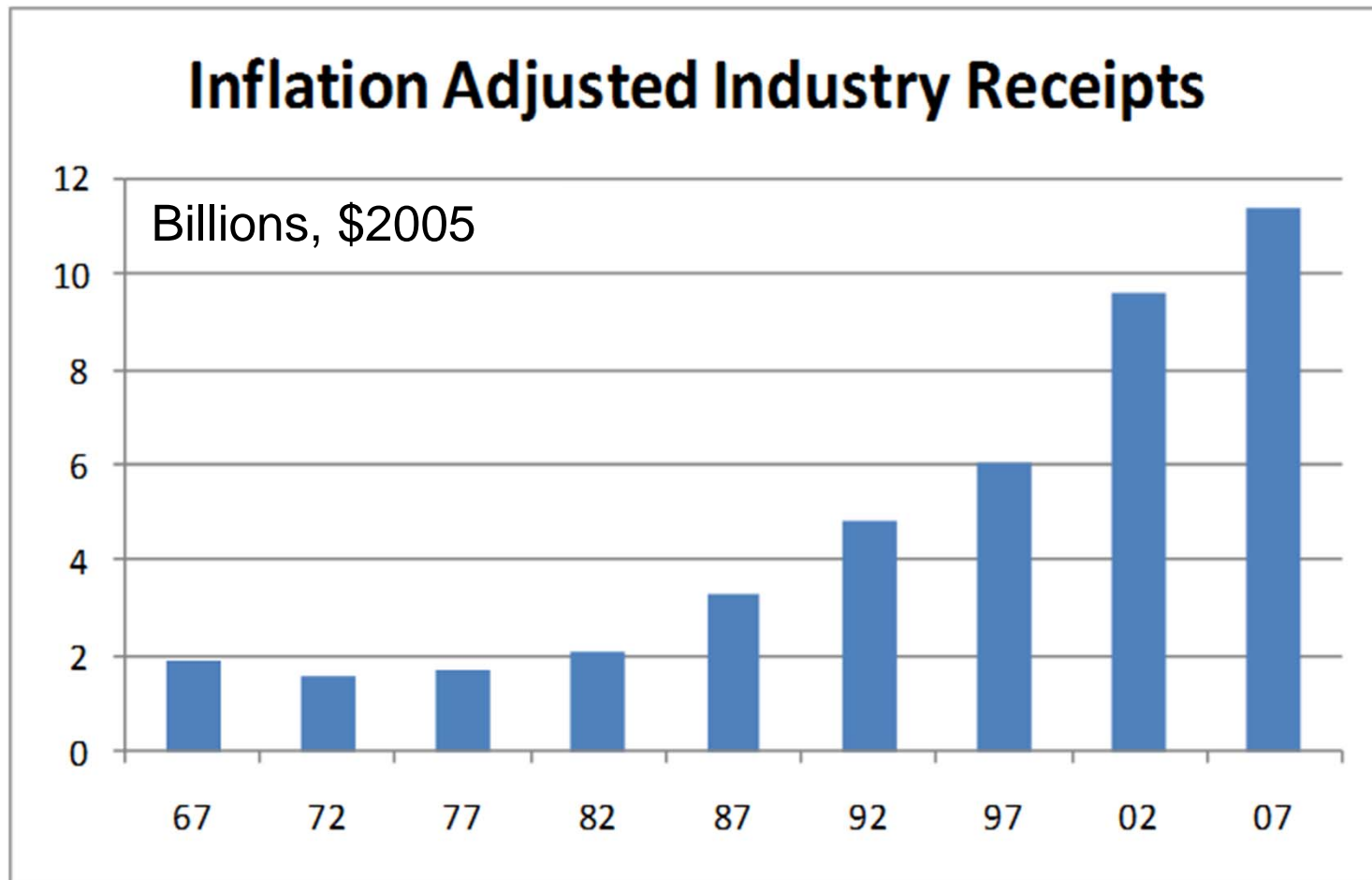
Source: ACA International, 2012 Benchmarking Survey

Long Term Growth of Third-Party Collections



Source: U.S. Census Bureau, Census of Services

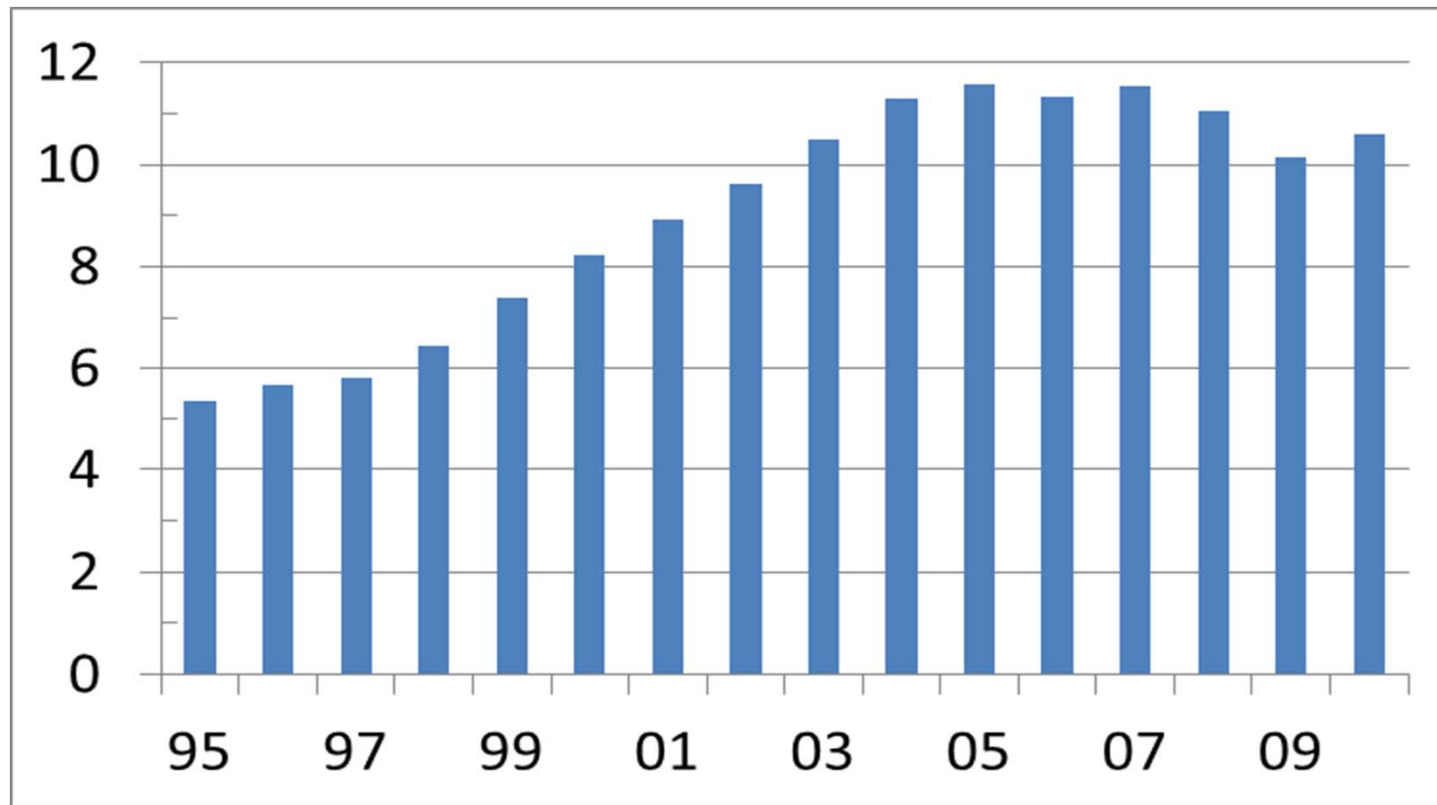
Long Term Growth of Third-Party Collections



Source: U.S. Census Bureau, Census of Services

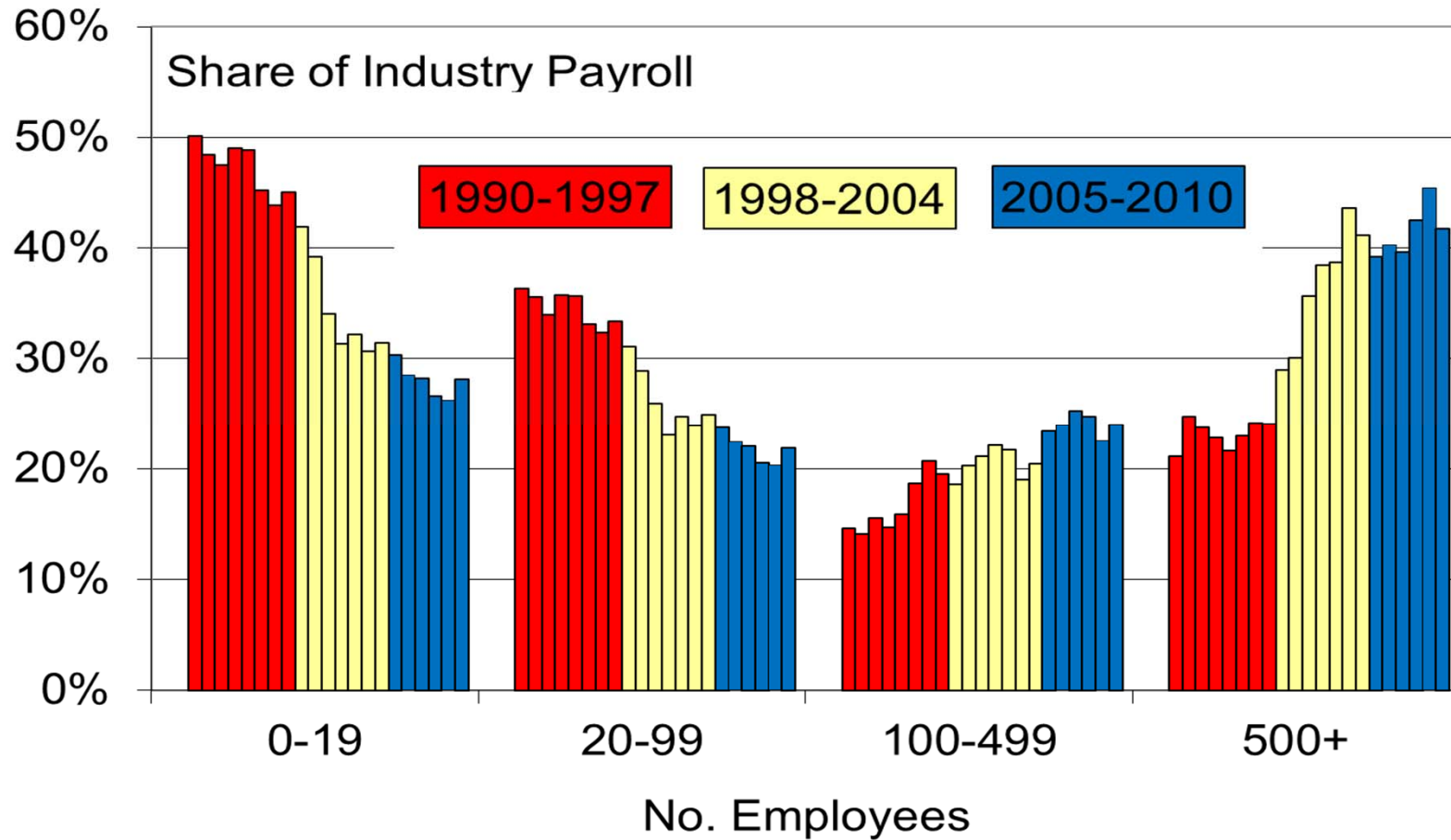
Third-Party Collections Revenue Peaked with Home Prices

Billions, \$2005



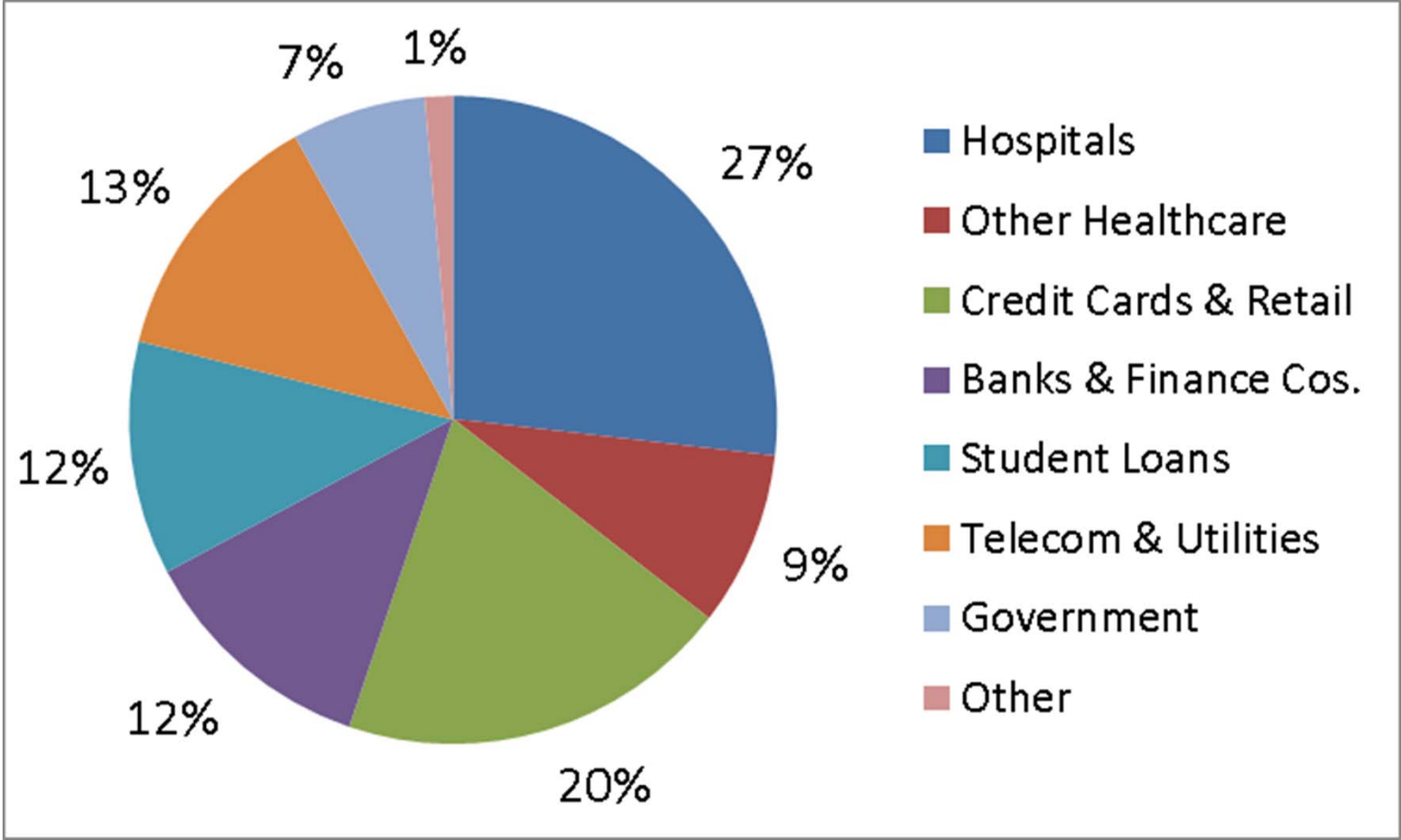
Source: U.S. Census Bureau, Annual Survey of Services

Third-Party Collection Firms Are Getting Bigger



Source: Bureau of Census & author's calculations

Customers of Third-Party Collection Firms (2010)



Source: ACA International, 2011 Top Collections Markets Survey

Variation in Collections Accounts (2010)

Sector	Balance*	Recovery Rate*
Hospital	\$617	10%
Other Healthcare	315	15
Credit Cards & Retail	1,500	17
Banks & Finance Companies	1,157	9
Student Loans	4,000	10
Telecommunications & Utilities	392	14
Government	364	21

Source: ACA International, 2011 Top Collections Markets Survey

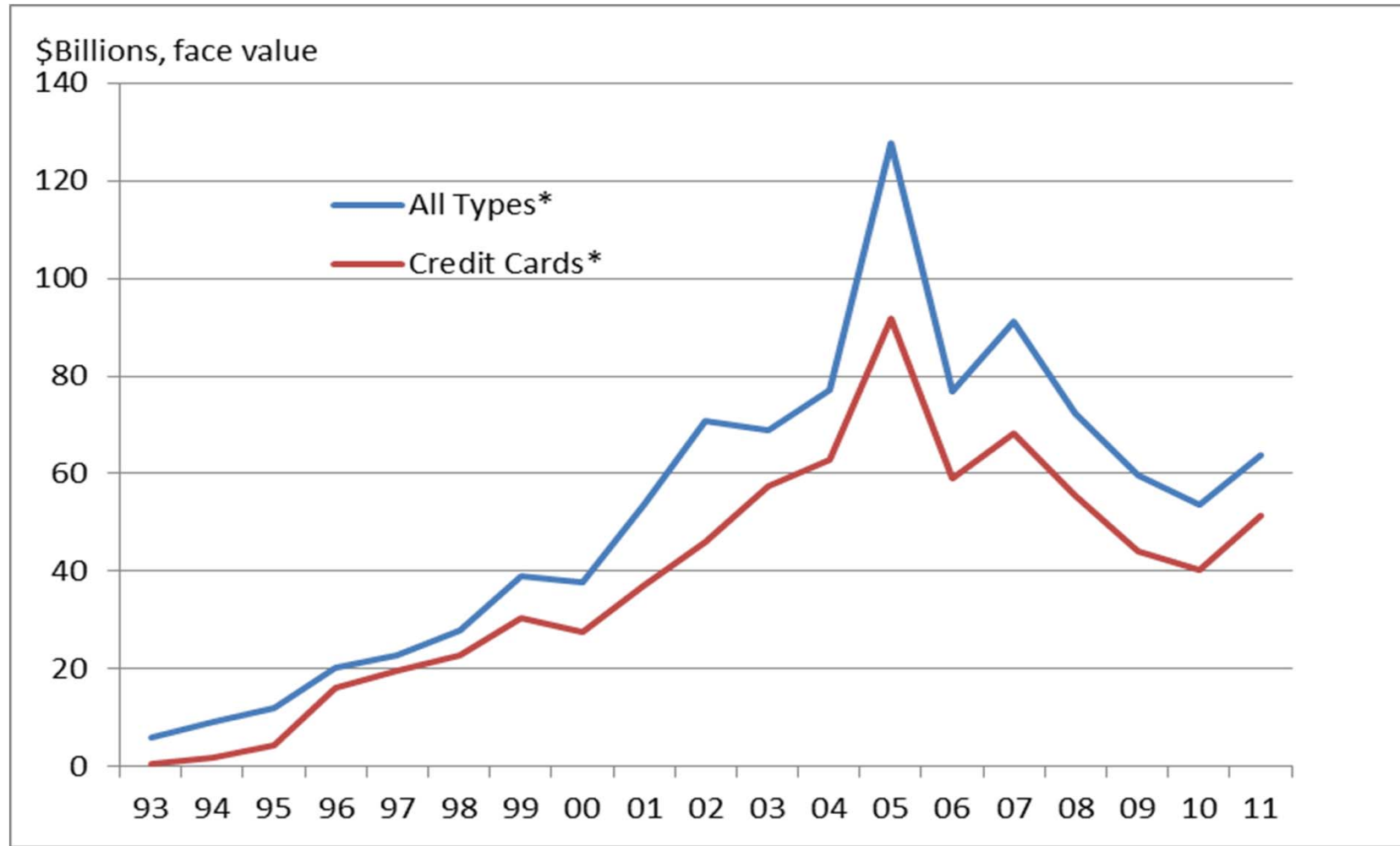
*: Values are medians

Aspects of the Debt Buying Market

- Collections from purchased debt: \$6 billion (est. 2007)
 - 34% of industry receipts (PWC)
 - At least 500 active debt buyers today
- This market is fairly concentrated
 - 10 firms bought 93% of bad credit card debt in 2011
 - Median share of revenues from purchased debt is 3%
- Before the crisis, ample capital stimulated growth:
 - Wall Street invested at least \$500 million
 - Several firms are public (40% of bad debt purchases)
- Bad debt prices follow the business cycle
 - New charge-offs sold for 14¢ in 2006 (4¢ in 2009)
- Accounts are often re-sold several times

Sources: PriceWaterhouseCoopers, ACA International, DBA International, & Nilson Report

Sales of Consumer Debt in Default



Source: The Nilson Report, various issues.

*: Includes re-sales of debt previously sold by creditors.

Final Observations

- Effective collections is important for credit markets
 - But there are also important consumer protection issues
 - We need much more research on both of these aspects
- Consumer and commercial collections are very different
 - Millions of consumers experience collections activity
 - Millions of accounts are placed for collections each year
 - Balances are relatively small and recoveries much smaller
 - This influences collection strategy (including litigation)
- The U.S. collections market place is “Dis-Integrated”
 - Creditors vs. third-party collectors, or debt buyers
 - Also collections attorneys and courts
 - Data providers, repositories, and software platforms

Final Observations (continued)

- This activity (and industry) is large and changing
 - Industry is separating into smaller and very large firms
 - Widespread adoption of sophisticated information technology
 - Also reacting to consolidation of consumer lending
- The legal process for collections is primarily local
 - Continues to rely on paper and idiosyncratic docket systems
- The regulatory environment is highly complex
 - State and (multiple) federal laws & regulators
 - Law is largely based on 1970s technology & markets
 - Applicability depends on specific roles or activities