

UNSECURED CONSUMER DEBT SALES TOPPED £7.4 BILLION IN 2007

New research from TDX Group, the leading provider of analytics-based debt management, reveals that in 2007, £7.4 billion of UK defaulted unsecured debt – around one third of the total - was sold on by banks and creditors. Over the last 3 years, the market has grown by over 270% from a base of around £2bn in 2004.

In terms of 2008, the company predicts that the market for selling this type of debt will grow by around 25% and reach £9 billion. This will be fuelled by four key factors:

- The introduction of IFRS accounting regulations has increased the cost for creditors to hold defaulted debt and therefore has encouraged them to sell more of their debt and to sell it earlier
- A growing number of companies from different sectors (e.g. utilities and telecommunications) are looking at following the lead of financial services organisations and entering the debt sale market as an alternative to traditional collection methods
- Investment banks are increasingly looking at more transparent direct access markets such as UK debt sale as an alternative to some traditional more complex investment vehicles which have been impacted by the credit crunch
- The continued strong performance and high returns in the UK debt sale market has seen a number of private equity firms moving into the sector

In its simplest form, debt sales occur when a creditor sells non-performing consumer debt after it has tried, unsuccessfully, to recover it. More complex strategies can involve creditors selling strategically at a range of points in the arrears process for different types of consumer debt. The price paid is typically heavily discounted from the face value of the assets (with sale proceeds of around 5-20% of face value) and reflects the purchasers' views around potential for future recovery.

The consumer debt sale market exists because structural differences between sellers and buyers create prices at which both can realise value from these assets. Typically, purchasers take a longer term view of their assets and consequently assign a higher overall value to the accounts. Sellers will typically only spend around two years trying to collect the debt after which they assign limited value to the assets they are chasing. By contrast, purchasers will look at liquidation across a much longer period, usually between five and seven years and therefore expect greater returns. Purchasers also have the opportunity to specialise in the recovery of specific types of debt allowing them to generate greater returns than would be possible through a traditional creditor whose core business is to lend, not recover.

The sale of unsecured debt can also be a positive development for debtors because purchasers have a longer-term outlook in terms of recovery and therefore tend to be more flexible towards repayment plans.

Stuart Bungay, Director of Asset Sales and Advisory, TDX Group said: "We expect strong growth in the UK consumer debt sale market this year. There should be increased supply of debt for sale from creditors because of the

continued impact of the IFRS accounting regulations which has increased the cost of retaining delinquent assets on the balance sheet.

This continues to incentivise creditors to dispose of non-performing assets rather than retain them. We also expect to see growth fuelled by an increase in the numbers of utility and telecommunication companies looking to sell bad debt as the wider market develops.”

“In addition to this, a growing number of investors are looking at opportunities in this market as an alternative to investment products damaged by the credit crunch.”

Despite a rise in the volume of consumer debt being sold, TDX Group expects pricing in 2008 to remain relatively stable with demand rising in the sector to compensate for the additional supply. This means that market timing for selling and buying debt will remain crucial as the price will depend on the total amount of debt for sale in the market at specific points throughout the year.

Finally, TDX Group expects the resale market for UK consumer debt to continue to evolve slowly. 2007 saw experimentation with resale from a small number of well established purchasers who were looking for alternative ways to liquidate their non-performing assets in order to free up resources so that they can focus on more attractive debt types. 2008 should see an increased number of low risk resale portfolios coming to the market from mature purchasers. Demand for these portfolios remains focused on smaller purchasers looking to enter the wider debt purchase space, but equally larger purchasers could increasingly engage in resale to establish their processes in this area. In addition, many purchasers are now looking at optimising their balance sheet and selling earlier in the account lifecycle; particularly for those accounts whose collection requirements fall outside of their specific specialism.

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For further information:

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About TDX Group

TDX Group is a leading provider of credit risk management solutions, whose information-based approach is revolutionising the industry.

In the UK, TDX Group sells over 40% of all defaulted unsecured debt; manages debt portfolios for leading financial services companies, utility providers and debt portfolio owners; and runs The Insolvency Exchange, an IVA hub for creditors and IPs.

Through its combined UK and Spanish offices, TDX Group offers services across Europe, North and South America and Asia.

Its unique intermediary position provides TDX Group with access to unrivalled information on debt sale, debt purchase, IVAs and recoveries strategy and performance. Through sophisticated analysis of this information TDX Group is enabling creditors and debt portfolio owners to improve returns on their semi and non-performing assets.

We have worked on behalf of all of the major banks in the UK, several major utility companies and a number of other financial services companies

TDX Group Debt Sale Purchaser Panel

TDX Group manages asset sales for many of the largest UK creditors and is helping establish the secondary market. In order to achieve the best long term outcome for our clients, we work with a wide range of leading purchasers and funds; those who set the standards across the industry.

The TDX Purchaser Panel contains a wide arrange of purchasers including large UK purchasers, traditional collection agencies, US & European purchasers, hedge funds & other investment funds, investment banks and law firms. All purchasers go through an audit process and are invited to sales on a sale-by-sale basis based on their scale, capabilities and investment targets.