

White Paper

A Funders Market?

Why the UK debt sale market is increasingly attractive for funders

The UK debt sale market continues to evolve, taking on the characteristics of more mature markets as creditors move from using debt sale as a tactical tool of convenience, to a more strategic tool to optimise the balance sheet. The benefit for many of the more progressive creditors has been the ability to identify previously unrecognised value and successfully bring larger pools of assets to market.

The combined effect of a market that has established a level of maturity and progressive creditor strategies makes it increasingly attractive for new funders looking to begin purchasing debt.

Why now?

The market is mature

Today, creditors are systematically using sale to manage their bad debts. With increased volumes, robust and increasingly standard sale processes have been adopted. Collection agencies and other servicers have developed the operational platforms necessary to drive healthy returns from purchased debt. Data for pricing is increasingly available from sellers and even servicers. For a pure funder interested in the market, the barriers to entry around understanding the marketplace, sourcing portfolios and identifying appropriate servicers are lower than ever.

The market continues to grow

As creditors' use of sale becomes more strategic, portfolios are becoming larger. This approach is also bringing new asset types to market including semi-performing and secured portfolios, which carry higher prices. The market continues to grow and annual spend is now around £1 billion. The increase of large portfolios allows funders to more effectively put capital into purchase, making the opportunity sizable enough to dedicate time to mapping out an entry strategy.

Funders are advantaged over current purchasers

Historically, vertically integrated purchasers, with their own servicing capability and funded through a mix of equity and debt, have dominated much of the purchase market. Funders have several natural advantages over traditional purchasers, including:

- lower average cost of funds;
- no fixed operational costs means that portfolios can be evaluated individually on the basis of economic return, without the need to purchase to keep operational teams utilised; and
- ability to use the most appropriate servicer on a portfolio-by-portfolio basis to drive optimal returns.

Each year we continue to see new entrants as the market grows and becomes an increasingly mainstream area for investment.

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