

DEBT SALE – EMBRACING A RE-EMERGING MARKET

As the debt sale market continues to revive, shared data and regular dialogue are essential for success

By Charlie Horner

DEBT sale volumes peaked in 2008 when around £9bn of debt was brought to market. The subsequent contraction saw volumes reduce by some 50% and remain low for 18 months.

In 2010 there were signs of recovery which look set to continue. Creditors will face the challenge of managing the balance sheet and generating cash while safeguarding customers' interests. In this context, it will be essential to understand the features and drivers of this re-emerging market if its recovery is to be efficient and sustainable.

Volumes will increase

Sale volumes in 2011 look set to reach £7bn in face value, a 40% increase compared to 2010 (Figure 1). This will be driven by creditors re-entering the market, debt purchasers' funding being replenished and new sellers, such as the public sector.

This is to be welcomed, but there is a risk of periods of oversupply as banks look to clear their warehouse portfolios rather than face increasing numbers of accounts becoming statute barred. Visibility of supply and demand levels

will be critical in choosing the correct timing to bring a sale to market to avoid peak periods and maximise value.

'Fire sales' must be avoided; they will increase the risk of poor-quality data, post-sale issues, poor purchaser participation and sub-optimal prices.

Competition and segmentation

There has also been an increase in the number of purchasers participating in sales, the number of segments they bid for and the number of overall bids per segment (Figure 2). This is driving an increase in prices. While they will not reach the levels seen in 2007, an increase of 20% seems likely. There will be differences at segment level as buyers continue to focus on the segments that are suited to their business model.

Although buyer activity is increasing, many of those active in 2008 still have reduced funding or are not participating in the market. A few with renewed funding have established a strong position and will continue to dominate the market through 2011, with some new players further stimulating recovery.

In 2011, 80% of spend looks likely

to come from as few as six purchasers. Segmentation alone will not be enough for a successful sale; sellers need to be in touch with the right mix of buyers and understand their 'sweet spots'.

Willing to walk away

As well as being selective about segments, purchasers are also ever more prepared to walk away in cases where data does not meet their needs. Sellers who provide good quality, clean, consistent data not only maximise price through high purchaser confidence, but also minimise post-sale risks.

Data quality across the market has improved but there is still work to be done, especially as potential revisions to the Lending Standards Code may increase this focus. The balance of best price and minimal post-sale risk will be achieved only where the data file is of highest quality.

Put simply, the market recovery is looking positive. The winners in 2011 will be those on both sides of the transaction who create a transparent dialogue, share relevant data to achieve best value and have a goal of long-term partnership. **CCR-2**

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Figure 1. Face value of debt sold and TDX price index

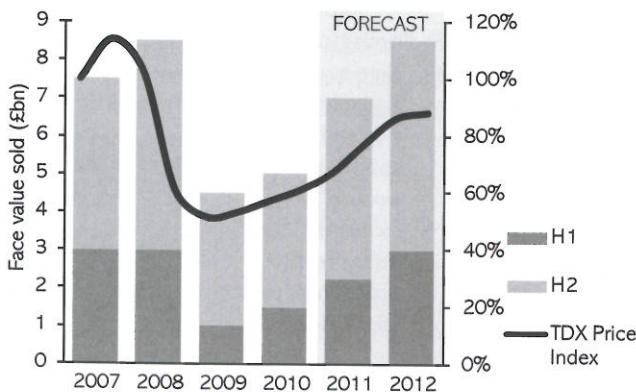
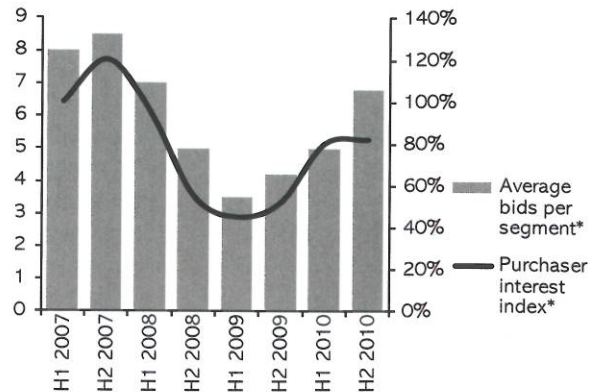


Figure 2. Purchaser participation over time



Source: TDX

*Note: Average bids per segment = number of bids in half year/number of segments

Purchaser interest index = movement since 2007 in the average % segments available that a purchaser bids on