

The Debt Review

Debt industry newsletter brought to you by TDX Group | QUARTERS 1 & 2, 2011

A new way.

2011 has started positively. The economic environment has been relatively stable and benign. However, inflation remains twice the Bank of England's target rate and continues to be on the rise. With the spectre of higher interest rates continuing to loom, the economy feels a long way from being at a turning point.

So, in this environment, how can TDX help? Since 2004 we have been helping clients to maximise returns from their unpaid debts, giving them the flexibility and insight to deal with changing market conditions. With our clients' support, we are now the biggest in our chosen markets and the bespoke platforms we have built over the last seven years have become industry-leading solutions. But that does not mean we are standing still.

In the last edition of The Debt Review, we urged creditors not to sit back to see how things play-out, and to make some key decisions and take control of the debt challenge. We have done the same. As well as continuing to invest heavily in developing our platforms, we have been investing time in listening to how we can best help creditors deliver superior results.

We want to make our products easier to understand and more accessible. This led us to Platforms, Tools and Services – a new way of working. We are offering the choice of the combination of platforms, tools and services that makes sense for each client. If you need to control your strategy internally you may choose to directly access the rich functionality of one of our platforms and do the rest yourself. But, rest assured, if you want us to deliver a fully integrated solution that leverages our position in the market, our data and our expertise we continue to provide the 'full solution' selected by many of our existing clients.

I am very excited about the direction we are going and the opportunity to help drive better results and greater transparency into performance for the industry.

To find out more, visit our new website:
www.tdxgroup.com.



Mark Sanders
Chief Executive Officer



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Collections and recoveries:
using analytics to take control, p7

YOU choose.



In the new TDX way of working our clients have a choice on three levels:

1. You can choose your ideal combination of **Platform, Tools and Services**.
2. You decide how much you want us to do, setting the balance of external **support** and internal **control** just where you want it.
3. And when it comes to paying, you have the option of a flat fee, so you know where you are, or pay by results ...**or a bit of both**.

Effective, efficient and conveniently flexible...
instead of the *'all or nothing'* model, you can now create your perfect solution from the UK's leading independent debt liquidation experts.

You choose.

Find out more about Platforms, Tools and Services by contacting Oliver Betts

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Visit our new website at www.tdxgroup.com

DEBT SALE:

WHAT CAN WE LEARN FROM THE US?

The globally renowned Debt Buyer's Association International Annual Conference took place in Las Vegas in February and the hot topic was the rising prices for distressed unsecured consumer debt in the US and UK marketplace. With the UK debt sale market starting to show signs of recovery, are there indicators in what is happening in the US market which may help to predict the recovery in the UK?

Across the pond – explaining rising prices

Asset performance in the US appears to be improving, if only slightly. While the US economy is growing, unemployment remains stubbornly high. Kaulkin Ginsberg, a leading US debt collection advisory firm, reported that stabilisation in liquidation rates began during the first half of 2010 (November 2010 ACA Forum). Furthermore, consumer lending firms are reporting continued improvement in delinquency and charge-off levels.

However, sale prices are rising more quickly than performance alone explains. Ed Forbes, CEO of Stirling Capital Management (one of the most active US debt brokers, having arranged roughly \$500 million in trades since its founding in late 2009), commented, "We're seeing debt prices push back to levels we saw in 2007".

One of the drivers is that there is simply less debt out there. After two difficult years, US credit card issuers are reporting improvements in portfolio performance. Industry leader JP Morgan Chase reported a net charge-off rate of 7.08 per cent in quarter four 2010, down from 8.64 per cent a year earlier excluding the effect of the Washington Mutual portfolio. As a result, \$2.0 billion less in distressed debt was generated by the House of Morgan.

However, appetite to buy has increased. Data confirms broker reports that the large, listed debt-buying firms – Asset Acceptance, Asta Funding, Encore Capital

and Portfolio Recovery Associates – have been aggressive buyers in recent months. In 2010 these four publicly listed companies spent \$874 million on purchases, a 27.5 per cent increase over 2009 levels.

The US market is more active than its European counterpart, allowing buyers to sell, or 'retrade' portfolios. Debt sellers use transparency to improve pricing, often engaging intermediaries to more finely segment portfolios tailored to specialised buyers needs. Transparent and active re-trading combined with historically low funding costs are adding upward pricing pressure.

UK – an opportunity?

Although economic conditions in the UK and Europe are similar to those in the US, pricing seems yet to have accelerated as it has across the pond.

Competitive conditions may explain differences in market behaviour. Although appetite to buy is increasing, the UK market is far more concentrated. Far less re-trading takes place. None of the more significant players are listed firms. In combination, buy-side pressure on price is far less than in the US. Banks' reliance on 'do-it-yourself' sale processes further limits sell-side pricing leverage.

As a result, some US-based buyers see the UK and European markets as opportunities. Apollo Capital Management was reported to have acquired Bank of America's MBNA Spain credit card unit in early 2011, including a large distressed asset portfolio. Stacy Schacter, CEO of Vion Receivable Investments (a unit of MHR Fund Management, a \$5 billion private equity fund), sees Europe favourably as well. "European deals, while requiring sophisticated structuring and execution expertise, present large scale opportunities for well-capitalised acquirers like Vion."

What's next?

It appears likely that sophisticated, well-capitalised firms based outside the UK and Europe will continue to seek out deals, especially where a partnership with a well-

established 'local market' servicing firm can be forged. This will add to competition in the UK especially where only a handful of well-capitalised debt buyers remain active.

At the same time, banks in the UK and Europe seem hesitant to sell debt in the face of increasingly stringent data protection and brand reputation concerns. Some market participants also believe debt sale has been stifled by worries that market values for debt, even when clearly creating value for shareholders, will lead to recognition of accounting losses.

Sophisticated structuring, advisory and data expertise is needed to bridge the gap and create value and transparency for both seller and purchaser. While the 'big hitters' coming into the UK and European market seem willing to use these services, sellers seem to be pursuing a 'do-it-yourself' approach to deal structuring and process execution not always focused on underlying data quality. This will limit seller's ability to maximise the value of their distressed assets.

TDX believes conditions are right for prices to rise. Higher demand in the face of constrained supply may push asset prices higher in the short run. Whether prices will rise as far, as quickly as in the US, only time will tell.

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About the author

Jonathon Albright, CFO TDX, is former CFO of Barclaycard's UK business, the largest Visa-Mastercard issuer outside the US. As a finance director at JP Morgan Chase he was responsible for \$1.5 billion in distressed debt sales, holding a joint patent on a debt bidding structure. He holds an MBA from Duke University's Fuqua School of Business.





Debt industry news

Our round-up of some recent headlines

CONSUMER NEWS

Creditors taking action

In an economic environment that continues to be difficult some organisations are starting to take innovative steps to directly support consumers when it comes to debt advice. EDF Energy is funding a free nationwide debt advice service in partnership with Citizens Advice, as part of a £27 million investment to help struggling customers with their utility debt obligations.

- Sources:
- EDF Energy to fund free debt advice, 16.03.2011, Credit Today

TDX commentary:

“Having confidence that your customers are getting good quality, impartial advice on debt is absolutely critical. While some creditors may choose to take an active role in funding that advice, knowing your portfolio is also critical in determining whether your customers are in the right solution. Read more about this on page 4-5.”

REGULATION

Debt management scrutiny

In addition to the OFT continuing to take action against debt management organisations for poor practices and advice, they also announced a number of consultations including a 12-week consultation on debt collection guidance.

- Sources:
- OFT to revoke debt firms' licences, 18.01.2011, Credit Today
 - OFT to revoke 15 debt management licences, 28.01.2011, Credit Today
 - OFT revokes licences over misleading debt advice, 15.04.2011, Credit Today
 - OFT launches consultation on debt collection guidance, 10.03.2011, Credit Today

TDX commentary:

“Responding to the challenges in the debt management industry, TDX held its first DMP forum in March. Attended by a number of clients, the group aims to build a full picture of current activity and performance across this sector.”

DEBT SOLUTIONS

Insolvency statistics

The Insolvency Service released the insolvency statistics for quarter one. There were 30,162 individual insolvencies in England and Wales which was a decrease of 15.5% on the same period a year ago. This was made up of 12,539 bankruptcies (which were down 31.3% on the corresponding quarter of the previous year), 10,835 Individual Voluntary Arrangements (IVAs), (which were down 8.0% on the corresponding quarter of the previous year) and 6,788 Debt Relief Orders (DROs), (which were up 20.3% on the corresponding quarter of the previous year).

In quarter one, a change to insolvency legislation was announced which will expand access to Debt Relief Orders to those with an approved pension.

- Sources:
- Statistics release, insolvencies in the first quarter 2011, 06.05.11, The Insolvency Service
 - Access to Debt Relief Orders expands, 29.03.11, Credit Today

TDX commentary:

“The latest TDX data indicates that while it is still widely expected that economic deterioration will result in a new segment of consumer falling into financial difficulty, we would need to see record quarterly volumes to see 2011 outstrip 2010 in terms of volumes.”

MARKET NEWS

Debt purchasers gear-up

The merger of Cabot and Apex Credit Management was announced following the acquisition of Cabot Financial by AnaCap Financial Partners. A three-year funding line was also announced, to enable it to look at larger strategic deals in the consumer debt market. Similarly, 1st Credit was said to be preparing to purchase portfolios again.

- Sources:
- New debt purchaser secures £180 million funding, 18.04.2011, Credit Today
 - 1st Credit 'ready to re-enter market', 04.04.2011, Credit Today

TDX commentary:

“As creditors re-enter the debt sale market and debt purchasers' funding is replenished, we expect sale volumes in 2011 to reach £7 billion in face value.”

In comparison to other consumer debt solutions the IVA industry remains one in which there is relatively little understanding of performance at anything more than a portfolio level. One of the largest barriers to the development of this understanding has been the availability of cross-industry data with enough outcome data to confidently measure performance. TIX (The Insolvency Exchange) has now been an established servicing solution for five years and the information gathered through this time has enabled TDX to develop an industry-wide IVA scorecard to reveal some key trends and patterns for its clients and provide a proposal level ranking of expected liquidation.

The TDX IVA Scorecard gives a liquidation score to each and every IVA using data available to the creditor or Insolvency Practitioner (IP) from before the meeting of creditors. By considering factors relating to the debtor, the creditor and the IP, the scorecard gives an industry calibrated ranking of the expected liquidation of a proposal.

The drivers of liquidation

The range of liquidation performance within a portfolio of IVAs is remarkable. The TIX IVA Scorecard considers factors across several dimensions – including debtor characteristics, proposal details, creditor and IP information – to segment any portfolio into six behavioural groups that are then used to profile a portfolio of IVAs.

...unlocking the next level of insight

TIX IVA scorecard: behavioural groups

1. Consistent payers

The IVA is well set up, well managed and appropriate for the debtor. Debtors in this group are more likely to be retired or unemployed and therefore have a reliable income.

2. Poor distribution

The debtor is likely to complete the IVA but the distributions of payments/dividend to creditors will be outside agreed protocols.

3. Precarious circumstances

The debtor has a desire to pay the debt but has a high probability of a change in circumstances which will impact their ability to meet repayments. Typical debtors are likely to be renting, with no access to property equity, and employed at the time of the proposal (albeit vulnerable to job loss).

4. Recovery avoidance

An IVA has been adopted by the debtor as a short-medium term tactic to stop recovery activity.

5. Insufficient support

Initial advice may not have been adequate or the debtor is in distressed circumstances and does not receive adequate support from their provider to maintain their arrangement.

6. Sub optimal solution

The IVA was not the most appropriate solution for the debtor's circumstances which leads to high failure rates, debtor may have proactively marketed to or targeted with an IVA at the expense of other, more appropriate, options.

Knowing your portfolio

Analysis of IVA accounts within a portfolio against the six behavioural groups will, for the first time, allow for a granular and accurate understanding of likely liquidation. The TIX IVA Scorecard can separate liquidation at a given point in time, for example, figure 1, charts the month 24 liquidation for each score decile, based on an industry cross section of IVAs. The pronounced and consistent slope illustrates both the spread of liquidation and the ability of the TIX IVA Scorecard to separate this spectrum of performance, allowing creditors to monitor the quality of their IVA portfolio.

All IVAs are not the same

However, many factors influence the trend of IVA quality, over time, including changes in the underlying debt quality, influence of macroeconomics, changes in internal collections process and debt sale strategy. Applying the TIX IVA Scorecard at regular intervals reveals emerging trends of IVA quality which can be used in forecasting and budgeting as well as to benchmark IVA performance across creditors.

Figure 2 illustrates how the average quality of IVAs can vary between creditors and how the trends in quality can vary over the same time period.

Getting personal to drive results

An industry-calibrated ranking of the expected liquidation of an individual proposal is where this new knowledge and understanding becomes particularly valuable. Account level insight can help to define a range of actions, including enabling an IP to understand if an IVA is the most appropriate debt product for a debtor, allowing the tracking of the quality of proposals and enabling informed liquidation forecasting and provisioning of insolvencies. Better understanding of the value of individual IVAs also opens the door to the possibility of segmented debt sale to release value from a targeted portion of the book.

A new, deeper level of insight into IVAs has, indeed, arrived.

Stuart Bungay
Managing Director,
New Ventures

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Further information

TIX creditors will receive score statistics at the aggregate level in monthly TIX reports, allowing them to benchmark their IVAs against the industry average and understand specific trends that can vary by lender. Creditors or IPs choosing to purchase the TIX IVA scorecard will receive proposal level scores enabling better forecasting, provisioning and segmentation.

Please contact Stuart Bungay to find out more.

Fig 1 – Indexed average liquidation by behavioural band

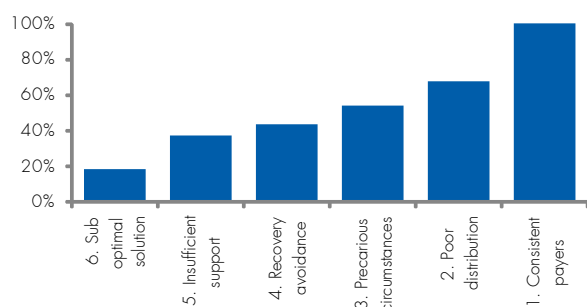
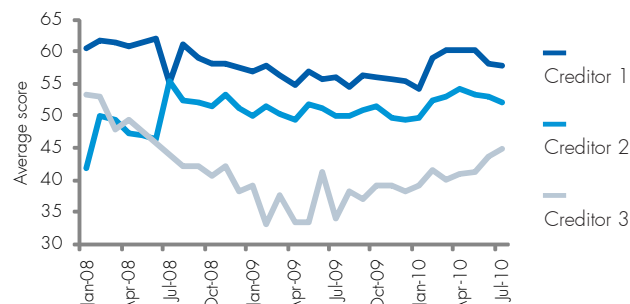


Fig 2 – Average score by meeting of creditor date



TDX launches PLATO

1 January 2011 — TDX is now offering creditors direct access to the components of its market-leading debt collection solution, with the first step being to offer creditors open access to PLATO – its debt placement and management platform.

PLATO is the UK's largest debt placement and management platform and is now available as a product in its own right for the first time. Alongside PLATO, TDX is also providing creditors with a range of debt collection tools and services, meaning they can now choose their own TDX solution to complement their existing capabilities.

Mark Onyett, CEO TDX commented, "In a fast moving market creditors need to be able to react quickly to changes in their debt recovery performance without lengthy and expensive up-front investment. A purpose-built, tried and tested platform, like PLATO, is the best way to access the capability and data to implement cutting edge strategies."

TDX Standard and Poor's Ranking

16 May 2011 — Standard & Poor's Ratings Services has affirmed its overall ABOVE AVERAGE ranking on TDX as a master servicer of consumer finance in the U.K.

The ABOVE AVERAGE ranking is based on the following:

- TDX has experienced continued growth this year and substantial development of its systems capability
- TDX has an experienced and stable management team, in our view
- In our view, it has relatively high collection results, which are based on effective loan allocation to, and monitoring of, sub-servicers

www.standardandpoors.com

TDX signs British Telecom Debt Recovery contract

16 February 2011 — After a rigorous selection process, BT plc (BT) has agreed a three year contract with TDX. TDX will gain a 'preferred supplier' status and see all of BT Retail's final debt accounts up to a value around £170 million per annum. BT Retail's debt accounts will be managed via TDX's awarding-winning debt placement and management platform, PLATO.

Ian Duerden, Director, BT Billing commented: "We are very pleased to be working with TDX. We selected them as a partner for the placement of our debts following an extensive trial and we are confident that TDX's data-driven approach and purpose-built platform will complement our own capabilities and deliver benefit to both parties."

Mark Onyett, chief executive officer, TDX, commented: "We're delighted to work alongside BT on this initiative. We have a strong track-record in this area and are confident we can further enhance standards of customer service as well as increase the overall performance achieved through the recoveries process. Our tried and tested debt placement and management platform, PLATO, and its tools and services give our clients access to the capability and data to perfect their strategies."

New clients on TIX

Having signed 12 new client portfolios on to the TIX (The Insolvency Exchange) platform in 2010, we are pleased to announce that in quarter one we signed a new creditor client in addition to taking on the management of seven funder-acquired portfolios of IVAs.

Debt sale news: TDX launches Post Sale Portal

TDX is pleased to announce the launch of the Post Sale Portal, which provides a secure, web-based solution to post sale administration and query management for both sellers and purchasers.

The TDX Post Sale Portal eliminates duplicate requests, categorises queries and provides a workflow management system to improve efficiency. Management information enables users to monitor query volumes and resolution times, ensuring contractual volume limits and response times can be monitored.

Charlie Horner, Head of Advisory and Debt Sale commented: "The Post Sale Portal is an extension to existing technology already used in TDX for 20,000 queries per month. We're delighted to now be able to offer this tried and tested tool to help our debt sale clients and debt purchasers improve efficiency and ensure compliance with regulatory requirements."

Debt sale prices indicate recovery: 10% increase in sale price

The sale of a portfolio in Q1 compared to a similar portfolio sold in 2010 further supported the view that the debt sale market is showing signs of recovery. With good levels of purchaser interest, the price achieved was 10% higher than that in 2010. Overall, price and bidding behaviour supports the view that there will be a steady price recovery in 2011.

USING ANALYTICS TO TAKE CONTROL OF COLLECTIONS AND RECOVERIES

Getting under the skin of why collections are under (or, indeed, over) performing is key to putting you back in control of your strategy. Unleashing the true power of account level activity data can transform your performance.

Getting set up for success

1. Set up the database infrastructure

Paramount to getting the best out of your analytics is ensuring you have the foundation right. A robust platform architecture centred on data capture, storage and manipulation is critical in order to capture and store the significant volumes of data associated with activity tracking (the TDX activity database grows by over two million rows a week).

2. Rigorously validate the input data

A strict and consistent validation process is required to ensure the data originating from multiple sources and host systems is clearly defined and translated to an easily interpreted, accurate and consistent format.

3. Build tools to make the data accessible

Tools such as structured, automated MI and KPI reports are essential to instantly transform a broad raw data set into meaningful information from which performance can be investigated.

4. Leverage the data asset to drive performance

Only once these tools have been applied to the raw dataset can your analytical experts get to work, their goal being to determine what is driving performance and articulating this insight as recommendations for strategy enhancements.

Reaping the benefits – some examples

Volatility in performance that is not understood is often attributed to natural variation or unknown differences in debt quality. However, gaining an understanding of the cause behind the variation can reveal key strategic performance drivers.

Even the most basic, yet consistently captured KPIs (for instance, a weekly count of activities), can start to explain sudden increases in collections.

Figure 1 illustrates how an initial KPI triggered a detailed analysis around additional activity on accounts. The uncovering of an ad-hoc data append and resulting increase in dialer activity led to strategic conversations around how this activity at the DCA could be continued. The end result – a ~40% spike in collections on a monthly basis.

Account level activity data also enables analysis to be completed at a tranche level which can uncover the cause behind what is often assumed to be a ‘bad batch’ (figure 2). Once again the key KPIs highlighted that the under-performing tranche had suffered as a result of a process breakdown where a section of accounts had not received the usual levels of dialer activity. Having account level data enabled details to be provided around the accounts in question and an immediate resolution to be put in place. The end result – a recovery in performance of this tranche and both gross and net benefits realised.

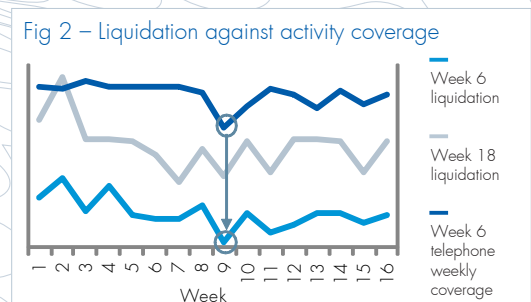
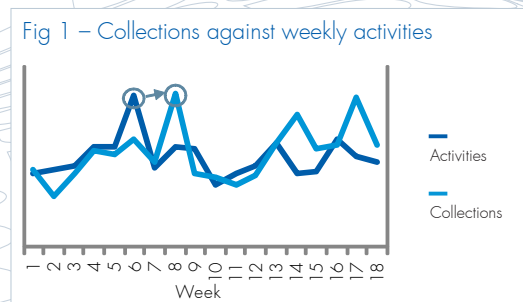
The additional knowledge and insight that activity data provides transforms the level of strategic control available to improve performance. However, as with any analytical platform it can only provide the required business benefit if it is built on the right data infrastructure foundations.



Elliot Jackson
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Further information

If you want to know more about utilising account level activity data, contact Elliot Jackson, TDX's Head of Analytics.



YOU choose...

...the Platforms you need, to tackle the challenges you face. In the case of Debt Placement and Management, the TDX choice is PLATO. **At its simplest, PLATO places the right debt with the right agency at the right price.** You are able to place debt at a segment level to multiple DCAs through a single interface, while capturing and analysing the data required to continuously improve performance.

PLATO enables you to get the best from your portfolio. With whatever Tools and Services you need, you can **enhance segmentation, optimise debt placement** and pricing, and inform and **perfect your strategy.**

Effective, efficient and conveniently flexible ...instead of the *'all or nothing'* model, you can now create your perfect solution from the UK's leading independent debt liquidation experts.

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