KAULKIN GINSBERG

EXECUTIVE BRIEF
Credit & Debt Collection Confidence Survey - 4th Quarter 2008

Consumer Finance Sector Analysis Series

About Kaulkin Ginsberg

Kaulkin Ginsberg is the leading source of M&A, strategic advice, and timely information for the Accounts Receivable Management (ARM) industry. Since 1991, credit and collection professionals, owners, and investors have relied on us for the insight, access and information needed to make well-informed decisions.

For ARM service providers, our value-add services include M&A advisory services as well as strategic advice for improving growth and exit strategies. For credit grantors, our focus is on optimizing receivables management strategies.

The Kaulkin Ginsberg family of companies also includes Kaulkin Media, publisher of the most popular sources of timely industry information such as insideARM.com® and *The ARM Insider*™; and Kaulkin Information Systems, provider of secure, affordable document management and workflow systems.

Read more about Kaulkin Ginsberg at www.kaulkin.com

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The Kaulkin Ginsberg Credit & Debt Collection Confidence Survey – a quarterly survey of economic and business sentiment in the accounts receivable management industry – has continued to draw the attention of those within and outside accounts receivable management (ARM). Commencing in the second quarter of 2008, the nearly 1,700 respondents of the survey continue to provide a telling gauge of opinions within the industry, and the degradation of confidence among decision makers.

According to one survey respondent in the fourth quarter:

> "*What likely caught many off guard seems to have been the sheer number of consumers that were at the brink, even prior to the economic slowdown. Actual income growth was never inline with increases in costs of living, to maintain the illusion of an increasing standard of living, credit expansion was inevitable. A likely development for 2009 will be more payment arrangements as the economy deals with unemployment and the ARM industry contends with recovery rates.*"

For the survey conducted in the fourth quarter of 2008 we witnessed a continuation of deterioration in the confidence of ARM industry participants from the prior quarter.

Influenced heavily by the souring American labor market, Unemployment took the top spot as the economic factor most negatively impacting the ARM industry.

Of all indicators illustrating the strains of a deteriorating economy on the ARM industry, none is more pronounced than staffing levels. With collections swept into the media spotlight as receivables management has come to play a strategic role for organizations, the sheer volume of accounts currently delinquent or in default would lead many to assume this to be a boon time for agencies. In the fourth quarter alone $6.9 billion dollars of securitized credit card debt was written off, representing a year-over-year increase of 54 percent. But as 2008 ended with jobless levels not seen in decades even the ARM industry, now awash in delinquent accounts, saw staff reductions to end the year.

The turbulent economic environment has another issue confronting creditors and their service providers; that of widespread negative consumer perception. Whether real or imagined, a plurality of survey respondents -- both creditors and collectors -- indicated that consumer perception of the economy will weigh on performance.

How large of an impact will consumer perceptions of the current economic environment have on your ability to collect outstanding receivables? *(1=No Impact; 5=Major Impact)*

ARM Response	**1**	**2**	**3**	**4**	**5**	**Average**
Now	3.1 %	8.3 %	22.0 %	40.2 %	26.4 %	3.78
In the next 6 months	2.4 %	6.3 %	25.0 %	45.2 %	21.0 %	3.76
In the next 12 months	4.4 %	9.6 %	36.4 %	33.6 %	16.0 %	3.47

Creditor Response	**1**	**2**	**3**	**4**	**5**	**Average**
Now	0.0 %	15.0 %	30.0 %	35.0 %	20.0 %	3.60
In the next 6 months	0.0 %	12.8 %	33.3 %	33.3 %	20.5 %	3.62
In the next 12 months	0.0 %	23.1 %	35.9 %	25.6 %	15.4 %	3.33

NOTE: Answers in green indicate the most common response among participants; answers in red represent the least common response.

As consumer confidence trended downward throughout the year, plummeting to historic lows, the ARM industry took notice. Although 22 percent of agency respondents felt consumer perception currently had a neutral impact on their ability to recover outstanding debts effectively, nearly 67 percent believed it had "Some Impact" or a "Major Impact" on their ability to recovery outstanding receivables.

Creditors in comparison seemed less inclined to view consumer perceptions as problematic to their overall recovery efforts, although it is interesting to note that not a single creditor respondent felt consumer perceptions of the economy had "No Impact" on recovery rates.

ARM Companies Survey

Collection Agency Perception of Recovery Performance:

The impact of the recession was pronounced among ARM firms as a group with the percentage of agency respondents reporting "Weak" and "Very Weak" performance increasing from 19.8 percent of respondents in the third quarter to 41 percent of respondents in the fourth quarter.

Agencies reporting "Average" performance declined from 37.1 percent of respondents in during the third quarter to 29.3 percent in the fourth quarter, while those reporting "Strong" and "Very Strong" performance declined from 43.1 percent of total agency respondents to 29.7 percent of the group in the fourth quarter of 2008.

How would you rate the performance of your firm, with regard to collections or portfolio liquidation, and what do you expect for the future? *(1 = Very weak; 5 = Very strong)*

	1	2	3	4	5	Average
4th Quarter 2008 Performance	12.9 %	28.1 %	29.3 %	24.6 %	5.1 %	2.81
Current performance	6.3 %	27.1 %	37.6 %	25.9 %	3.1 %	2.93
Six months from now	2.7 %	18 %	42.7 %	28.6 %	7.8 %	3.21
Twelve months from now	1.6 %	12.5 %	24.7 %	42.7 %	18.4 %	3.64

NOTE: Answers in green indicate the most common response among participants; answers in red represent the least common response.

Longer-term, agencies were inclined to view recovery performance in more optimistic terms. Of agency respondents, a clear majority – 61.1 percent – expect collection performance to be above average next year.

Collection Agency Perception Regarding Account Placements:

The year-over-year increases in both delinquency and charge-off rates across a broad spectrum of credit products has resulted in many creditors attempting to reduce risk by shifting recovery strategies, such as adopting early stage outsourcing and increasing debt sales.

Consequently, there has been substantial growth of inventory in the marketplace and the fourth quarter saw over 56 percent of agencies reporting "Moderate" to "Significant" increases in account placements or portfolios available for purchase.

What is the status of account placements, or available portfolios for purchase, and what are your projections for the future?

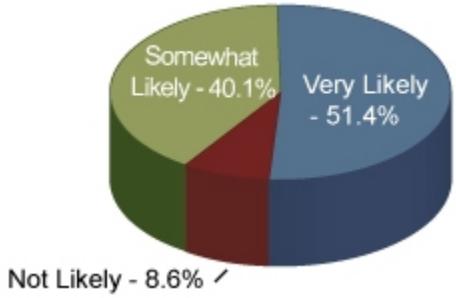
	Significant decrease	Moderate decrease	Neutral	Moderate increase	Significant increase
4th Quarter 2008	5.6 %	11.5 %	26.6 %	41.7 %	14.7 %
Current status	4 %	10 %	24.9 %	41 %	20.1 %
Six months from now	3.6 %	4.8 %	15.5 %	41.4 %	34.7 %
Twelve months from now	1.2 %	5.6 %	19.1 %	33.9 %	40.2 %

NOTE: Answers in green indicate the most common response among participants; answers in red represent the least common response.

Likelihood of Modifying Collection Strategies:

As the percentage of agencies reporting either "Weak" or "Very Weak" performance increased in the fourth quarter, the inclination of the group to modify collection strategies remained high as well.

How likely are you to modify your collection strategies given current economic conditions?



The percentage of ARM firms reporting that they were "Very Likely" to modify their collection strategies increased from 43.7 percent in the third quarter to 51.4 percent during the fourth.

Overall, an aggregate of 91.4 percent of agencies said that it is "Somewhat Likely" or "Very Likely" they will change their collections strategies. These figures remain consistent with those from the third quarter and represent a continued shift in the sentiment of respondents from "Not Likely" to one of the "Likely" responses as the economy has weakened.

The Impact of Macro-level Factors:

As the economy has continued to worsen we asked agencies what economic factors would most impact the collectability of outstanding debt, and to what degree.

As the economy continues to show signs of weakness, how will the following factors impact your recovery efforts? *(1 = Not at all; 5 = Major impact)*

	1	2	3	4	5	Average
Bankruptcy	6.6 %	22.3 %	25.8 %	30.5%	14.8 %	3.25
Health insurance premiums	23.3 %	26.9 %	25.3 %	16.2%	8.3 %	2.59
Unemployment	3.6 %	4.7 %	15.0 %	41.1%	35.6 %	4
Price of food/fuel	4.0 %	15.4 %	31.6 %	31.6%	17.4 %	3.43
Housing market	5.1 %	16.9 %	22.0 %	38.8%	17.3 %	3.46

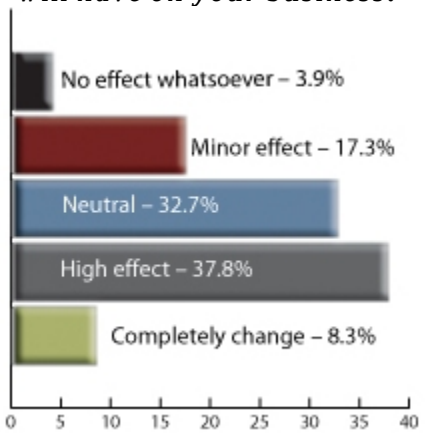
NOTE: Answers in green indicate the most common response; answers in red represent the least common response.

With an aggregate of 76.7 percent of respondents reporting a "Moderate" to "Major" impact from the rising levels of unemployment, it is clear that for agencies, joblessness is the most concerning economic factor. Of all economic factors impacting the collectability of outstanding debt, health insurance premiums ranked lowest among concerns for agencies with 50.2 percent of the group reporting "Low" to "No" impact at all.

Impact of Playing Politics:

With the recent passage of legislation aimed at the credit card market standing as an example of a consumer-friendly Congress, the potential implications of a legislative agenda geared towards consumer protection has been a hot topic within the ARM industry.

What kind of effect do you think the new Presidential administration and Congress will have on your business?

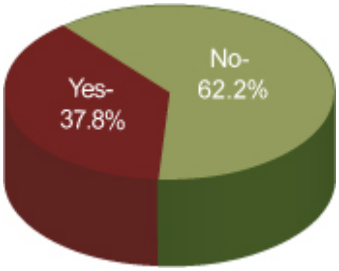


As a group, nearly half (46.1 percent) of agencies reported that they believed the new Presidential administration and Congress would have a "Moderate-high" effect on their business or would pass new laws that would completely change the ARM industry. But a moderating force remained among the group as 32.7 percent of agencies reported that the new administration and Congress would have a "Neutral" effect on their business.

Staffing Levels in the ARM Industry:

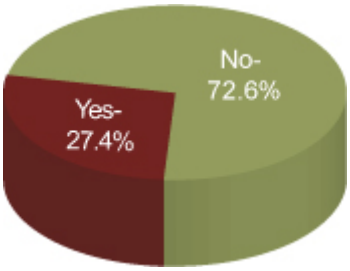
After a year of gut-wrenching news of layoffs and job losses, we thought it would be interesting to gauge whether the collection industry had fallen into the same pattern of mass layoffs.

Did you eliminate any positions or lay off workers in the 4th Quarter of 2008?

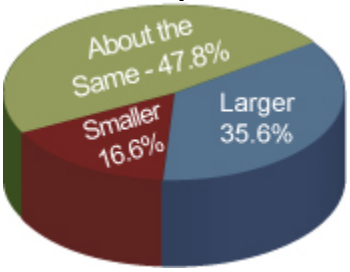


The fourth quarter of 2008 was not a good time for collection workers, as 37.8 percent of respondents reported jobs cuts. And survey participants indicated job cuts would continue in 2009, although to a lesser degree.

Do you plan to eliminate any positions or lay off workers in the 1st Quarter of 2009?



Do you expect the size of your staff to be smaller, greater or about the same six months from now?



Creditor Survey

Creditor Recovery Performance:

Of creditor respondents an aggregate of 29.2 percent reported "Strong" and "Very Strong" performance, up from 27.2 percent and 26.9 percent in the second and third quarter respectively.

How would you rate the performance of your internal recovery efforts, and what do you expect for the future? *(1 = very weak performance; 5 = very strong performance)*

	1	2	3	4	5	Average
4th Quarter 2008 performance	9.8 %	34.1 %	26.8 %	14.6 %	14.6 %	2.9
Current performance	4.9 %	36.6 %	24.4 %	24.4 %	9.8 %	2.98
Six months from now	7.5 %	20.0 %	32.5 %	30.0 %	10.0 %	3.15
Twelve months from now	9.8 %	17.1 %	22.0 %	36.6 %	14.6 %	3.29

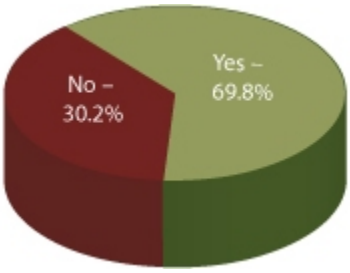
NOTE: Answers in green indicate the most common response among participants; answers in red represent the least common response.

A telling sign some creditors have been able to modify collection strategies to mitigate risk during the economic downturn has been the quarter-over-quarter improvement in the percentage anticipating "Weak" and "Very Weak" internal recovery performance in the long-term. For the period six months from now, the percentage of creditors expecting "Weak" or "Very Weak" recovery performance declined to 27.5 percent from 46.5 percent during the third quarter.

Creditor Perception of External Recovery Performance:

Most of the creditors that participated in the survey outsource at least some part of their recovery or collection operation.

Do you outsource any part of your recoveries or collections?



Of the nearly 70 percent of creditor respondents who outsource some portion of their recoveries the fourth quarter saw 60 percent reporting that external collections performance was either "Weak" or "Very Weak." There was moderate improvement moving into 2009, as 53.3 percent of creditors held the same sentiment.

If "yes" to the above, then in your opinion how is your service providers' recovery performance faring, and how will it fare in the future? *(1 = Very weak performance; 5 = Very strong performance)*

	1	2	3	4	5	Average
4th Quarter 2008 Performance	3.3 %	56.7 %	13.3 %	26.7 %	0.0 %	2.63
Current performance	3.3 %	50.0 %	23.3 %	23.3 %	0.0 %	2.67
Six months from now	10.0 %	20.0 %	46.7 %	20.0 %	3.3 %	2.87
Twelve months from now	10.0 %	16.7 %	26.7 %	43.3 %	3.3 %	3.13

NOTE: Answers in green indicate the most common response among participants; answers in red represent the least common response.

For the period six months from now, creditors expecting "Weak" performance from their service providers declined to 20 percent, a sharp improvement from the 49.3 percent that answered the same way in the third quarter's survey. Meanwhile, creditors expecting "Average" performance increased to 46.7 percent, while those expecting "Strong" performance increased to 20 percent. These figures were up from the 34.3 percent expecting "Average" and 7.5 percent expecting "Strong" performance six months hence in the third quarter survey.

For the period twelve months from now, further optimism was shown with more than 43 percent of creditors expecting "Strong" performance from their service providers, a dramatic increase from 9.2 percent holding the same opinion during the third quarter of 2008.

Impact of Macro-Level Economic Factors:

In the midst of the current recession the macroeconomic factors that have hampered the broader economy for nearly two years have also produced concerns for creditors in regards to overall recovery efforts.

As the economy continues to show signs of weakness, how will the following factors impact your recovery efforts? *(1 = Not at all; 5 = Major impact)*

	1	2	3	4	5	Average
Bankruptcy	7.7 %	5.1 %	28.2 %	33.3 %	25.6 %	3.64
Health insurance premiums	21.6 %	32.4 %	24.3 %	13.5 %	8.1 %	2.54
Unemployment	2.6 %	7.7 %	35.9 %	20.5 %	33.3 %	3.74
Price of necessities (food/fuel)	5.1 %	12.8 %	28.2 %	38.5 %	15.4 %	3.46
Housing market	5.0 %	20.0 %	25.0 %	30.0 %	20.0 %	3.4

NOTE: Answers in green indicate the most common response among participants; answers in red represent the least common response.

As nearly 3.5 million people were added to the roster of the nation's jobless, among economic factors perceived as having a "Major" impact on recovery efforts, unemployment was viewed by largest percentage of creditors (33.3 percent) as having the most detrimental effect.

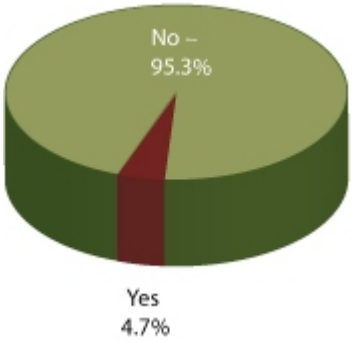
Along with unemployment, creditors viewed the rising levels of bankruptcy with concern as 58.9 percent reported bankruptcy as having either a "Significant" or "Major" impact on recovery efforts. With over 1.1 million bankruptcy filings during the course of 2008, and continued increases in bankruptcy activity during the start of 2009, this sentiment amongst creditors is likely to remain.

Impact of Playing Politics:

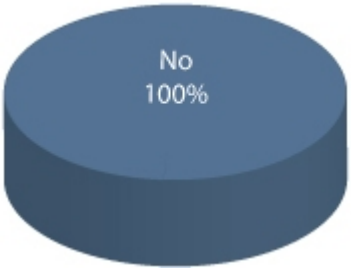
From the Troubled Asset Relief Program (TARP) to the Term Asset-Backed Securities Loan Facility (TALF), the spotlight now being shone on government action within the financial services industry has never been brighter.

We asked about participation in some of the programs the Treasury Department and Federal Reserve launched in the fourth quarter of 2008.

Has your company received any TARP or TALF (or other financial rescue) funds?



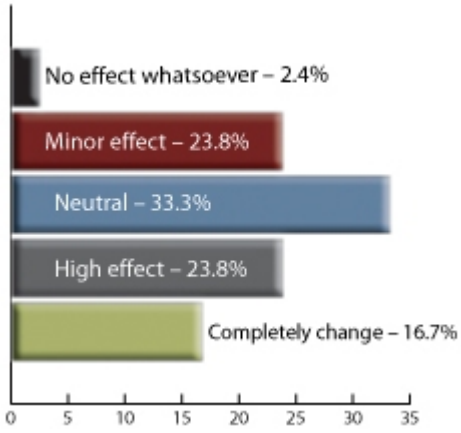
If "yes" to the above question, has your company increased its consumer lending since receiving the funds?



Government rescue programs did not appear to be a big factor among creditors taking the survey for the fourth quarter. It will remain to be seen if this trend continues over 2009.

When asked about the potential impact of a new political environment 40.5 percent of creditors reported that they believed the new Presidential administration and Congress would have a "Moderate-high" effect on their business or would pass new laws that would completely change their industry. Although below the 46.1 percent of agencies holding the same sentiment, the percentage of creditors responding that new laws would completely change their industry was 16.7 percent compared to just 8.3 percent of agencies.

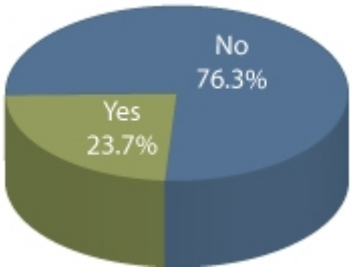
What kind of effect do you think the new Presidential administration and Congress will have on your business?



Staffing Levels among Creditors:

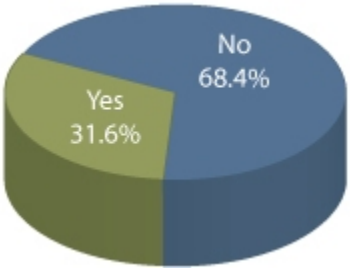
With announced layoffs amounting to the tens of thousands among some of the nation's largest financial institutions, we thought it would be interesting to gauge whether the recovery departments of our creditor respondents had also experienced significant layoffs.

Did you eliminate any positions or lay off workers in the 4th Quarter of 2008?

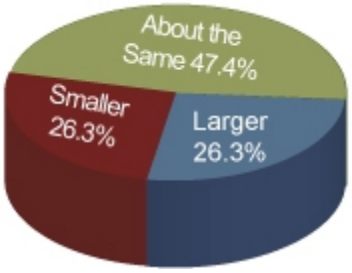


Although faring better than their agency counterparts, the fourth quarter of 2008 was a difficult time for creditor recovery departments as 23.7 percent of respondents reported jobs cuts. And survey participants indicated job cuts would continue in 2009.

Do you plan to eliminate any positions or lay off workers in the 1st Quarter of 2009?



Do you expect the size of your staff to be smaller, greater or about the same six months from now?



Vendor Survey

Vendor Perceptions of Business Performance:

As a group, vendors to the ARM industry – which include technology and service providers – appeared to have been heavily impacted by the economic climate during the fourth quarter of 2008, with 38.7 percent of respondents reporting either "Poor" or "Weak" performance. Although moderating a bit in the current performance timeframe, the 18.8 percent of vendors reporting "Weak" performance was a substantial increase from the 9.5 percent holding the same impression during the third quarter of the year.

How would you rate the performance of your firm and what do you expect for the future?

	Poor	Weak	Average	Strong	Excellent
4th Quarter 2008 Performance	9.7 %	29.0 %	32.3 %	25.8 %	3.2 %
Current performance	0.0 %	18.8 %	50.0 %	25.0 %	6.3 %
Six months hence	0.0 %	6.5 %	35.5 %	45.2 %	12.9 %
Twelve months hence	0.0 %	3.1 %	21.9 %	53.1 %	21.9 %

NOTE: Answers in green indicate the most common response among participants; answers in red represent the least common response.

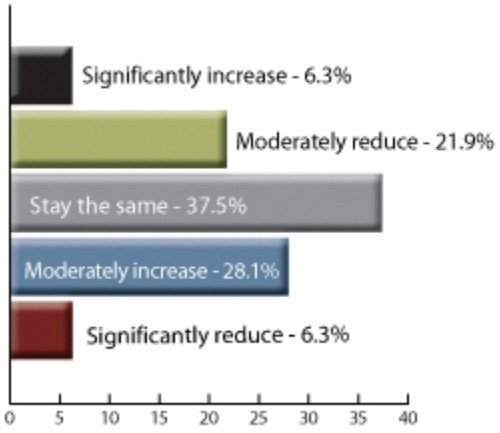
While the start of 2009 has proven challenging, longer-term vendor perceptions of business performance improve markedly as 50 percent of the group reported expectations of "Average" performance six months from now, while 25 percent expect "Strong" business performance during that timeframe.

In the period twelve months from now, a rosier disposition regarding business performance prevails with a majority (53.1 percent) expecting "Strong" business performance and 21.9 percent expecting performance to be "Excellent."

Vendor Marketing Intentions:

In the face of a challenging economy vendors to the ARM industry maintained their marketing strategies in reaching out to prospective clients, with a moderate increase in those planning to spend more.

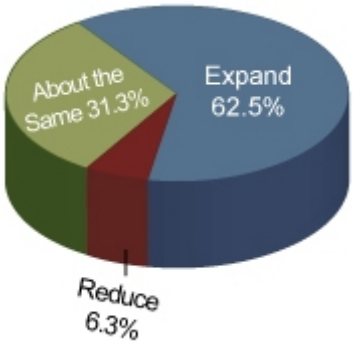
How will you adjust your marketing budget in the coming six months as a result of economic conditions?



In the fourth quarter, 28.2 percent said that they would either "Significantly reduce" or "Moderately reduce" their marketing budgets in the next six months, compared to 34.7 percent of vendors reporting the same

intention during the third quarter. Of vendor respondents 37.5 percent expected to maintain the same level of marketing, up slightly from 36.8 percent in the quarter prior. As a potential indicator that stronger vendors to the industry are seizing on the opportunities left by those reducing their marketing budgets, the percentage of vendors expecting to either "Moderately increase" or "Significantly increase" their marketing budgets rose to 34.4 percent from the 28.5 percent of vendors with the same intention during the third quarter.

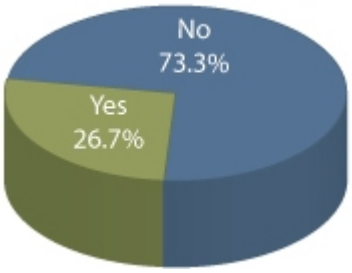
Do you plan to expand or reduce your service offerings as a result of current economic conditions?



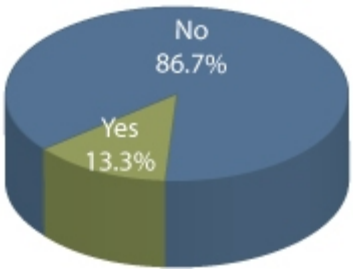
Staffing Levels among Vendors:

Similar to the patterns seen for both agencies and creditors, staffing among vendors to the ARM industry was also impacted by the economic environment.

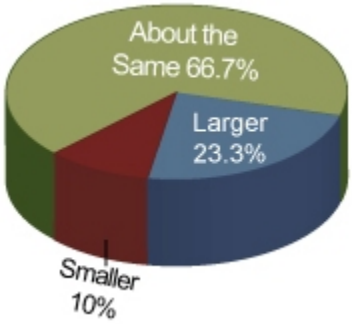
Did you eliminate any positions or layoff workers in the 4th Quarter of 2008?



Do you plan to eliminate any positions or layoff workers in the 1st Quarter of 2009?



Do you expect the size of your staff to be smaller, greater or about the same six months from now?



4th Quarter Credit & Debt Collection Confidence Survey – Demographic Data

Confidence Survey Totals

Total surveys taken: 491

Company Types

ARM Firm – 76.5%

Creditor or Healthcare Provider – 13.1%

Vendor to the ARM industry – 10.4%

Company Type Breakdown – ARM Firm

Collection Agency – 71.8%

Law Firm – 8.7%

Debt Buyer – 19.6%

Company Type Breakdown – Creditor

Consumer loan/credit card issuer – 49.3%

Healthcare provider – 3%

Other – 47.8%

ARM Firm Specialization Demographics

Financial Services (credit card, bank loans, etc.) – 54.7%

Healthcare – 26.3%

Other – 19%

ARM Firm Location Demographics

Northeast – 18.5%

- New England -17.2%
- Mid Atlantic – 82.8%

South – 27.1%

- South Atlantic – 52.6%
- East South Central – 14.7%
- West South Central – 32.6%

Midwest – 29.9%

East North Central – 64.7%

West North Central – 35.3%

West – 16.5%

Mountain – 31%

Pacific – 69%

Outside US – 8%

Canada – 35.7%

Europe – 35.7%

Asia/Pacific Region – 14.3%

Central/South America – 10.7%

India – 3.6%

Creditor Specialization Demographics

Financial services (credit cards, consumer loans, etc.) **-** 54.5%

Other - 45.5%

Creditor Location Demographics

Northeast – 21.9%

New England -57.1%

Mid Atlantic – 42.9%

South – 26.6%

South Atlantic – 50%

East South Central – 18.8%

West South Central – 31.3%

Midwest – 23.4%

East North Central – 80%

West North Central – 20%

West – 20.3%

Mountain – 16.7%
Pacific – 83.3%

Outside US – 7.8%
Canada – 40%
Europe – 20%
Asia/Pacific Region – 40%
Central/South America – 0%
India – 0%

Vendor Location Demographics

Northeast – 20%
New England -50%
Mid Atlantic – 50%

South – 33.3%
South Atlantic – 50%
East South Central – 7.1%
West South Central – 42.9%

Midwest – 17.8%
East North Central – 57.1%
West North Central – 42.9%

West – 22.2%
Mountain – 50%
Pacific – 50%

Outside US – 6.7%
Canada – 0%
Europe – 66.7%
Asia/Pacific Region – 0%
Central/South America – 0%
India – 33.3%

