

Collections & Credit Risk

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PRESS CLIPPING

Connecting in the Wireless Telecom Market

Industry consolidation and low credit standards are making the wireless world a tricky one for collection agencies and debt buyers to profit in.

Experiences with cellular carriers illustrate some key lessons when it comes to collecting on wireless telecom debt, namely:

- Getting work from a carrier depends on relationships in an industry that sees a lot of transience.
- The early days of the wireless industry with multiple small carriers have given way to today's market, which is dominated by a handful of major companies like Verizon, Cingular, Sprint, U.S. Cellular and T-Mobile.
- Collecting telecom debt is difficult. Litigation can help but also can add significantly to costs.

Today's big carriers are so large and few and far between that it is difficult for most collectors or debt buyers to develop new business relationships with them.

There is, however, a brisk wireless telecom debt resale market, where a plethora of debt buyers regularly buy and resell telecom debt for more than they paid for it – even if they have already scored and worked it.

In part that's because of the high price of credit card debt, which has pushed buyers into alternative asset classes, and in part it's because this is the only way for many buyers to get telecom portfolios if they don't have access to a wireless carrier.

A Seller's Market

Prices for telecom debt have doubled in recent years. Bob Nemhauser, director of development for major buyer Genesis Financial Solutions, cites an instance two years ago when his company bid 1.25 cents on a portfolio.

The client wanted 1.5 cents, Nemhauser says, and Genesis believed it was stretching itself to even bid 1.25 cents. But the portfolio ended up selling for 2.5 cents on the dollar. It seemed like an extravagant price – paid by a large public debt buyer – but quickly became the norm. And then doubled again.

Today, freshly charged-off wireless telecom paper sells for 8 to 13 cents on the dollar, according to an informal poll of several debt buyers.

“Prices have really been over-inflated the last couple of years,” says Arnie Harris, president and CEO of Chicago-based Harris & Harris, a debt buyer and revenue recovery firm with over 200 employees.

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Harris & Harris is a Chicago-based debt buyer and revenue recovery firm with over 200 employees. Harris & Harris is capable of handling a high-volume of accounts with advanced technology to ensure strategic and secure operations.



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“If you’re buying from a sophisticated debt buyer, you may be paying 25% more for a portfolio than from the original creditor, and maybe more,” says Harris. “It’s all based on relationships, and most people don’t have direct relationships with the original creditors.”

Despite the disadvantages, buyers have been flooding the market the last five years. Part of the reason is the rising price of credit card debt, 12 to 14 cents for fresh paper, making other asset classes more attractive.

The dearth of original creditors means resellers have been able to demand high prices for their portfolios, but Hess says that may be slowing down. He has watched several telecom portfolios sit for months on the market, too expensive to attract bidders.

Harris adds that some carriers, worried about bad publicity raised by overly aggressive collection techniques, are beginning to contractually restrict sales of their portfolios.

Big, Demanding Clients

Several debt buyers who outsource their collections say they pay agencies more than 30% contingency fees.

Genesis, which uses 80 to 100 agencies, pays 35% and 50% depending on the age of the debt, Nemhauser says.

Asta pays its agencies more to collect telecom debt than credit card debt, says CEO Gary Stern.

“We will pay a higher fee for an agency to collect a \$300 balance than a \$1,000 or \$2,000 balance,” said Stern during a Dec. 15 conference call with investors.

“We want to make sure that collectors will work these accounts. You cannot pay an agency 30% to collect the \$300 or \$200 balance – you can fool yourself and say it looks good, (and) we’ll say yes, but the results won’t be very good. So we are very, very sensitive with this, sensitive to make sure the right thing is done.”

But the same does not seem to be true for big carriers. Often giving agencies millions of accounts a month for collection, carriers demand lower contingency fees and higher recovery rates.

Several agencies say their fees for primary paper are below 20%, and that the carriers want to see recoveries rates around 15% to 20%.



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Can You Pay Me Now?

One quirk of telecom debt is that older accounts are sometimes more lucrative than fresh charge-offs.

That’s because many older accounts originated when cell phones were more expensive and so their owners were usually better off financially and are better able to pay off old bills.

“Now it’s a different animal,” Harris remarks.

No credit application is required to get a cell phone. Documentation is often poor. Incentive for repayment is low once air time is used. Customer disputes are frequent. Using litigation to recover unpaid bills is rare, and debtors realize that a low balance means a lawsuit is unlikely.

Poor documentation and high volumes make skip-tracing one of the most important tools for collecting telecom debt, experts say.

With the high volume, skip-tracing costs can get very high.

“We have to send out lots of notices, make lots of phone calls. It’s an extremely thin margin (of return). But the costs are the same,” Hess says.

Returns on telecom portfolios are between half and three-quarters of returns on credit card portfolios, says Nemhauser. “If you expect an annual return of 3% a year (on credit card portfolio), you might see only 1.5% a year on comparably aged telecom paper,” he says. “It doesn’t pay out the same.”

Big Ball Game

The high volume of accounts is one of the bright spots in the litany of challenges facing telecom debt collectors.

“It’s not uncommon to place five to 10 million per month in accounts – and they’re all \$400 balances,” says Harris.

But smaller agencies will have a more difficult time working lots of accounts that demand sophisticated skip-tracing software and lots of employees.

Many predict that the consolidation on the carrier side will force consolidation on the back end as well.

“As consolidation continues in the telecom industry, unfortunately creditors will have very few options as to (how many) agencies can handle their volume,” says Harris.

That could be bad news for smaller agencies looking for work from the major wireless carriers.