



## **MEDIA FACT SHEET – DEBT SALE AND PURCHASE**

### **What is Debt Sale?**

Debt Sale is the selling on of a debt by a business to a third party (a 'Debt Buyer'), for collection, at an appropriate price. The price is determined by the 'quality' of the debt, and may range from a few pence in the pound (or less) for so-called 'gone away' or warehoused portfolios, up to 80 or more pence for the better quality debts with commensurately a better chance of recovery.

Debt has been sold in the UK for c15 years and the annual market is estimated to be worth approximately £7 billion.

### **Who sells debt?**

Typical sellers tend to be the banks, building societies, utilities, mail order companies, car loan businesses etc., i.e. any organisation that extends credit in large volumes. Even the most unlikely debt has a market value.

### **What advantages are there in a business selling debt.**

The principal advantage is that it provides a business with the certainty of a guaranteed cash injection, supporting P&L and balance sheet needs. This can be critical to both Financial Controller and company alike. Debts that might otherwise have to be 'written off' will achieve some value.

The more 'added-value' advantages include freeing up credit managers and their teams to focus on more 'value-efficient' activities. Rather than chasing apparent 'lost causes', they can devote time to improving forward cashflow and early collections. Easing the administrative burden also helps to ease costs.

### **How does it work?**

A typical scenario would involve a bank, credit card company, utility etc. with a large volume of debt that has reached the end of the collection process: it has been through both the bank's own 'in-house' agency, and will usually have been referred to an external Debt Collection Agency (DCA) and often – once the 'non-payers' have been re-called - to another DCA. Finally it has been written off as 'uncollectable'.

The portfolio will be offered for sale, and a price agreed based on the 'quality' of the debt, its age, and the likelihood of recovery.

#### **What are the key issues/concerns?**

The principal accusation levelled at the sellers is that they have somehow washed their hands of the debt. Buyers, meanwhile, are accused of using any means to recover the debt, and failing to protect the reputation of the original creditor. In fact, debt sale is highly regulated, and buyers understand the need to safeguard the reputation of their seller.

The media tends to position debt sale as being 'new', even though it has been in existence for some 15 years; there have also been reports that banks etc are only now starting to sell debts because they are 'desperate' to achieve some return.

Because of the age of the debt, 'tracing' tends to be a regular requirement, and many of the issues traditionally associated with the debt collection industry per se in fact relate to incidents when a debt has been sold on (see *Consumer Fact Sheet and Advice Guide on Tracing*).

#### **What the industry says**

Sellers undertake rigorous due diligence before any potential purchaser is added to the 'panel' and allowed to bid for their debt. Creditors have no more wish to put their reputations at risk after a sale than in a traditional commission-based scenario. Equally, buyers work hard to ensure an appropriate value is put on the portfolio, and to maximise the accuracy of customer data supplied to them, usually through access to Credit Reference Agency (CRA) data.

The original creditor will always be responsible for the behaviour of the collecting agent or purchaser, and many of the obligations laid down in the Consumer Credit Act rest with the seller. Post-sale arrangements are put in place so that the seller and buyer can work together to ensure customer queries and complaints are efficiently handled.

#### **The debt buyers and sellers group**

The DBSG, part of the Credit Services Association, is a body of more than 80 buyers, sellers, funders and CRAs formed in 2004 to promote best practice in debt sale, and to represent the industry in liaising with the government and regulators, including BERR, OFT, OFCOM, ICO and FOS. The DBSG has developed its own Code of Conduct, Best Practice Guidelines, and promotes UK debt sale throughout Europe, the US and Canada.

**FOR FURTHER INFORMATION PLEASE CONTACT THE CSA – 0191 286 5656**

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