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PORTFOLIO RECOVERY ASSOCIATES INC. *Norfolk, Virginia*

Debt Collector Is Charged Up Over Trends

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INVESTOR'S BUSINESS DAILY

Americans aren't afraid of leverage.

Consumer debt balances have more than doubled in the last 10 years. Debt payments eat up about 18% of disposable income, according to Federal Reserve data.

Add rising rates to the mix, and stretched-thin borrowers with heavy credit card balances are likely to find it even harder to pay the bills.

Portfolio Recovery Associates[PRAA] steps in when these borrowers default on their loans.

The firm pays two to three cents on the dollar for portfolios of unpaid consumer loans sold by lenders that have given up on recouping payments. Its 600-plus collectors then start coaxing debtors — who typically have already rebuffed several collection agencies — to pay up.

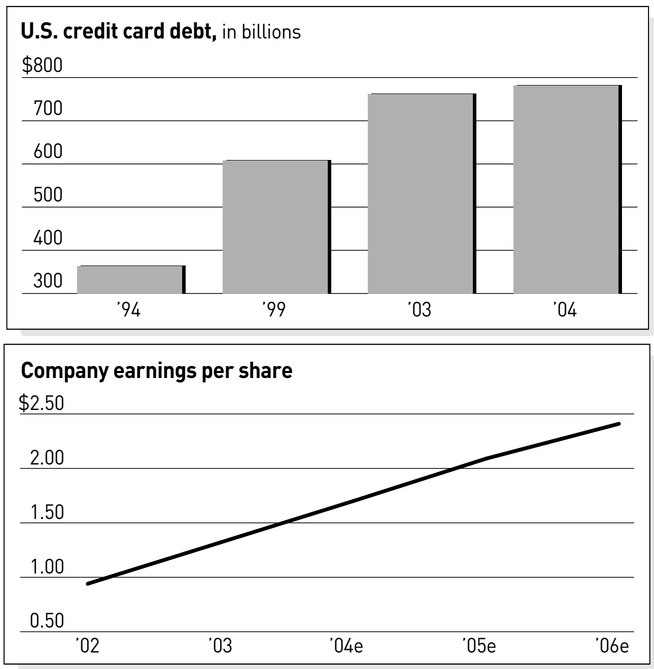
Portfolio Recovery expects to earn three to four times what it paid for the portfolio over several years.

It tries to differentiate itself from competitors such as Encore Capital Group[ECPG], Asset Acceptance Corp.[AACC] and Asta Funding[ASFI] by employing more experienced collectors and pricing the debt it buys more accurately.

Last year the company made an average $117.85 in recoveries for every hour paid to its collectors, up from $108.27 in 2003.

Debt Of Gratitude

The nation's rising tide of consumer debt means steady business for Portfolio Recovery, which buys up bad-debt portfolios on the cheap and tries to collect the money itself



Sources: Federal Reserve, First Call

Portfolio Recovery was scheduled to report earnings after the close on Tuesday. First Call analysts projected profit of $1.70 a share for the full year, up 29% from 2003.

One item Wall Street wants to see from the firm is how much it's been able to expand its portfolio of loans.

In last year's third quarter, Portfolio recovery bought $564 million in defaulted loans, up 75% from a year earlier.

"When we hit a period where we have high prices, we have flexibility to pare back on purchases," Chief Executive Steven Fredrickson of the decline. "We have (the) ability to build up cash when prices are too high and live off older portfolios."

In any event, observers say the big picture favors firms like Portfolio Recovery.

Besides increasing levels of consumer debt, the turn of the economic cycle could give profit a boost. Rates on short-term consumer loans like credit cards closely track the federal funds rate. That's risen 150 basis points since last June.

Portfolio Recovery Associates
portfoliorecovery.com

Ticker	PRAA
Share price	Near 37
12-month sales	$104 mil
5-year profit growth rate	92%

IBD SmartSelect Corporate Ratings

Earnings Per Share	95
Relative Price Strength	77
Industry Group Relative Strength	C+
Sales+Profit Margins+ROE	A
Accumulation/Distribution	E

See investors.com for more details

Consumers, faced with higher loan payments on card balances, are likely to default more as rates rise. That would provide more loans for Portfolio to buy.

"The thought is, if rates go up, that would lead to higher charge offs and so more supply for PRAA," said Stephens & Co. analyst Joseph Chumbler.

He estimates $2 trillion, or 25% of all outstanding consumer debt including mortgages, carries a variable rate.

Portfolio Recovery uses its own cash reserves to expand, so higher rates shouldn't increase its cost of capital.

Meanwhile, companies besides credit card issuers — from phone companies and auto finance firms to health clubs — are increasingly loath to hang onto defaulted obligations. They're putting their own bad consumer portfolios up to auction.

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"We've seen growth in the bad debt sale market from next-to-nothing 10 to 12 years ago, to a fairly good-sized market today," CEO Fredrickson said.

Survivor

Portfolio Recovery is one of a handful of firms to outlast an overexpansion in the relatively young sector. That expansion led to the failures of Commercial Financial Services in 1998 and Creditrust two years later.

In some ways, the environment hasn't ever been as ripe for bad-debt buyers as it was in the late 1990s. Growth in outstanding credit card debt, while still on the rise, has slowed from an average 9% annual increase in the second half of the 1990s to about 3% since 2000.

Charge-off rates also have declined to 6.34% of U.S. credit card debt outstanding vs. 7.5% in April 2003, says Standard & Poor's.

A mortgage product known as a cash-out refinancing has soaked up much of the outstanding credit card debt, says S&P chief economist David Wyss.

Smaller pools of bad debt up for sale would be worrisome for Portfolio Recovery. But other sources have made up for a slowdown in credit card debt.

Phone companies, utilities, auto loan companies and bankruptcy assets are increasingly selling bad debt to other parties.

In last year's third quarter, about 30% of the loans Portfolio Recovery purchased were in accounts other than Visa and MasterCard.

And at least one big bank foresees higher defaults among its card customers. Last month Bank of America[BAC] said it expects its credit card net charges to increase 25% this year to more than $3 billion.

Portfolio Recovery also has expanded beyond tracking down loan payments. In October it made its first acquisition as a publicly traded company, paying $14 million for a firm that tracks down collateral for auto lenders and coordinates auto repossessions.