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"Debt Collector Gives Thanks To Roaring '90s "

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With the economy rebounding and job prospects looking up in 2005, it's no surprise Americans are taking on more debt.

The Federal Reserve Board reports that total outstanding consumer credit stands at more than \$2.09 trillion.

That figure doesn't include mortgages and debt secured by real estate, though it does include \$788.9 billion in credit card and other revolving debt, as well as \$1.3 trillion in installment debt such as car loans.

All of this outstanding, unsecured credit has become big business for debt purchasers and collectors such as Asta Funding (NasdaqNM:[ASFI](#) - [News](#)).

U.S. collection agencies have tripled their income in the past 10 years. They currently rake in \$16.5 billion a year.

That windfall won't exactly warm the hearts of folks who rank debt collectors just ahead of cockroaches in the evolutionary scheme of things.

But industry insiders say collectors -- despite their bad reputation in some circles -- actually help consumers in the long run.

The American Collectors Association estimates that the collection industry saves the typical American family \$331 a year.

The estimate represents the money Americans would have spent if businesses raised prices to cover bad-debt losses instead of hiring collection agencies.

Collectors get their leads by buying debt portfolios from credit card companies and other lenders who've given up trying to collect. Asta scouts the market for portfolios it can buy for cents on the dollar, then turns around and collects as much of the debt as possible.

The company focuses on credit card, telecom and utilities debt. Its model is unique because it outsources 95% of its collections while keeping a staff of only 40 or so collectors to take care of the rest in-house.

"Their competitors focus more on investing in call centers and training collectors," said analyst Joe Chumbler of Stephens Inc.

Asta's setup gives the company flexibility to quickly adjust to market conditions. When there's a lot of debt to buy at reasonable prices, Asta simply outsources more work.

"We're not under pressure to buy or overpay for debt portfolios to keep staff working," said Asta Chief Executive Gary Stern. "And we can buy a big amount of debt without large overhead increases."

The success of Asta's lean and flexible outsourced collection model is evident in difficult purchasing periods.

In its fiscal fourth quarter ended in September, Asta's cash collections declined about 18% from the prior year. Analyst Chumbler says that was primarily due to a strong ramp up in debt purchases at higher prices in the previous quarter.

But Asta still managed to take in \$14.8 million in quarterly revenue, up 32% from a year earlier. Earnings gained 48% to 46 cents a share.

Asta ended the year with earnings of \$1.56 a share vs. \$1.13 in fiscal 2003.

"Asta's model allows them to curtail purchases if debt prices are prohibitive and expected returns too low," Chumbler said.

The cost of buying debt portfolios has trended higher recently. It's risen to 50% in some cases, says Doug Wilwerding, president of Omaha-based industry tracker Omnium Worldwide.

Why are prices going up? Part of it can be traced to the robust economy of the 1990s, when consumer confidence was high and Americans were spend happy.

By 2000, credit card debt had more than doubled from a decade earlier to \$800 billion. Then the economy tanked, 9-11 hit and credit card debt growth slowed to 2% to 3% between 2000 and 2003.

Last year credit card debt actually contracted, Chumbler says, largely because low interest rates led consumers to get other kinds of loans.

Since a lot of that debt left over from the '90s still needs to be collected, the collection market also became flooded with other players looking to grab a piece of the action.

"Private investors and hedge funds discovered the business," Chumbler said. "The idea that you could buy debt for 3 to 4 cents on the dollar and make a big profit attracted a lot of new money to the industry. That made it tougher for Asta."

He says the influx of new investors has pushed the price of debt portfolios to an irrational level. In theory the trend will eventually work its way through and prices will return to normal. So far that hasn't happened.

Despite the challenging environment, Asta continues to find attractive portfolios to purchase. Through September it had purchased \$68 million in debt, while its publicly traded peers have invested \$35 million to \$55 million.

First Call analysts expect the company to earn \$1.86 a share in fiscal 2005 and \$2.13 a share the following year.

"Asta is very successful at finding deals because of their long-standing relationships with debt sellers," Chumbler said.

CEO Stern says Asta sometimes gets leads from collection agencies it works with.

"In instances where we have to pay more, we make sure that we're buying good debt -- that it's a more asset-rich portfolio," he said.

For now, Stern doesn't foresee expanding into other areas. He prefers to stick to what he knows best -- credit card, telecom and utilities debt -- even if other areas are growing more rapidly.

Health care debt collection has been on the rise recently as hospitals struggle to deal with rising medical costs.

"As a percentage of growth, health care debt is growing fastest, although credit card debt is still the largest in absolute dollars," Omnium's Wilwerding said.

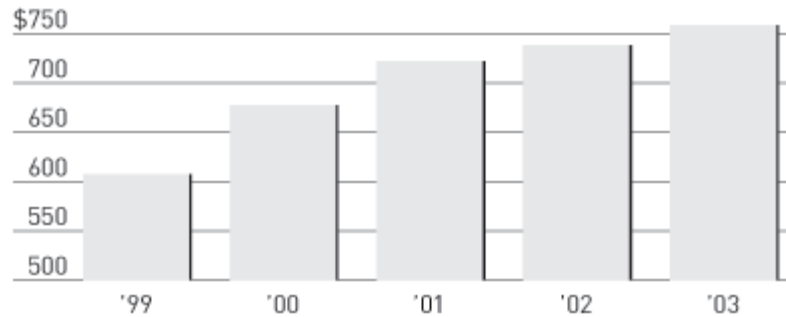
Analyst Audrey Snell of Brean Murray says Asta is all the wiser for staying away from health care debt. Pricing and recovering health care debt can be tricky, she says.

"Health care debt purchasing and collection requires special expertise," Snell said. "You need a special understanding of the way insurance and government reimbursements work."

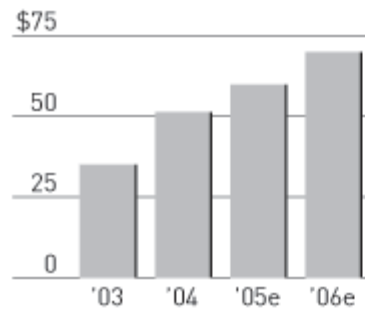
Pay Up!

As consumer's debt continues to rise, Asta Funding keeps finding ways to make them pay up

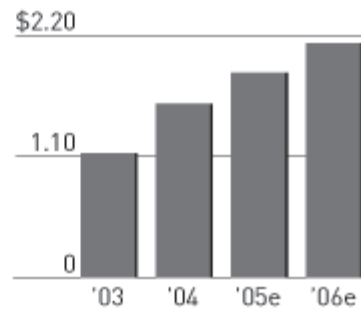
Revolving outstanding consumer debt,* in billions



Asta revenue, in millions



Asta earnings per share



Sources: The Federal Reserve, Stephens Inc., First Call

*U.S. industrywide figure