DEBT INDUSTRY TRACKER

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1 UK News

1.1 Consumer Debt

1.1.1 More Brits concerned about their ability to manage debts

New research from Moneyexpert.com has revealed that almost one third of the people who owe money are concerned about their ability to control their borrowing.

In spite of this, almost 27 percent of respondents admitted that they have increased their borrowing in the last three months. One of the reasons for this could be the use of credit cards for Christmas shopping. However, 26 percent of consumers reported that they have managed to cut the amounts they owe and six percent of these said they had succeeded in reducing their debts by over 20 percent. The Bank of England said total debt levels rose by GBP 600m in December. 47 percent consumers in the UK now owe money on their cards compared to 41 percent in the earlier quarter. Personal loans and overdrafts have also seen marginal increases of one percent each. A whopping 41 percent (12.7 million) of people said they were not concerned about their ability to cope despite being in debt.

Sean Gardner, chief executive of MoneyExpert.com expressed his worry over the fact that merely 33 percent of the people owing money were concerned about their debt management. Although he acknowledged that the interest rate cuts in December 2007 and February 2008 would definitely help, he stressed that it would finally be the borrowers' prerogative to take action themselves. People could either consolidate their debts with a loan or just juggle their borrowing onto cheaper products. In either case, they should opt for a suitable repayment plan.

1.1.2 Credit Action warns that Brits at risk of incurring dangerous levels of debt

Credit Action, a debt charity has asserted that consumers using their credit cards to pay their monthly household bills are at risk of incurring dangerous levels of debt. Chris Tapp from Credit Action said that though retail figures fell during Christmas compared to the previous year, credit card debts were still high. This indicates people are using credit cards to pay household utility bills.

Association of Payment Clearing Services (Apacs) figures revealed that GBP 32.4bn (second highest figure recorded by the association) was spent on credit cards by Britons during the last quarter of 2007. Although there was a decline in spending on the UK's high streets over the Christmas season, there was a rise in credit card spend leading analysts to believe that this year's rise could be because people are now shifting their mounting household expenses (for gas, electricity and other utility bills) on to credit cards. This could however mean that millions of Brits are at risk of incurring dangerous levels of debts in future.

1.1.3 FSA warns of worsening conditions

Financial Services Authority (FSA) retail managing director Clive Briault has cautioned mortgage lenders to be wary of a worsened economic situation that appears imminent now. The economic climate, in terms of both liquidity and credit risks, is expected to further worsen in 2008. He warned that more lenders could become cash-strapped due to an increase in defaults and a shortage of funds. He advised firms to assess their funding and liquidity positions. Lenders should ideally also review and assess their medium and longer term strategies and the available options allowing for contingency plans in case of the worst possible outcomes.

KPMG has already predicted that 130,000 people will opt for individual voluntary arrangements (IVAs) in 2008. The Royal Institute of Chartered Surveyors has also forecast that home repossessions are expected to increase by 50 percent in 2008.

According to the FSA, more than 1.4 million borrowers could see a substantial increase in their loan repayments as their short-term fixed rates come to an end, proving unaffordable for many. In the '2008 Financial Risk Outlook' published by the FSA, the regulator has warned that consumers as well as investors could lose confidence in some parts of the financial system. It plans to take an urgent look into whether lenders are complying with regulations and treating customers fairly in their practices for the handling of mortgage arrears and possessions.

1.1.4 Brits burdened by guilt of 'secret debts'

According to research conducted by credit firm Abbey Loans, 1.35 million Brits have accumulated a total of GBP 7.7bn in secret debts without disclosing them to their partners or immediate family members because they are too embarrassed about it. Almost 57 percent of them have borrowed to pay off existing debts. The survey revealed that those in the age group of 35 to 44 were most likely to take a secret loan while those in the age group above 65 were least likely to take a secret loan.

33 percent of the people who have taken unsecured personal loans believed that the money was for a part of their life that they thought was private. While 56 percent took loans to pay off debts, 15 percent used cash to finance home improvements, seven percent used it for medical reasons and two percent utilised it for cosmetic surgery.

Although the average for secret loans was GBP 5,720, five percent of people hid debts between GBP 20,000 and GBP 50,000. 54 percent of the secret loans were for GBP 3,000 or less.

Paul Morrish, Director of Abbey Loans, said that it was not advisable to borrow in secret, especially large amounts and encouraged people to be more open and honest about their finances. The Consumer Credit Counselling Service (CCCS) shared the view by warning that trying to cover up one's financial affairs from one's family could lead to unhappiness eventually.

In a separate research survey by Norwich Union, 33 percent of Brits were headed towards a financial triad i.e. managing their own retirement, supporting their parents as well as financing their own children. The study reveals the obvious 'savings gap' and stresses on the real impact this issue could have on the next generation of retirees. Almost 60 percent of over 50s admitted that their pensions and savings are insufficient to provide support for their post-retirement life.

Norwich Union recommended that one should discuss the financial future with family members more willingly, rather than being ignorant about the manner in which their parents plan to fund their retirement.

1.1.5 Lenders more comfortable lending to the 50-plus category

Despite the severe economic downturn, senior citizens have a distinct reason to smile. According to analysis by Abbey, Halifax and the Institute of Social and Economic Research, people over-50 possess most of the money in the UK - 75 percent of household wealth. They collectively possess almost GBP 5 trn (after mortgages and other loans and debts have been subtracted) out of a national total of GBP 6.7 trn in their savings accounts, property and other assets. This makes the group a relatively safe bet to lend to. Lenders are being very careful about whom they are lending to but relatively favour senior citizens.

James Jones of credit-scoring agency Experian reiterated that the over 50's tend to clear all their unsecured borrowing. According to research organisation CACI, 25 percent of unsecured loans are being made to senior citizens and people in their 50's are getting bigger loans than the rest of the population. The average personal loan across all age groups is GBP 9,690 but the average loan made to an over-50 is 8 percent higher at GBP 10,419. This population segment also has isolated cases of people with lesser assets but lenders still appear to be happier to lend to this segment.

In Manchester, over-50's have borrowed the maximum through personal loans. Manchester is followed by Liverpool, Kirkcaldy, Telford and Wigan. However, in Cambridge, Harrogate, Kirkwall, Lerwick and Bradford the 50-plus people have taken out fewer loans. Philip Machin, market analysis manager at CACI attributed this to cultural, religious, and affluence-related reasons as well as educational levels.

There is a strong possibility that this age group can be called upon to bail out younger and older family members in the current economic climate. If they have children who are currently overburdened with debt, parents have hardly any alternative other than bailing them out at the risk of getting into debt themselves. However the age group has a big disadvantage since they lack future earnings. 33 percent of men and 50 percent of women in the age group 55 to 64 are no longer working.

1.2 Consumer Credit

1.2.1 It is official: UK is Europe's card capital

According to research by Datamonitor, UK consumers are more prone to use payment cards than any other consumers in other European countries. An average British adult carries 2.8 cards (as against 2.4 in 2002) in their wallet. Norway comes a close second with an average 2.3 cards per adult. In comparison, France has an average of one card per person and Germany has 1.6 cards per person.

The vast difference in the number of cards per adult reveals the contrasting consumer habits between the UK and the other European countries. Consumers in the UK appear to be using debit cards for daily expenditure (just like their European counterparts), but are also progressively using credit cards as borrowing tools, by transferring outstanding balances to new credit cards to benefit from interest-free offers. This is not the case in most other countries where consumers do not use credit cards as a borrowing tool and hence they are not as popular.

It also drives home the point that Brits are happy to pay for goods and services with credit and enjoy the flexibility of paying for purchases over a longer period of time. However, German consumers have a more disciplined attitude towards expenditure and hence credit cards are comparatively less popular.

Although the UK is currently the card capital, the scene is expected to reverse in the near future due to the severe credit crunch. The UK credit card market is expected to grow at an average annual growth rate of just 0.2 percent, the slowest growth rate in Europe. However, many other countries, especially those with underdeveloped credit card sectors are expected to see major growth. In particular, the number of cards in Germany and France are expected to grow at an average annual rate of 26 percent and 21 percent respectively till 2011. Even then, the UK will continue to remain the biggest market in terms of cards per person. On an average UK adults are expected to have more than three cards by 2011. European markets are expected to bridge the gap by then.

A separate study by the Association of Payment Clearing Services (Apacs) is in line with Datamonitor's research. As per Apacs figures, there were 1.6 billion cheques written in 2007 compared to five billion debit card transactions. In 2007, the use of cheques in the UK fell by 9.3 percent over the earlier year figures even as customers opted for more card payments. This could be attributed to the fact that many stores (such as Sainsbury's, Argos and Debenhams) stopped accepting cheques last year. Tesco and Marks and Spencer are also expected to follow in their footsteps. The UK's Payments Council1 had also announced that it was considering a shift from paper-based cheques to card-based payments.

Additionally, the bright side of the credit card story is revealed through another study by Apacs. According to the Payment Myths booklet covering consumer payment behaviour published by Apacs, more than 68 percent of Brits repay their credit card balance in full. The outstanding balance amount on UK credit cards has gradually fallen from GBP 58bn in 2005-end to GBP 54bn in September 2007.

This signifies that UK cardholders are becoming increasingly responsible in their borrowing and prefer making repayments, notwithstanding the growing concerns over mounting debts. The report also highlighted that cash is not used for small value items only. In fact, of all payments over GBP 50, credit card accounted for 400 million transactions while 700 million payments were made in cash every year.

1.2.2 PwC report says unsecured lending hits a low of 1.1 percent

According to a report titled 'Precious Plastics' from PricewaterhouseCoopers, the unsecured lending growth fell from 2.4 percent to 1.1 percent in the year ending June 2007. The figures, which include credit and store cards, personal loans and overdrafts, represent a significant decline in the average annual growth rate of 10 percent during the 2000 to 2005 period. The report attributed the decrease in the card numbers to the introduction of balance transfer fees, and Chip and PIN. The lender charge-offs are leading to lower profit yields.

The report also added that since consumers were paying higher rates on secured lending, this would lead to increased pressure on unsecured lending payments. Trends from the US and UK indicate that people are already transferring balances from one card to another in order to fund living expenses. The report added that although the number of cards issued has fallen, the average amount held on the card has increased at an annual compounded growth rate of 5.4 percent from 2003 to 2007.

1.2.3 Brits to change their spending pattern to cope with the credit crunch

Friends Provident, the FTSE 100 life and pensions company, conducted research to study the financial impact of the credit crunch in the UK. 66 percent of people had resolved to decrease expenditure on socialising, hobbies and general spending in 2008 in the wake of a credit crunch. The study also found that 41 percent of the respondents plan to make a budget and 33 percent announced their intentions to totally revamp their finances. While 75 percent said that they believe a financial makeover would help them to save money, 23 percent were very optimistic about their ability to save more than GBP 500 in the process. At least 14 percent plan to cut down on their socialising and hobbies while 13 percent will stop using their credit cards or decrease their credit card expenditure. 11 percent of Brits believe a better-paying job would help them to cope in the worsened economic situation.

The research also studied the psychological aspects of the credit crunch outcome. 7.5 million people admitted that they may have to borrow money from family and friends. On the other hand, people are going to be very cautious about lending money to their friends in 2008. 51 percent stated that they have lent money to a friend in the past but 28 percent of them never recovered it. An overwhelming 85 percent believe that lending and borrowing money from friends can sour friendships.

1.2.4 Experian issues guidance, saying credit card cancellations will not damage credit ratings

Credit reference agency, Experian has published a guide that clears myths about credit card cancellations. The guide clarified that credit card cancellation will not adversely affect one's credit rating since lenders can neither view the organisation which issued cards to the customer nor the reason behind the closure of the account. The credit card cancellation by the issuer will be recorded on one's credit report as a 'settled' account after the clearance of the outstanding balance.

This guidance could prove useful to anyone who is concerned about whether the cancellation of their credit card can have a detrimental effect on their credit rating. Experian clarified that the cancellation of a credit card is not a refusal of an application for credit. It added that credit reference agencies are not informed when an application is refused and refusals do not appear on

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[1] An independent body looking at establishment of a national payments plan in the UK

one's credit report. When banks or lenders conduct a credit search, the name of the card issuer is not visible to them. The only information available to them is that a card has been settled and this would appear in the same way as it would otherwise appear if one had cancelled it oneself.

The guidance was published following the increase in the number of people concerned about their credit scores. Experian revealed that 40 percent more people checked their credit report with them in January 2008 compared to January 2007.

The decision to lend would depend on the lender's policies and the individual's situation. The situation could often be advantageous to a person with fewer cards since lenders look at them favourably. Lenders decide on whether to grant credit or a credit card on the basis of credit reference agency information and other information provided by applicants.

Meanwhile experts are warning people to brace up for a spate of credit card cancellations. In January 2008, Citigroup-owned UK Internet bank Egg wrote to 161,000 customers about cancelling their credit cards. Egg is under severe criticism from consumer groups who accuse the bank of firing unprofitable customers. The bank however claims that its decision to cancel the cards, amounting to 7 percent of its 2.2 million customers, was the outcome of a review of the business after its acquisition from British insurer Prudential in 2007. The lender said that its assessment showed that the credit profiles of some customers had worsened from the time they joined Egg until the time Citi acquired Egg in May 2007, thus presenting a higher than acceptable credit risk to the bank.

David Kuo, head of personal finance at Fool.co.uk said that recent research revealed that one in eight people had their credit limits cut while one percent of customers had their credit card cancelled. Customers between 34 and 49 years of age were most likely to be affected.

1.3 Debt Collection

1.3.1 Bailiffs carry negative image in debt-ridden UK

A study of trends points out that debt agencies and bailiffs are getting richer even as the debt crisis in the UK continues. 'The Independent on Sunday' conducted an investigation which concluded that agencies and bailiffs pursued almost 20 million cases in 2007 using very aggressive methods to pressurise people to pay up.

In 2007, while personal debt in the UK hit a new record of GBP 1.4m average debt per person was a whopping GBP 29,684. More than 8 million Brits are said to be in serious debt. The publication noted that in such a scenario the possibility of bailiffs being able to break into homes and take possessions by force could not be denied. The government is expected to publish a report in May

2008 outlining the new powers and detailing how a new Tribunals, Courts and Enforcement Act will work in practice. The Government had earlier promised to regulate bailiffs in 2007 and the report was to have been published in July 2007.

It has been reported that bailiffs usually carry a negative image of using unethical means to recover the money, charging exorbitant fees for visits that never take place, and scaring people through abusive and aggressive behaviour. Some of them, allegedly, misrepresent the extent of their powers as a ploy to trick people into letting them into their homes or even into paying up instantly. The government is thus understandably under scathing criticism for its failure to regulate the debt sector.

Vernon Phillips, director of the Enforcement Services Association, a trade body for bailiffs, came out in favour of bailiffs saying many of the complaints lack concrete proof. He admitted that there could have been a few instances when the bailiffs could have overstepped the mark in their overzealous effort to recover debts. The Credit Services Association (CSA), which represents the majority of debt collection agencies, also tried to downplay the extent of the problems. Kurt Obermaier, executive director, CSA, stated that there were always going to be people who were unhappy about being chased for debt repayments and who would complain and try to look for ways of avoiding repayments.

1.4 Insolvency and Bankruptcy News

1.4.1 Insolvencies fall in UK

Insolvency numbers in the UK continue to be at disturbing levels with 106,000 people declaring themselves insolvent in 2007. Although the 24,846 individual insolvencies registered in the fourth quarter of 2007 represent a decrease of 3.9 percent from the previous quarter and 16.4 percent from the figures for the same period in 2006, the fall only takes the number back to the level it first reached in 2005. Bankruptcies also increased by 2.4 percent to 64,480. This could be partially attributed to the fact that banks had blocked many Individual Voluntary Agreements (IVAs) before the new voluntary code came into force and thus IVAs were harder to come by.

In 2007, 42,165 people entered into IVAs, representing a decrease of 4.9 percent from the corresponding figure for 2006. The number of IVAs set up in the final quarter of 2007 also decreased by 8.3 percent from the previous quarter and 27.3 percent from the corresponding quarter of 2006.

Although IVAs were popular among borrowers and were heavily promoted by specialist companies, lender dissatisfaction (about how much money they have lost through agreeing to IVAs) and increasing hurdle rates (the amount per pound of outstanding debt they were willing to accept from borrowers) are probably the key reasons for this decline. Consumer groups too were unhappy and had expressed concerns that customers were being sold IVAs as an easy option, without making them aware of the future impact on their credit rating and ability to borrow in the future.

However, experts including Mike Gerrard, head of personal insolvency at Grant Thornton, warned of tough times ahead and said that the number of people in financial distress in the UK is expected to soar resulting in a rise in insolvency numbers and more people opting for IVAs. Some other experts believed that the situation masks deeper problems since banks were now putting overindebted consumers on informal debt management plans rather than letting them become insolvent - leaving the banks to write off the outstanding debts.

1.4.2 IVA customers get new protection as voluntary code on IVA protocol is signed

A new voluntary code called 'Straightforward Consumer' that sets down stringent rules for the sale of IVAs has been implemented from 1st February, 2008. The code resolves the long-standing wrangle between the lenders and the IVA companies. The lenders were apparently dissatisfied with the money they were losing by agreeing to IVAs and this led them to hike up hurdle rates (the amount per pound of outstanding debt they were willing to accept from borrowers). Banks were also of the opinion that too many debtors were unable to stick to the strict terms of an IVA, resulting in large numbers of applications being rejected. The voluntary code, which has been agreed following a series of discussions and negotiations facilitated by The Insolvency Service, is expected to resolve the stalemate between the two parties and thus increase the number of IVA applications to be approved in 2008. The guidelines were put together with the help of creditors (led by the BBA – British Bankers Association), consumer campaigners, and debt agencies.

The protocol will help bring greater transparency to the whole process and ensure that the client is made aware of the standard terms and conditions. It also assures the creditors and debtors that the best option has been presented and that the IVA process is indeed in the best interests of the individual. The code implies that all the parties involved will agree to explicitly divulge related matters and work as per a standard framework which applies to both providers and creditors. IVAs have often been viewed as a softer alternative to bankruptcy and there were concerns that many people saw it as an easy way out of debt. Debt agencies often market IVAs aggressively telling only the positive aspects to the over indebted consumers and failing to warn them of the negative aspects of an IVA. The new protocol will protect consumers seeking IVAs from poor advice and deceptive information and will ensure that consumers will now be able to make an informed decision.

The latest survey from Debt Counsellors has revealed that only 59 percent of the 358 respondents knew what an IVA was. Thus, on a national scale it shows that many people are unaware of what an IVA is and a majority of them could be people seeking some financial help. Insolvencies are hitting record numbers and professional advice is often sought and blindly followed. The protocol will come in very handy in such a scenario and will bring greater clarity to the entire process. The implementation of the protocol would be closely monitored and assessed by a standing committee.

The protocol includes the following points:

- Debtors would now need to detail their income and outgoings in a standardised financial statement
- Insolvency practitioners would have to carry out more stringent checks on income and mortgage repayments
- Debtors will be encouraged to try and reach an informal agreement with their creditors before being recommended for an IVA
- There will be an agreement as to when debtors will be considered to have failed to meet the terms of the IVA if they ever get into arrears with monthly repayments
- It will be mandatory for a lender who rejects an IVA proposal to give a specific explanation for the rejection.

1.4.3 Lead generation and comparison website IVA.com offers free GBP 50 pre-paid card; sparks protests over IVA marketing

Comparison website IVA.com has announced that it will offer customers a pre-paid card worth GBP 50 when their IVA application is approved by creditors. This has sparked yet another debate as to how IVA companies and debt agencies are increasingly employing aggressive marketing campaigns, including cash bonuses, to increase sales even as insolvencies continue to fall. Debt charities and advisory services condemned the move and said that it was yet another frantic marketing method to entice people to opt for an IVA. Becky Boden-Wilkes of debt charity National Debtline said that customers should be making choices based on their situation, not the extra GBP 50 BREAD card.

The website has tied up with Payment Card Solutions UK to offer the free BREAD Maestro card. BREAD is available without credit checks, unlike conventional credit cards which offer customers a line of credit or debit cards with an overdraft facility. BREAD works on the same principle as a pay-as-you-go mobile phone; users can top it up with cash and have their salaries transferred to it. One can review the card activity online and check the spending history and transactions.

Terry Balfour, director of IVA.com, said that the card was intended to assist customers who had ended their borrowing habits and had to adjust to a new financial approach of controlled spending. The customers would have restricted access to plastic money and it would be difficult to get used to the new way of living in the current cash-free era. He said that the BREAD card would help them manage without the temptation to overspend since one can only spend up to the credit balance on the card.

1.5 Regulatory News

1.5.1 OFT to examine 'high risk' collectors

Office of Fair Trading (OFT) has stated that effective from April 2008, third party debt collectors and fee charging debt management companies will be more heavily scrutinised when applying for credit licenses. These firms will be placed in high risk categories due to their business activities in relation to fair treatment and would therefore need to produce a 'credit competence' plan summarising the manner in which they conform to the guidance, prior to being granted a license.

The credit competence will be based on the four areas of: skills, knowledge, practice and procedure and is intended to ascertain whether a business deserves to possess a license. The move provides the OFT with increased authority and control over issuance of licenses compared to its previous role where it could only grant or revoke licences based on adverse evidence. With this development, the OFT intends to move from a passive gatekeeper licensing role towards a risk-based supervision role

1.6 Company News

1.6.1 British bad debt buyer Equidebt completes GBP 110m funding deal

Retail debt buyer Equidebt has bagged GBP 110m funding against the backdrop of challenging conditions in banking markets. The fresh injection of funds strengthens Equidebt's balance sheet and heightens its buying power. The funding will thus enable Equidebt to buy further debt portfolios.

Equidebt secured the funding, which is made up of a new banking syndicate providing a revolving credit facility of GBP 70m and an equity stake of GBP 40m from a new private equity partner, Patron Capital Partners. Patron Capital Partners has made an initial investment of GBP 10m and has committed another minimum of GBP 30m growth capital over the medium term. Lloyds TSB Corporate Markets and KBC Bank N.V. were the arrangers and book runners for the deal.

Equidebt chief executive Wes Mulligan acknowledged that the new funding would prove to be an enormous boost for the business and will help reinforce their credibility with their banking trading partners and debt sellers.

Trends show that the banking sector is increasingly selling off delinquent debts much earlier in the collections cycle. According to the Credit Services Association (CSA), in 2006, GBP 6bn worth of debts were sold off and a further GBP 15bn worth of consumer debts were pursued through commission-based debt collection.

Banks are increasingly attempting to reduce bad debt provisions by seeking a more immediate impact on the balance sheet through debt sale which helps generate quicker financial returns. These frantic attempts could be because of the new liquidity and accounting requirements resulting from Basel II. Banks are now trying to strike the right balance and to find an optimum approach to their bad debt provisioning and debt collection policies.

Some banks have withdrawn delinquent debt portfolios from debt collection agencies (DCAs) and are relying more on a debt purchase (DP) led strategy. Banks acknowledge that the DP approach has distinct benefits over other strategies. Thus it is seen that the prime growth in recent years has been in debt sale. Equidebt has identified this and accordingly positioned itself to gain from this. But most of Equidebt's clients are still committed to employing a dual approach of DCA and DP.

1.6.2 Discover sells its UK Goldfish card unit to Barclays Bank

Illinois-based Discovery Financial Services, the fourth-largest credit-card network globally, is selling its troubled UK-based Goldfish card unit to Barclays Bank Plc for an all cash deal worth USD 70m (GBP 35m). The sale is expected to be completed by May 2008. The card unit consists of approximately 1.7 million credit cards and approximately USD 4bn (GBP 2.01bn) in gross receivables.

Goldfish was launched as a brand in 1996 by Centrica Plc, a UK-based energy utility that expanded into financial services to help make up for the loss of natural gas customers after the UK market was deregulated. Centrica sold Goldfish to its banking partner Lloyds TSB. Goldfish was later bought from Lloyds by Morgan Stanley UK's credit card business in 2006 to gain customers in the UK which was then the world's second-largest credit-card market. However, Goldfish posted losses in 2006 and 2007 due to increasing cardholder defaults. Later Morgan Stanley spun off its credit card business as Discover Financial Services. Discover has already lost 44 percent in New York trading since its spin off in June 2007 and reported a fourth quarter loss due to a USD 279m (GBP 140.28m) write-off linked to Goldfish.

Goldfish was expected to relaunch last year and as part of this exercise former Lloyds TSB marketer Martin White was appointed as the marketing director in September 2007.

Barclays, the third biggest bank in the UK by market value, was of the opinion that since Goldfish shared similar credit characteristics with Barclays' existing UK business, the merger of Goldfish into its credit card business presented a good opportunity to offer their expertise in risk management, customer data management and marketing across a larger number of cards and customers.

Discover will face post-tax charges of USD 190m to USD 210m (GBP 95.53m to GBP 105.59m) on the transaction in the first quarter. Discover's CEO David Nelms acknowledged that though Discover had started making some progress in their UK business, the funding and operating environment in the UK continued to be a challenge. He stated that the sale will free up capital and boost Discover's net income. It would also enable Discover to concentrate on their growing and profitable US card and third-party payments businesses.

1.6.3 Troubled individual arrangement (IVA) provider Debtmatters exits IVA market

Debtmatters has announced its plan to sell its IVA book and concentrate on secured personal loans. The decision was taken after a strategic review of operations. The company has made 87 persons out of its 304-strong workforce redundant due to the planned move.

The company admitted that it was getting increasingly difficult to operate a successful direct marketing IVA business with adequate profit margins due to increasing costs of case acquisition and reduced fee levels amidst ongoing financial sector uncertainty. IVA providers have been targeted by banks for charging the lenders too much to set up the IVAs and not returning enough of the recovered money. In 2007, the banks increased their rejection rates for IVAs causing fees to crash to a new low. Analysts forecast that the fees could end up falling by as much as two-thirds. A year back, Debtmatters was arranging 600 IVAs every month but now the figure has fallen to a paltry 50 per month.

The company is understood to have sold its Individual Voluntary Agreement (IVA) book for GBP 6.4m to a consortium comprising Grant Thornton UK LLP and Totemic Ltd. The sale includes approximately 8,000 IVAs, which will be split between the two buyers so that they have equal portfolios. It is also expected to sell the residual Debtmatters Limited business to Creditflex for GBP 0.8m.

The company is renaming itself to Loanmakers Group and will focus on its established loan broking division which has grown profitably to date. The profitable loan broking part of the business was bought over in June 2006 and has in recent times got GBP 3.5m of banking facilities. The disposal proceeds will be used to cut debts.

Ges Ratcliffe, Debtmatters Chief Executive, said that although good prospects exist for Loanmakers, its visibility is limited because of the current challenges and uncertainties in the financial markets.

1.6.4 Consumer debt adviser Accuma Group terminates all offer talks

Manchester-based Accuma Group has announced that it has terminated all takeover talks and is no longer involved in any discussions over a potential offer.

In December 2007, Accuma revealed that it had received an approach. The company has now stated that the potential interested party had not pursued its initial preliminary approach and considered the expression of interest as purely exploratory. Accuma shares fell by 18 percent following the news.

1.7 Technology news

1.7.1 Bolton-based Ideal Debt Solutions select Admerex for collections software

Bolton-based Ideal Debt Solutions has selected Admerex's CWX collections software to manage the collections of its new debt collection agency services. According to Gary Sherwood, Director, IDS Collections, the company is soon to introduce a debt collection service due to client demand and the huge opportunities in the market. As part of this development, IDS studied the collections software market and identified Admerex as the player which fulfilled all their requirement for a diverse and multi-functional system.

2 Europe News

2.1 Forecast predicts UK, Spain and Italy most exposed to a severe slowdown

Standard & Poor's has published a report titled 'European Economic Forecast: Testing Times Ahead'. The report has taken into consideration the levels of indebtedness and global competitiveness of European countries, based on which they have predicted that the UK, Spain and Italy appear most at risk from a pronounced economic slowdown.

The economic environment for the entire European region is considered to remain tough. Jean-Michel Six, Standard & Poor's chief economist for Europe said that the ability of individual economies to endure the tough conditions will depend on their current health in terms of household debt and savings, corporate debt, and international competitiveness. When these factors are taken into account, UK, Spain and Italy appear the most exposed.

Countries have been grouped into two groups from a household and corporate debt stand-point. UK, Spain and Ireland form the first group and are characterised by high household (and corporate) debt. UK and Ireland report low savings rates while savings rates in Spain, even though high, appear to be decreasing. Under the current credit crisis and with difficulty in credit access, these countries could be very strongly affected. On the other hand, France and Italy which are in the second group are characterised by moderate corporate and household indebtedness. Thus, the credit crisis is expected to affect them to a lesser extent. It is also seen that the French and Germans have relatively high levels of savings and hence they are less likely to be under pressure to increase savings while reacting to the more uncertain economic environment. Germany has not been categorised within these groups since household and corporate indebtedness there has been reducing for several years.

From the perspective of a country's competitiveness, data from the International Monetary Fund's real effective exchange rates, which is based on labour costs, are referred to. It is observed that Italy and Spain's competitiveness has deteriorated sharply in recent years - Italy by 16 percent and Spain by 40 percent since 2000. Although France too encountered a deterioration of 5 percent since 2004-05, it has managed a modest improvement in the last two years. Germany has however improved by 3 percent since 2000.

The UK is at the greatest risk of suffering due to a lower consumer demand and lower exports. S & P's have hence revised their forecast for GDP growth in the UK in 2008 to 1.5 percent from 2.0 percent (3.1 percent in 2007). Growth for Spain is forecast to be at 2.3 percent (3.8 percent in 2007). The French real GDP growth is expected to remain at 1.8 percent. S & P's has predicted a growth of 1.3 percent for Italy and 1.8 percent for Germany.

2.2 Collection agency Intrum acquires Austrian debt portfolio

Sweden-based credit management services company Intrum Justitia AB, in association with the French investment bank Calyon SA, has acquired a debt portfolio originally worth EUR 640m (GBP 457.1m) from Bank Austria Creditanstalt for EUR 100m (GBP 71.4m). Two thirds of the portfolio consists of non-performing bank loans while one third is loans granted against real estate collateral. The portfolio, which is Intrum's largest deal, is expected to boost its revenues by around 3 percent in 2008.

Gijsbert Wassink, general manager of Intrum's central purchased debt department in Switzerland, said that since Intrum has already co-operated with Calyon in the Nordic countries, it has gained experience in handling properties as collateral.

2.3 Debt buyer and third party collections specialist 1st Credit enters Spanish market

1st Credit has made its first move outside the UK and acquired a 35 percent stake in Spain's largest debt collection agency Reintegra. Financial details were not available. Reintegra is partly-owned by Santander Consumer Finance. Economic weakness in Spain offers a fast growing market for debt collection. Santander was looking for an international partner so that it could grow its business in line with the increasing opportunities in Spain. The move could well be the first pillar in 1st Credit's ambitious international growth plans.

Reintegra has around 600 collectors. It manages Santander's consumer finance collections in Spain and also conducts third party collections. 1st Credit plans to use the agency for debt collections of portfolios which it intends to buy in Spain. 1st Credit has plans to become the biggest debt buyer in Spain and is reported to be looking at acquisitions or partnerships in Europe and Eastern Bloc countries such as Russia and the Ukraine.

2.4 Credit insurance and collections firm Atradius merges business with shareholder

Atradius, a credit insurance and collections company and Spanish credit insurer Crédito y Caución have completed their merger transaction. The two companies which are ranked second and fourth largest in the credit insurance industry are expected to control 31 percent of the global credit insurance market post-merger. The merger was envisaged ever since Credito y Caucion became an Atradius shareholder in 2003.

Atradius leads in global credit insurance and collections with a 24 percent global market share. It is strong in most of Europe with a growing presence in North America and Asia while Crédito y Caución leads in the Iberian markets covering Spain (60 percent market share) and Portugal (34 percent market share). Jesús Serra, Chairman of the Board of Crédito y Caución said that the new merged entity plans to benefit from the combined strengths of both Crédito y Caución and Atradius, providing extensive coverage, specialised products to meet their specific insurance needs and unsurpassed service.

Although the two companies are expected to operate together as part of the new post-merger Atradius Group, they will maintain local brand names to guarantee continued strong brand recognition.

3 US News

3.1 Rating agency Moody's forecasts charge-offs will increase, marking negative outlook for the US credit card sector

Moody's has given a negative outlook to the US credit card sector in its latest report titled '2007 Review and 2008 Outlook: US Credit Card-Backed Securities'. Although the ratings agency admitted that charge-off levels are still below long-term averages, the pressure of increasing charge-offs has resulted in the negative outlook. Moody's clarified that the negative outlook does not affect the ratings for credit card-backed securitisations. In 2007, banks issued USD 94.6bn (GBP 47.56bn) in credit-card backed securities setting a new record.

In November 2007, charge-offs were at just under 5 percent, marginally less than the long-term average of 5.5 percent. William Black, Moody's SVP and author of the report, said that it is quite probable that charge-off rates would increase close to the upper bound of Moody's range of expected performance by 2008-end.

Black added that bankruptcy reforms started in 2005 making it harder for consumers to file for bankruptcy, leading to a cutback in the largest category of charge-offs. Moody's also expects a rise in contractual charge-offs (which happens when a cardholder falls behind on payments by 180 days, prompting the issuer to write-off the debt).

3.2 Discover US Spending Monitor reports fourth consecutive fall

Credit card company Discover has released its latest US Spending Monitor2. The Monitor has reported a fall of four points to 86.1 in January 2008, the third consecutive monthly decline. The report noted that the number of people preparing to spend more in the successive month fell to 30 percent, a one point decline from December and five points decline from October. However, the number of people who planned to maintain the same expenditure in February showed an 8 point increase (from 43 to 51 percent). 49 percent of the January sample indicated that they expect to do less discretionary spending in February reflecting a watchful attitude among consumers towards

[2] The Discover US Spending Monitor is a monthly index of consumer spending intentions and capacity that is based on interviews with a random sample of 15,000 US adults conducted at a rate of 500 per night. In addition to spending, the survey asks consumers their opinions on the US economy and on their personal finances. Weekly reports reflect calculations for the seven previous days of interviews, or a sample of 3,500 adults. Surveys are conducted by Rasmussen Reports, an independent survey research firm (www.rasmussenreports.com).

spending. Consumers were not just expecting to cut down on discretionary spending but they were also planning to spend less on household improvements, major personal purchases and savings.

Consumers with annual incomes of USD 75,000 and more showed the most dramatic shift in attitudes in January and their economic confidence sharply declined. While 29 percent rated the economy as poor, a mere 8 percent rated it excellent. In December 2007, the figures were 20 percent and 12 percent respectively. In December 2007, 14 percent of this category people had expressed that they intended to spend more on discretionary items like entertainment and travel as against only nine percent in January 2008.

In a new record for the Monitor, 39 percent admitted that they would have no money left over after paying all the monthly bills. At the same time, 17 percent say they will have more money left over this month than the previous month and another 60 percent say they will have the same as last month.

Margo Georgiadis, executive vice president and chief marketing officer for Discover Financial Services, said that on a month-on-month basis, consumers have shown more confidence in their personal finances than they have in the economy. However, consumers still appear to be unsure of the direction in which their personal finances are going in.

3.3 Riskmetrics report: Consumer Credit Growth slowed, delinquencies increased in December

As per a report from financial risk management firm - Riskmetrics, card issuers are reporting a growth in credit card delinquencies and charge-offs in the US. This is contrary to the claims by the Federal Reserve which has indicated that although US consumers continued to spend more on credit in December, the pace has slowed down considerably compared to the previous months. Experts suggest that the credit sector like the housing sector is undergoing a correction from the earlier unprecedented and unsustainable growth period.

In December 2007, consumers added USD 2.1bn to credit card balances which represents an annualised growth rate of 2.7 percent. In the US, the total credit card debt currently stands at USD 943.5bn and total consumer debt in the US now stands at USD 2.52trn. In 2007, credit card debt called revolving debt by the Fed grew at 7.8 percent compared to a 6.1 percent increase in 2006, a 3.1 percent increase in 2005, and a 3.8 percent rise in 2004.

The Riskmetrics report titled “Credit Card Master Trust Performance Monitor” also revealed that in December, an average of 7.6 percent of credit card loans were either at least 60 days delinquent or had gone into default, up from 6.4 percent a year earlier. The analysis includes more than USD

200bn of credit card loans that are sold off to investors by major card issuers like Citigroup Inc, Capital One Financial Corp., American Express Co. and J.P. Morgan Chase & Co.

The American attitude to cards appears to be changing. Earlier Americans used credit cards mainly for discretionary purchases, such as furniture, appliances and jewellery. Of late, they have been increasingly using credit cards to pay for necessities such as groceries and petrol. Credit cards are regarded as vital by Americans and some of them even pay their credit card bills before their mortgages by putting their home loan payments on hold.

3.4 Credit difficult to come by in the fourth quarter

As per a survey of credit managers published by the Federal Reserve, banks appeared to be more reluctant to grant credit in the fourth quarter.

As per the Senior Loan Officer Opinion Survey on Bank Lending Practices published in January 2008, commercial property loans encountered the most tightening. 80 percent of the banks admitted that they had raised their lending standards for that type of loan. The Federal Reserve conducted the survey across 56 US banks and 23 foreign creditors. These 56 banks have a combined USD 5.95 trn (GBP 2.99trn) in assets which is effectively about 54 percent of the country's USD 11.1 trn (GBP 5.59trn) total for all domestically chartered, federally insured commercial banks. All banks reported that credit standards had tightened across nearly all credit products, including credit cards.

It was also observed that credit card standards too saw a tightening and 10 percent of the banks said that they have tightened their lending standards on credit card loans over the past three months. The corresponding figure was only 5 percent for the earlier quarter as reported in the last survey published in October 2007. Trends point that consumer demand for credit was down in the fourth quarter of 2007 and 35 percent domestic institutions reported a weaker demand for consumer loans of all types.

3.5 Payment consultant TowerGroup says: Card Issuers to hire collectors, focus on risk during the downturn

A new report by payment consultant Towergroup says that the credit crunch may cause many account closures and credit risk will play an important role for lenders and card issuers. Author of this report, Brian Riley, senior analyst, bank cards Towergroup said that industry players are predicting that the charge off rates will grow from 3.89 percent in the fourth quarter of 2007 to 5.50 percent in the first half of 2008. Lenders may be forced to close more accounts – the numbers increasing from 7 percent to almost 12 percent.

Lenders will need to be wary and watch out for warning signals in cardholder behaviour. Consumers may try to switch from debit card to credit card to pay for groceries and other daily expenses. This may be worrying if the consumer opts for revolving debt, instead of paying it off every month. Another signal to watch out for is usage of long-dormant accounts cardholders or cardholders hitting the credit limit on an account that had previously seen lower spending totals.

Customers using the revolving credit facility have long been looked on favourably since they contribute to interest revenue but they are now regarded with suspicion since they carry the danger of becoming a charge-off statistic. Lenders would be happiest with the 'transactors' category of customers – those who use the card regularly and pay off the bill every month.

3.6 Study reports Americans to turn to P2P lending to pay credit card debt

Javelin Research & Strategy, a San-Francisco-based financial services research company has predicted that the demand for online person-to-person (P2P) social lending networks in the US for repayment of credit card debt may grow from USD 38bn (GBP 19.13bn) in 2007 to USD 159bn (GBP 80.07bn) by 2012. Americans are expected to increasingly turn to online person-to-person (P2P) social lending networks to repay their credit card debt. The survey was conducted across 2200 Americans and 58 percent of them reported that they are expecting to carry a balance on at least one credit card in the next six months and 44 percent of these are likely to use a social lending service to repay it.

The report revealed that 36 percent of borrowers said they are inclined to use a P2P loan in an attempt to get a better interest rate while 33 percent would rather use P2P loans as they are keen to avoid using credit cards. 27 percent used P2P loans since they do not qualify for a loan from a bank or credit union. The P2P lending will lead to a loss of deposits for banks and a loss of interest income to credit card issuers.

However Javelin said that the P2P networks would not be an immediate threat to financial firms because consumer awareness of P2P is still relatively low. Only 28 percent of consumers are using or are aware of P2P lending websites. However, this could change with the growing awareness and popularity of services like the Richard Branson-owned Virgin Money USA, Prosper, Lending Club and Zopa. The sites claim that they are able to offer better rates because they eliminate the bank overhead charges. Critics however warn that the process is fraught with risks.

James Van Dyke, president of Javelin Strategy & Research hinted that banks can protect themselves by forming partnerships with social lending communities – by either getting in front of the consumer or by being a player behind-the-scenes. Higher-income and younger consumers are the most active users of P2P lending sites.

Some lenders (36 percent) claim that altruism is a big motive for being on P2P lending networks while another 36 percent claimed that they were attracted by the higher returns which they can fetch.

3.7 US consumer bankruptcy filings increased more than 30 percent nationwide in January

According to the American Bankruptcy Institute (ABI), US consumer bankruptcy filings have increased more than 30 percent nationwide in January from the same period a year ago. ABI (which includes more than 11,700 attorneys, accountants, bankers, judges, professors, lenders, turnaround specialists and other bankruptcy professionals) reached this conclusion on the basis of data from the National Bankruptcy Research Center (NBKRC). Although the consumer filings increased year on year, they were comparatively stable as compared to those of the previous month (December 2007).

There has been a slight increase in the Chapter 13[3] filings which made up 40 percent of all consumer cases in January compared to the December 2007 figures. The total consumer filings for the 2007 calendar year saw a 40 percent increase over the filings recorded during the same period in 2006.

4 Canada News

4.1 More Canadians go bankrupt

According to the Vanier Institute of the Family, Canadians are increasingly borrowing more and more sums and steadily sinking into the debt trap. The institute blames the financial institutions which are aggressively pushing their products to the consumers for the rampant ‘buy now, pay later’ attitude. A survey conducted by the institute revealed that debt has risen seven times faster since 1990 - to an average total of CND 80,000 (GBP 40,580) per household. Annual savings have dropped from about CND 7,300 (GBP 3,700) per household in 1990 to CND 1,000 (GBP 500) in 2006.

[3] Chapter 13 of the Bankruptcy Code is available for an individual with regular income whose debts do not exceed specific amounts; it is typically used to budget some of the debtor’s future earnings under a plan through which unsecured creditors are paid in whole or in part.

Lenders are desperate to lend and are offering loans to everybody at the moment. The institute said that consumer education was vital in this scenario. It recommends that there should be household finance courses for everybody going through life transitions. Basic financial advice appears difficult to obtain and people are not able to manage their finances. There are debt charities which help people consolidate and repay their debts at reduced interest rates. They also offer a wide variety of seminars on everything from getting one's spending under control and savings and investment tips to retirement planning. Many people have already benefited from such services.

5 Australia News

5.1 9 percent of Australian credit card customers admit to only managing the minimum payment each month

According to a survey of 2,000 Australian consumers conducted by a London-based independent market analyst Datamonitor, 9 percent of credit card users admitted to only managing the minimum payment each month. This corresponds to one million Australians and these are the customers that are more likely to have problems managing their credit card debt. The survey also revealed that 25 percent admitted that they often bought unaffordable items using their cards.

Credit card providers offer easy credit and have raised their credit limits in the last few years. Datamonitor advised credit card providers to be wary while choosing their creditors. The credit card providers should also be transparent in communicating the associated costs. 8 percent of consumers admitted that they thought their credit limit was too high and it entices them to overspend. Trends show that consumers are spending more for Christmas shopping. January is often the month consumers face the consequences of easily available credit and rising credit card limits.

Still, a majority of Australians use cards as payment tools rather than as instruments to borrow money. 39 percent of credit card customers never pay interest on their credit cards, and 18 percent only pay interest rarely. A further 18 percent said that they pay interest every month.

While choosing a new credit card, 86 percent Australians looked for lower fees, 47 percent looked for more attractive reward programs and 54 percent were attracted by lower interest rates. Over the last few years, Australian credit card reward programs have become less generous, and as a result, customers have become careful of credit card fees. 43 percent of respondents thought that their reward program did not succeed in making up for the annual fee on their card. But 20 percent felt that their reward program was enough to make up for the annual credit card fee. Low-fee cards are thus expected to continue to play an important role in the Australian card market.

In a separate development, credit rating agency Veda Advantage said that payment defaults increased 35.5 percent in 2007. Veda however did not put a dollar value on the level of defaults. Debt advisors have put the blame squarely on unsecured debts and said that they are the chief cause for mortgage stress.

As per the latest quarterly indicators of activity in the consumer credit market published by Veda Advantage in the half year to December 2007, the number of credit card and personal loan applications fell down for the first time in four years, by two percent to 3.19 million or around 70,000 less than the corresponding period in 2006.

According to latest figures from the Australian Bureau of Statistics, 33 percent of households are refinancing their mortgages. Many households are also looking at alternative options such as debt consolidation into a loan or transfer of card balances onto lower-rate cards. Credit cards are more popular than personal loans as instruments to consolidate debts. This could be because credit cards are far easier to obtain than personal loans and also since most credit card providers are appealing to customers with zero percent balance transfer offers. Currently, 15 credit cards offer an initial zero-percent interest rate on balances transferred from other cards. Two of the 15 cards offer the rate for four months while the remaining offer six-month honeymoon periods. The zero-rate cards come out slightly cheaper than a 9 percent personal loan. The downside is that one may use the card for new purchases and relapse. Consumers need to be disciplined and committed to the repayment plan.