

# **An Industry in Transition: Trends and Events Shaping the ARM Industry**

**October 9th, 1pm EST**



**KAULKIN  
GINSBERG**

# Today's Discussion Topics

- Client Changes and Opportunities
- Vendor Management Requirements and Technology Advancement
- Major Macroeconomic Trends Impacting ARM
- CFPB and Regulatory Updates: What to Expect
- The Changing M&A Landscape
- Predictions

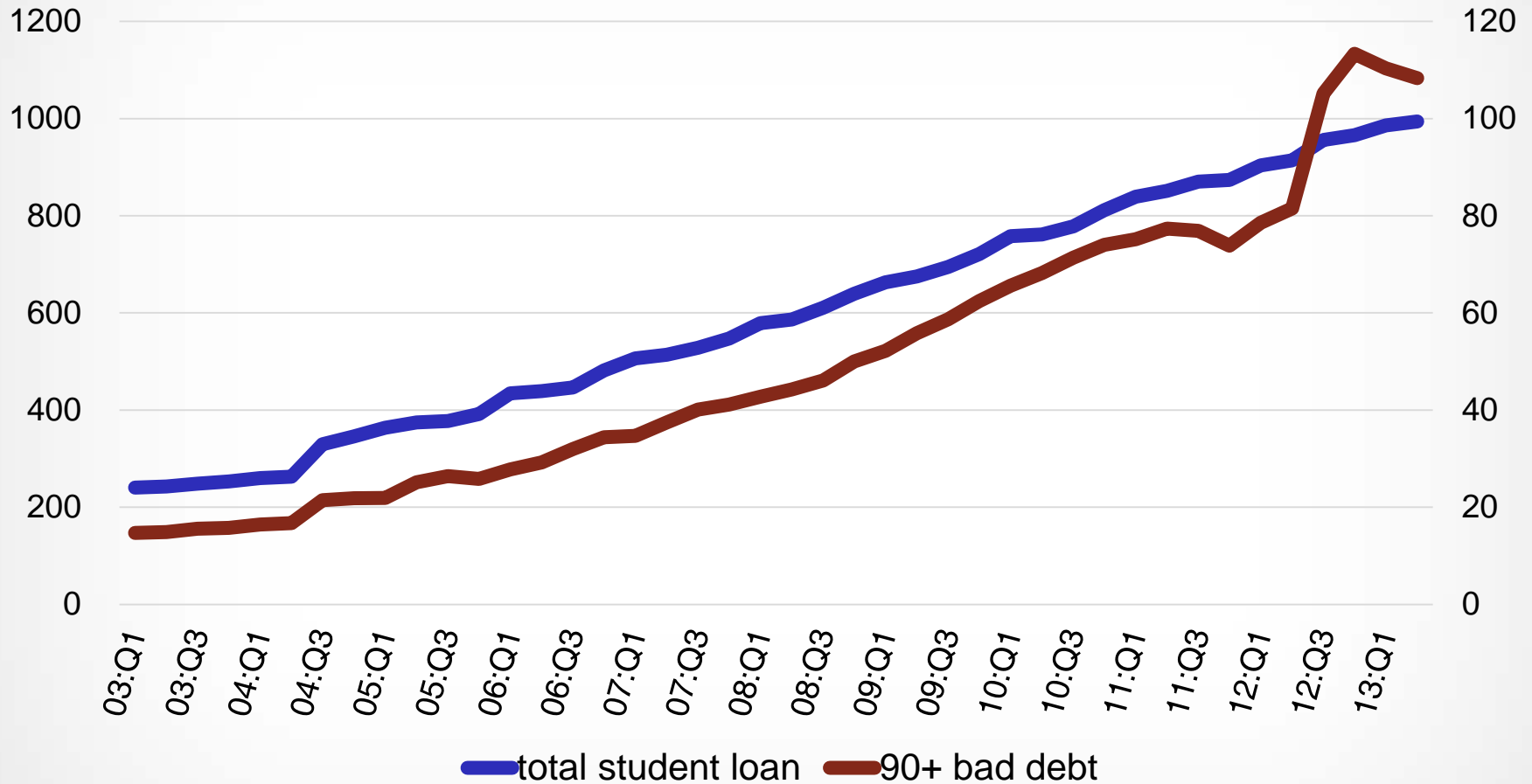
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# Client Changes and Opportunities

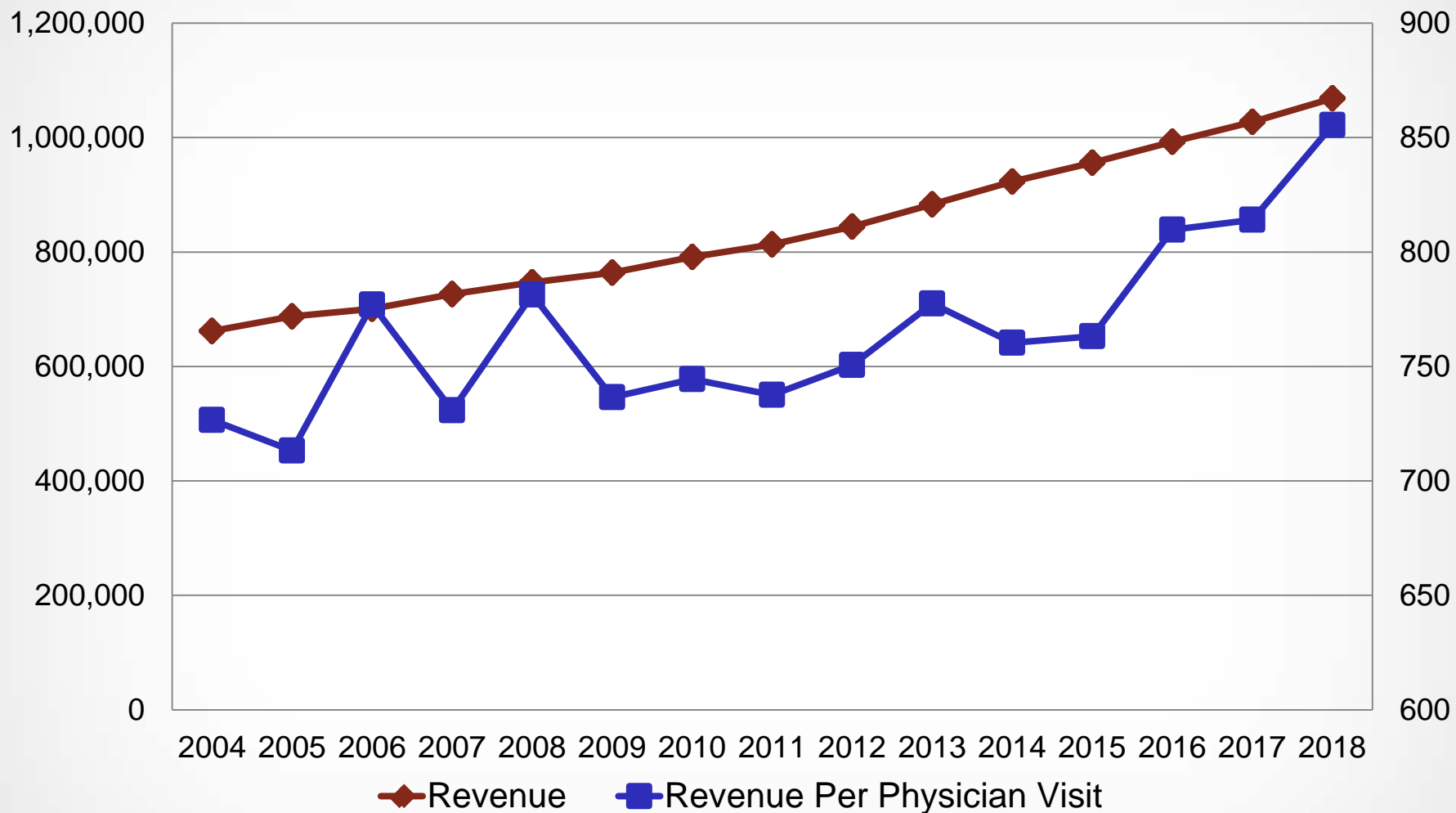
# Student Loans Growing with Increased Collection Demand (\$ Billion)



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# Hospital Total Revenue and Revenue Per Physician Visits

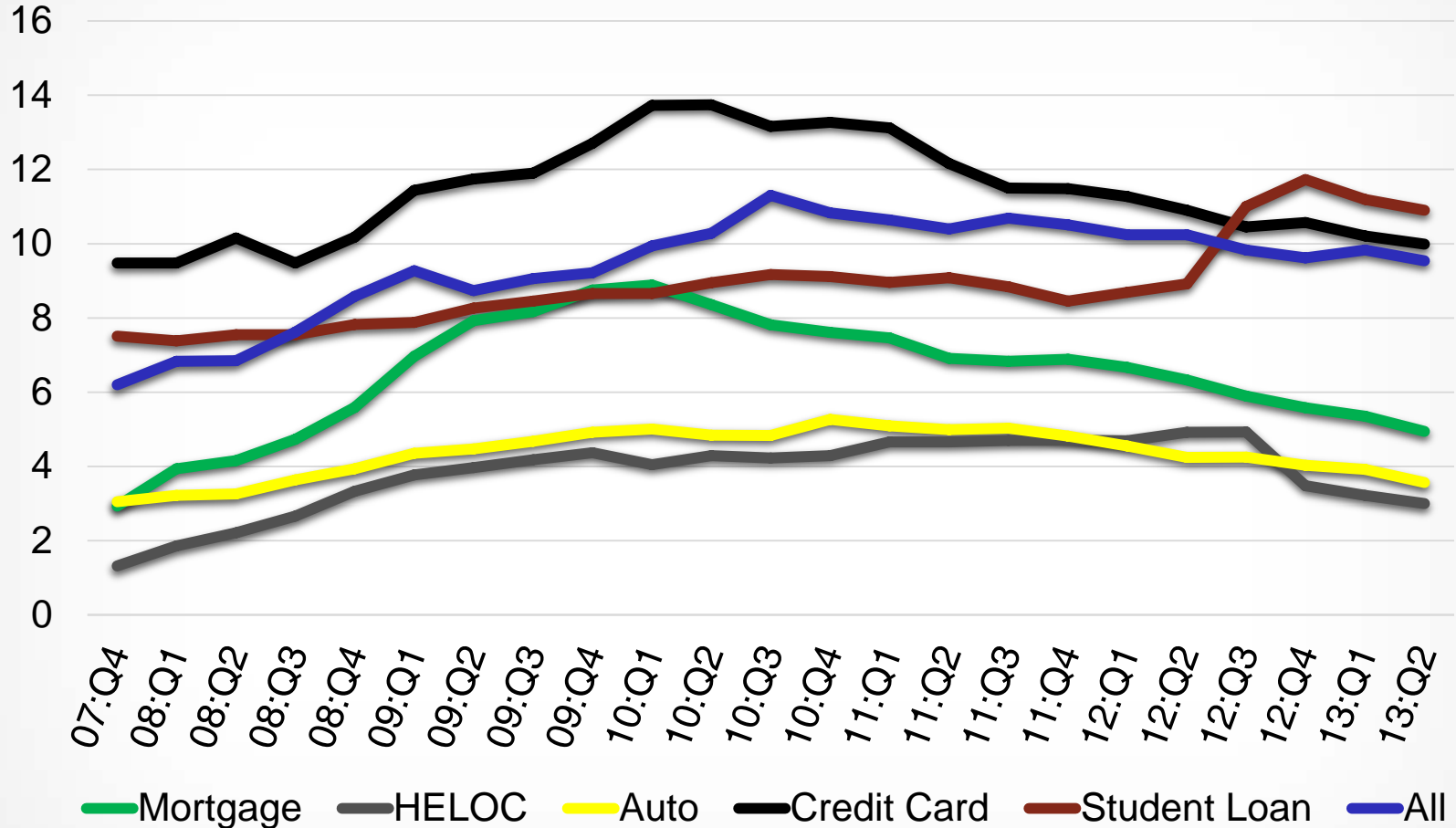


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Top 5 States with Highest Bad Debt	Top 5 States with Highest Delinquency Rate
California	Florida
Ohio	Nevada
New Jersey	New York
Illinois	New Jersey
Pennsylvania	Illinois

# Financial Services 90+ Days Delinquent by Loan Type



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# Vendor Management Requirements and Technology Advancement

# Vendor Management

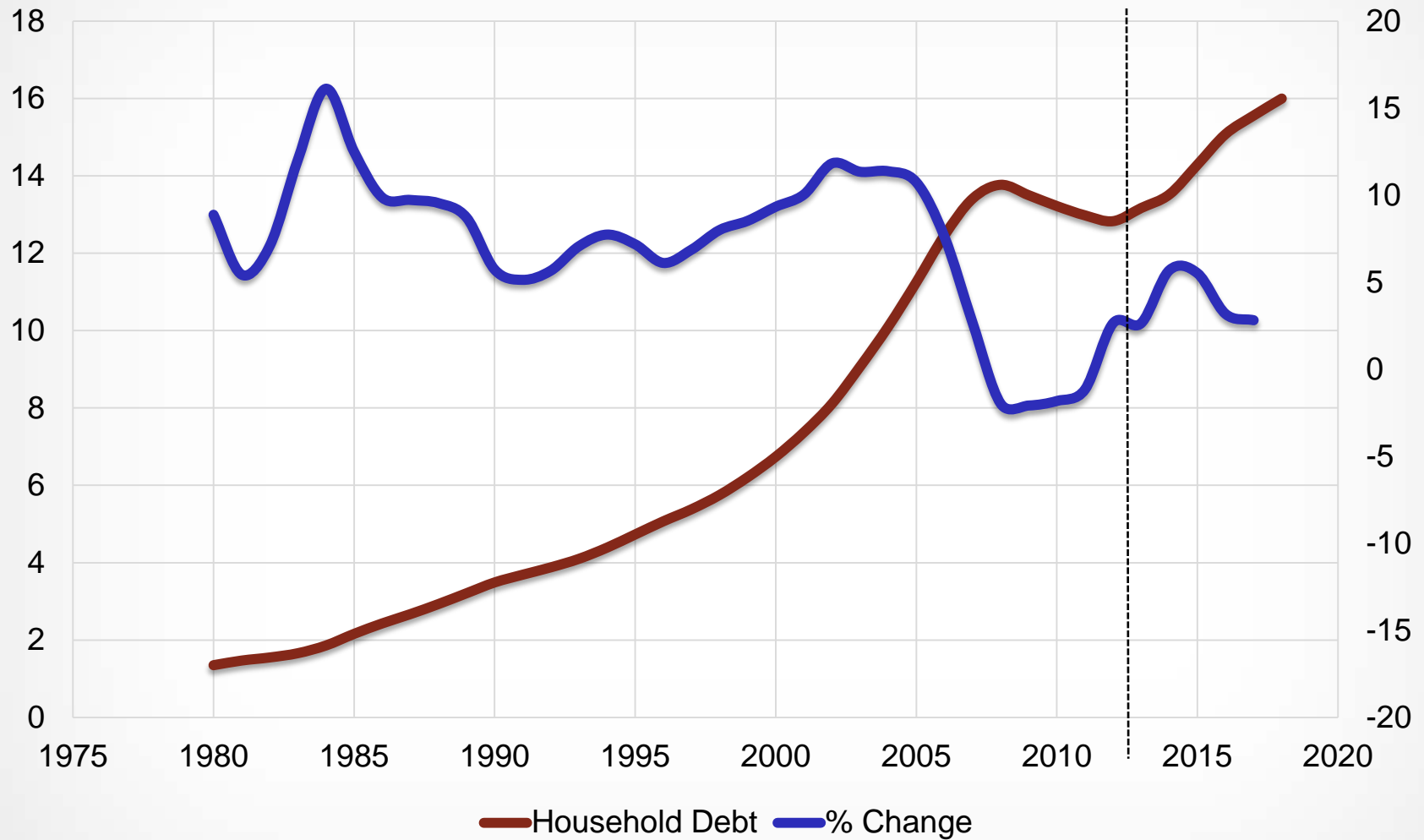
- CFPB's new found focus on service providers and vendors
- [CFPB Bulletin, April 12, 2013](#)
- CFPB expects banks and nonbanks to have an effective process for managing the risks of service provider relationships
- Service provider defined:
  - Any person that provides a material service to a covered person in connection with the offering or provision by such covered person of an consumer financial product or service
- Duties:
  - Conduct due diligence to ensure compliance with consumer protection laws
  - Review policies and procedures and training
  - Include consumer protection expectations in contract
  - Establish internal controls and monitoring
  - Take prompt action to fully address problems including termination

# Technology Advancements

- Technology will become an integrated part of your Compliance Management system
  - Compliance Management System software application
  - Complaint Tracker CL [Complaint solution]
  - Manual Device [TCPA compliance]
  - Validity [TCPA compliance]
  - Speech analytics [FDCPA compliance]
  - Fused solutions [State and federal requirements]
  - Call recording [Creditor and CFPB compliance]
  - Business intelligence solutions [Analytics]

# Major Macroeconomic Trends Impacting ARM

# Aggregate Household Debt

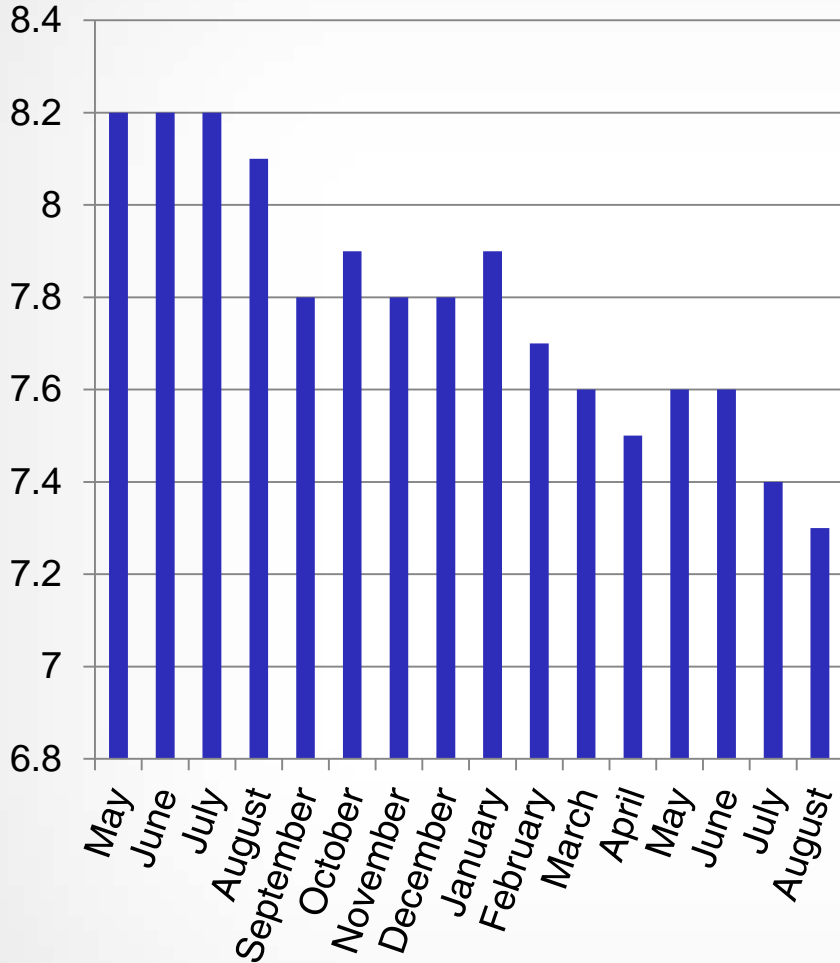


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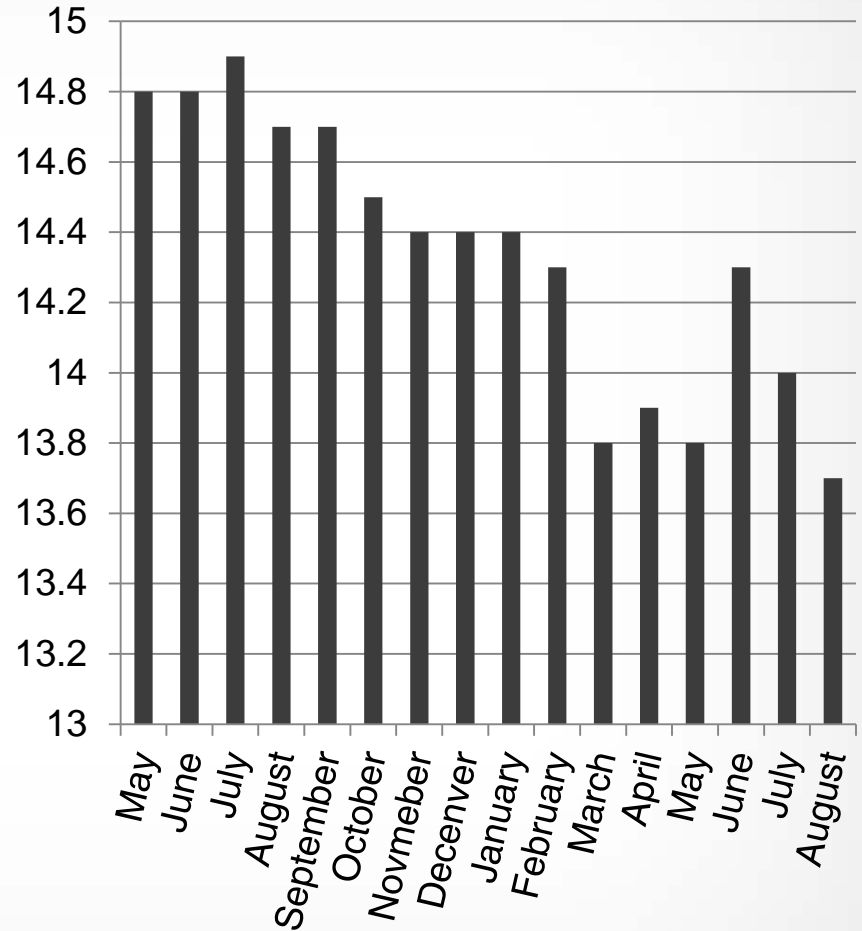
# Unemployment Rate

## U3



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## U6



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# CFPB & Regulatory Update

# The New Sheriff

- CFPB - the new chief regulator of the collection industry
- FTC – the Quiet Giant
- Business through the eyes of the consumer
- The CFPB examination process
  - Areas of focus
  - Field observations
  - Impact on operations
  - Assessing your readiness



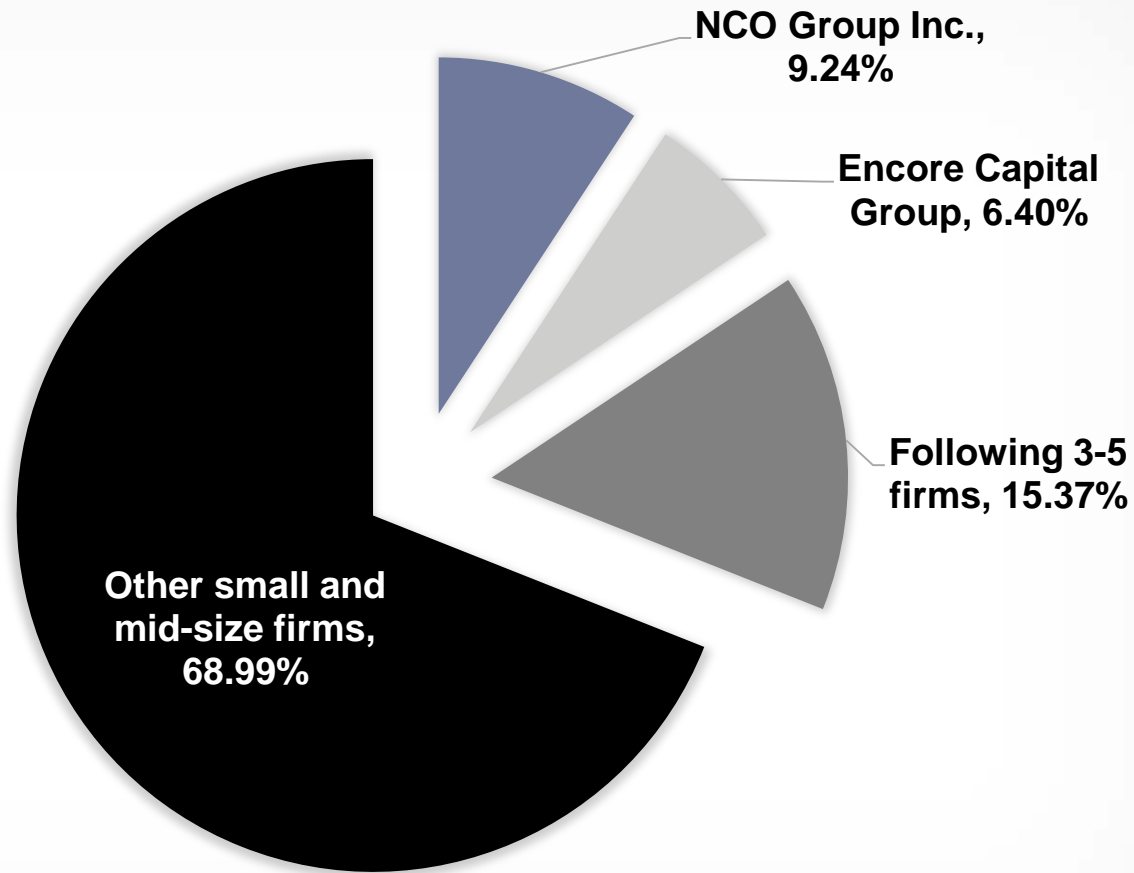


# Hot Topics

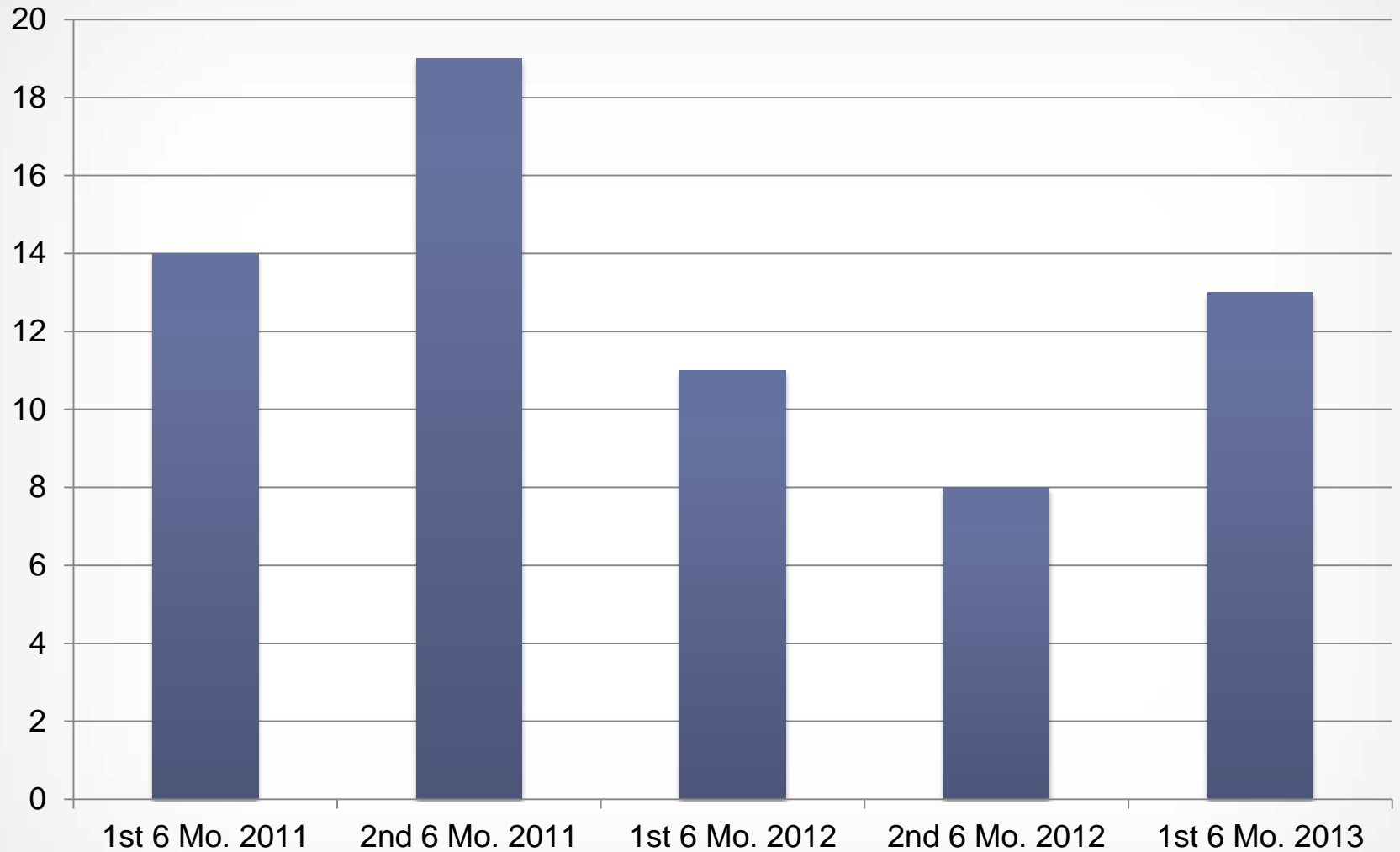
- TCPA – manual dial, consent per credit transaction, right number – wrong consumer
- Electronic Funds Transfers (EFTs) – authorization requirements for credit card, ACH debit transactions and E-checks
- Call recording – the \$5000K phone call
- Email and text messages – unique consent requirements
- Disputes, inquiries and complaints
- FCRA takes center stage
- Debt collector discretion – the need for written guidelines
- Collector compensation and the new definition of the successful collector
- Compliance management system/compliance officer

# The Changing M&A Landscape

# ARM Industry Market Share in 2013 (Estimated)



# ARM Deal Volume



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## Size of Acquired Company (\$ Revenues)

Multiples/Structure	Small* (< \$5M)	Mid-Sized** (\$5-\$10M)	Large** (\$10-\$25M)	Platform** (\$20M+)
Multiples	2-4X SDE	3-6X Adj. EBITDA	5-7X Adj. EBITDA	5-8X Adj. EBITDA
Structure	0%-100% cash	25%-100% cash	50%-100% cash	50%-100% cash

\*SDE = Seller's Discretionary Earnings (Seller compensation + expenses combined with EBITDA)

\*\*Adj. EBITDA (Earnings Before Interest, Taxes, Depreciation + Amortization adjusted for non-recurring expenses that would not exist post-transaction)

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# Predictions