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**VALUE OF THIRD-PARTY DEBT COLLECTION
TO THE U.S. ECONOMY IN 2007:
SURVEY AND ANALYSIS**

**Prepared for
ACA International**

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VALUE OF THIRD-PARTY DEBT COLLECTION TO THE U.S. ECONOMY IN 2007: SURVEY AND ANALYSIS

EXECUTIVE SUMMARY

The third-party debt collection industry plays an important role in the U.S. economy. The industry employs hundreds of thousands of Americans as collection professionals, who collect on past-due accounts referred to them by various credit grantors, such as credit card issuers, banks, retail stores, hospitals and other health care services, or by Federal, state and local governments. The industry benefits the economy by recovering billions of dollars in delinquent debt each year that would otherwise go uncollected. Further, business purchases of this industry and personal purchases by its owners and workers ripple through the economy, supporting hundreds of thousands more jobs across the country.

To quantify the value of third-party debt collection to the U.S. economy, ACA International retained PricewaterhouseCoopers LLP to conduct a survey and economic analysis of third-party debt collections.¹ The survey, carried out in the spring of 2008, reveals that in 2007 the industry's collection efforts resulted in \$40.4 billion of debt being returned to creditors on a commission basis. The economic benefits of third-party debt collection are significant.

Value to Consumers

For consumers, the benefit of third-party debt collection can be seen through reduced consumer prices and greater consumer purchasing power, since consumers would likely be faced with higher prices if businesses were unable to recoup losses resulting from bad debt. This survey and analysis shows that the \$40.4 billion in debt returned to creditors on a commission basis is equivalent to an average savings of \$354 per American household that might have otherwise been spent had businesses been forced to raise prices to cover the unrecovered debt. The average per household savings attributable to third-party debt returned to creditors translates into approximately 8 months of cellular phone service, 86 days of electricity or 127 gallons of gasoline.²

Value to Businesses

Businesses, large and small, benefit from third-party debt collection because debt recoveries help them keep costs down and reduce their risk of financial insolvency and bankruptcy that may be triggered by unrecovered bad debt. The \$40.4 billion in debt returned to creditors on a commission basis was equivalent to a 20.9 percent reduction in business bad debt in 2007,³ and was equal to 2.2 percent of all U.S. corporate profits before tax, 3.9 percent of before tax profits of all U.S.

¹ ACA represents over 5,500 members worldwide in the credit and collection industry, including third-party collection agencies, asset buyers, attorneys, creditors, and vendor affiliates.

² The Energy Information Administration reported that the average U.S. regular all formulation retail gasoline price was \$2.796 per gallon in 2007. The Bureau of Labor Statistics estimates that the average annual cellular phone service and home electricity expenditures in 2006 (the most recent year for which data are available) were \$524 and \$1,266, respectively.

³ Based on data from the Statistics of Income Division of the Internal Revenue Service, the amount of bad debt write-offs claimed by corporations, partnerships, and non-farm sole proprietorships on their tax returns is estimated to be \$152.5 billion in 2007. The percentage reduction in business bad debt is calculated as follows: \$40.4 billion / (\$152.5 billion + \$40.4 billion) = 20.9%.

domestic non-financial corporations, and 7.9 percent of the before tax profits of all U.S. domestic financial corporations.

Value to Creditors

The \$40.4 billion in debt returned to creditors on a commission basis in 2007 was roughly 2 percent of total consumer credit outstanding and more than 30 percent of new consumer credit issued. It was equivalent to 4.6 percent of total household borrowing in the United States in 2007.

In addition, third-party debt collectors are increasingly working with Federal agencies and state and local governments. In fiscal year 2006, the Federal government referred \$17.5 billion in delinquent receivables to private collection agencies (PCAs) resulting in collections of \$739.6 million; up from \$693.5 million in FY 2005.⁴ In the area of Federal student loans, for example, the \$651.8 million that PCAs returned to the Department of Education in fiscal year 2006 represents the average loan aid received by 150,288 college students during the 2006/07 academic year.⁵

Department of Labor data indicate that over the last two decades, employment in the third-party debt collection industry has more than doubled, from less than 70,000 in 1990 to over 157,000 in 2007.⁶ Based on the survey of third-party debt collectors, we estimate industry employment is 216,751 in 2007. This suggests that the industry's payroll ranged between \$5.1 billion and \$7.0 billion in 2007. Including business purchases by the industry and personal purchases by its owners and workers, we estimate the industry directly and indirectly supported between 300,000 and 420,000 jobs with a payroll ranging between \$11.5 billion and \$15.9 billion in 2007.

⁴ Financial Management Service, U.S. Department of Treasury, *Fiscal Year 2006 Report to Congress on U.S. Government Receivables and Debt Collection Activities of Federal Agencies*. July 2007. Currently, the Department of Education, the Department of Treasury, and the Department of Health and Human Services have each established contracts with PCAs to collect debts owed to the Federal government. In addition to collecting debts, PCAs also help Federal agencies establish repayment agreements and resolve debts administratively (e.g., by determining if a debtor is bankrupt, disabled or deceased).

⁵ College Board, *Trends in Student Aid 2007*, Table 7a: Loan aid per full-time equivalent (FTE) student during the 2006/07 academic year was \$4,337.

⁶ Data from *Current Employment Statistics* survey by the U.S. Bureau of Labor Statistics show that about 157,000 collection professionals were employed by third-party collection agencies (as defined under NAICS code 56144) in 2007. Outside of the third-party debt collection industry, many collection professionals work in banks, retail stores, government, physician's offices, hospitals, and other institutions that lend money and extend credit. All together, bill and account collectors as a profession held about 434,000 jobs in 2006, the most recent year for which data are available from the *Occupational Outlook Handbook* by the BLS.

VALUE OF THIRD-PARTY DEBT COLLECTION TO THE U.S. ECONOMY IN 2007: SURVEY AND ANALYSIS

I. INTRODUCTION

The third-party debt collection industry employs hundreds of thousands of Americans as collection professionals. They collect on past-due accounts referred to them by various credit grantors, such as credit card issuers, banks, retail stores, hospitals and other health care services, or by Federal, state and local governments. By recovering billions of dollars in delinquent debt each year that would otherwise go uncollected, the industry generates important benefits to the U.S. economy. For consumers, the benefit of third-party debt collection can be seen through reduced consumer prices and greater consumer purchasing power, since consumers would likely be faced with higher prices if businesses were unable to recoup losses resulting from bad debt. Businesses, large and small, benefit from third-party debt collection because debt recoveries help them keep costs down and reduce their risk of financial insolvency and bankruptcy that may be triggered by unrecovered bad debt.

To develop a more complete picture of the economic importance of the third-party debt collection industry, PricewaterhouseCoopers LLP was retained by ACA International to conduct a survey of third-party debt collection agencies. The survey was fielded between January and April of 2008 to 1,016 U.S. third-party collection agencies selected from Dun and Bradstreet's ("D&B's") universe of U.S. third-party debt collection agencies. The third-party collection agencies that responded to the survey were representative of the population in terms of revenues and number of employees as reported by D&B.

The rest of the report is organized as follows. Section II of this report describes the survey and summarizes the results. Section III discusses the economic importance of third-party debt collection. The survey and estimation methodology is discussed in Appendix A, which also includes a list of the survey questions. Information about PricewaterhouseCoopers LLP's National Economic Consulting group, which prepared this study, is included in Appendix B.

II. THIRD-PARTY DEBT COLLECTION SURVEY

PricewaterhouseCoopers LLP conducted a survey of third-party debt collection agencies in order to collect data that could be used to estimate the key measures of economic impact for the industry in 2007. The population for the survey consists of third-party debt collection agencies listed in Dun and Bradstreet's ("D&B's") business file. The third-party collection agencies that responded to the survey were representative of the population in terms of revenues and number of employees as reported by D&B.

Based on the survey, we estimate the total amount of debt recovered in 2007 by third-party debt collection agencies to be \$57.9 billion, of which \$51.9 billion represented gross collections on a commission basis. Gross recoveries by the third-party debt collection industry on purchased accounts represented \$6.0 billion. Debt returned to creditors on a commission basis in 2007 was \$40.4 billion.

Table II.1 – Debt Recovered by Third-Party Debt Collection Agencies in 2007
(Billions)

Economic Measure	Estimated Value
Debt Recovered	\$57.9
<i>Commission Basis</i>	\$51.9
<i>Purchased Accounts</i>	\$6.0
Net Debt Returned on a Commission Basis	\$40.4

The total revenues of third-party collection agencies in 2007 from debt collection are estimated to be \$17.5 billion, of which \$11.5 billion is from commissions and \$6.0 billion is from debt recovered on purchased accounts. We estimate that third-party debt collection agencies employed 216,751 workers in 2007.

III. THIRD-PARTY DEBT COLLECTION AND THE U.S. ECONOMY

The Department of Labor data indicate that over the two decades, employment in the third-party debt collection industry has more than doubled, from less than 70,000 in 1990 to nearly 157,000 in 2007.⁷ Based on the survey of third-party debt collectors, we estimate industry employment is 216,751 in 2007. This suggests that the industry's payroll ranged between \$5.1 billion and \$7.0 billion in 2007. Including business purchases by the industry and personal purchases by its owners and workers, we estimate the industry directly and indirectly supported between 300,000 and 420,000 jobs with a payroll ranging between \$11.5 billion and \$15.9 billion in 2007.

Third-party debt collection generates significant benefits for both U.S. consumers and businesses. Debt returned to creditors of \$40.4 billion on a commission basis by the third-party debt collection industry in 2007 helped maintain lower prices for consumers. The \$40.4 billion returned to creditors was equivalent to an average savings of \$354 per American household in 2006 or 0.7% of the median U.S. household income of \$48,201,⁸ had businesses been forced to charge higher prices in the absence of this debt recovery.⁹

To put this number in perspective, the U.S. Department of Energy's Energy Information Administration estimates that in 2007 the average U.S. regular all formulation retail gasoline price was \$2.796 per gallon. The Labor Department's Bureau of Labor Statistics estimates that the average annual cellular phone service and home electricity expenditures in 2006 (the most recent year for which data are available) were \$524 and \$1,266, respectively.¹⁰ Thus, had businesses been forced to charge higher prices in the absence of this debt recovery, debt returned to creditors by the third-party debt collection industry saved the average household the equivalent of approximately 8 months of cellular phone service, 86 days of electricity, or 127 gallons of gasoline.

Businesses, large and small, benefit from third-party debt collection because debt recoveries help cut down potential bad debt write-offs, thus reducing the risk of financial insolvency and bankruptcies for businesses nationwide. We estimate the amount of bad debt write-offs claimed by businesses on their tax returns was \$152.5 billion in 2007.¹¹ This means debt returned to creditors by the third-party debt collection industry helped reduce business bad debt by 20.9 percent in 2007.¹²

⁷ Data from *Current Employment Statistics* survey by the U.S. Bureau of Labor Statistics show that about 157,000 collection professionals were employed by third-party collection agencies (as defined under NAICS code 56144) in 2007. Outside of the third-party debt collection industry, many collection professionals work in banks, retail stores, government, physician's offices, hospitals, and other institutions that lend money and extend credit. All together, bill and account collectors as a profession held about 434,000 jobs in 2006, the most recent year for which data are available from the *Occupational Outlook Handbook* by the BLS.

⁸ U.S. Census Bureau, "Income, Poverty, and Health Insurance Coverage in the United States: 2006," August 2007.

⁹ According to the U.S. Census Bureau, there were 114 million households in the United States in 2006, the most recent year for which data are available.

¹⁰ The Bureau of Labor Statistics, *Consumer Expenditure Survey*.

¹¹ The IRS data show that U.S. corporations and partnerships took deductions for bad debt write-offs of \$119.0 billion and \$15.2 billion in 2005, respectively. Adding approximately \$1 billion bad debt write-off for non-farm sole proprietorships, business bad debt write-offs amounted to \$135.4 billion in 2005. On the basis of the historical pattern of bad debt write-offs, we estimate that business bad debt write-offs totaled \$152.5 billion in 2007.

¹² This is calculated as follows: \$40.4 billion / (\$152.5 billion + \$40.4 billion) = 20.9%.

In addition to helping businesses keep costs down, third-party debt collectors are increasingly working with Federal agencies and state and local governments. In fiscal year 2006, the Federal government referred \$17.5 billion in delinquent receivables to private collection agencies (PCAs) resulting in collections of \$739.6 million; up from \$693.5 million in FY 2005.¹³ In the area of Federal student loans, for example, the \$651.8 million that PCAs returned to the Department of Education in fiscal year 2006 represents the average loan aid received by 150,288 college students during the 2006/07 academic year.¹⁴

Third-party debt collection and debt returned to creditors in 2007 can be compared to other relevant economic statistics. As shown in Table III.1, total outstanding consumer credit in the United States increased by \$132.3 billion in 2007 to \$2.6 trillion. Thus, debt returned to creditors in 2007 by the third-party debt collection industry was roughly 2 percent of total consumer credit outstanding and more than 30 percent of new consumer credit issued.

Debt returned to creditors in 2007 by the third-party debt collection industry was equivalent to 4.6 percent of total household borrowing in the United States in 2007.¹⁵

As noted above, most of the business bad debt write-offs were claimed by corporations. In 2007, third-party debt collections returned to creditors was equal to 2.2 percent of all U.S. corporate profits before tax, 3.9 percent of before tax profits of all U.S. domestic non-financial corporations, and 7.9 percent of the before tax profits of all U.S. domestic financial corporations.

¹³ Financial Management Service, U.S. Department of Treasury, *Fiscal Year 2006 Report to Congress on U.S. Government Receivables and Debt Collection Activities of Federal Agencies*. July 2007. Currently, the Department of Education, the Department of Treasury, and the Department of Health and Human Services have each established contracts with PCAs to collect debts owed to the Federal government. In addition to collecting debts, PCAs also help Federal agencies establish repayment agreements and resolve debts administratively (e.g., by determining if a debtor is bankrupt, disabled or deceased).

¹⁴ College Board, *Trends in Student Aid 2007*, Table 7a: Federal loan aid per full-time equivalent (FTE) student during the 2006/07 academic year was \$4,337.

¹⁵ Including mortgage borrowing.

Table III.1 –Third-Party Debt Collection Relative to Key Economic Variables, 2007

Item	Amount (in \$ billions)	Total Debt Collected, as a Percent of	Debt Returned to Credit Grantors, as a Percent of
Third Party Debt Collection⁽¹⁾			
Total Debt Collected	51.4		
Debt returned to Original Credit Grantors	39.3		
Consumer Credit⁽²⁾			
Net Change in Consumer Credit	132.3	38.9%	29.7%
Total Consumer Credit Outstanding	2,550.6	2.0%	1.5%
Other Household Debt⁽²⁾			
Total Household Borrowing	877.1	5.9%	4.5%
All Household Debt Outstanding	13,825.4	0.4%	0.3%
Corporate Profits Before Tax⁽²⁾			
Corporate Profits Before Tax	1,877.1	2.7%	2.1%
Domestic Nonfinancial	1,036.8	5.0%	3.8%
Domestic Financial	511.1	10.1%	7.7%

Sources:

(1) PricewaterhouseCoopers LLP estimates based on the 2006 Credit and Collection Industry Survey.

(2) Federal Reserve Board, "Flow of Funds Accounts of the United States." Release Z.1, March 6, 2008.

APPENDIX A

SURVEY AND ESTIMATION METHODOLOGY

Sampling Frame Development

As a first step in creating our sampling frame, PricewaterhouseCoopers LLP purchased a list of collection agencies from Dun & Bradstreet ("D&B"). In order to avoid sending surveys to multiple locations within the same firm, we asked that the list be limited to headquarters operations and single location entities located in the United States. In addition to the name and address of the firm, we requested that D&B provide us with a contact person, the firm's phone number, revenues and employment. The database obtained from D&B has a total of 6,613 records.

The D&B list was then forwarded to ACA International for further cleanup. ACA International verified or corrected the contact information for its members on the list. ACA International also identified 822 duplicate records based on matching phone number, physical address, or mailing address. In addition, ACA International employed a call center to contact all non-members on the list to (1) verify or correct the contact information, (2) identify firms that are not third-party collection agencies, and (3) identify firms that were not interested in participating in the survey. 657 firms indicated that they were not third-party collection agencies, while 443 collection agencies declined to participate in this survey. These records were removed from our sampling frame, although the 443 collection agencies that declined to participate in this survey would still be included in our estimation of total industry's collections.

In addition to the cleanup by ACA International, we have also identified a few hundred records which had a primary Standard Industrial Classification (SIC) code that was not 7322 ("Adjustment and Claims Services"). These records were also removed from our sampling frame.

After completing processing above, we had a listing of 4,870 third-party collection agencies, including six ACA International Executive Committee members and the 443 collection agencies that declined to participate in this survey. There were three other Executive Committee members that were not captured in the D&B list. Including these three firms in the sampling frame, as requested by ACA International, brought the total number of collection agencies covered by this study to 4,873. The total revenues for these third-party collection agencies as shown by D&B were \$14.4 billion, and the total employee count as shown by D&B was 201,454.

Sample Design

The statistical analysis uses a prediction-based (also known as model-based) statistical methodology. As such, we selected a balanced sample with respect to a quantity that is known for all members of the sampling frame. We chose to use the revenue data supplied by D&B for this purpose. Six of the Executive Committee members that ACA International requested be included in the study were not selected by our sampling program, so we placed them in a separate stratum and surveyed all of them. However, responses from these firms were not used to represent other agencies in the sampling frame. Instead, response values from these firms were added to the sampling frame estimates to obtain the final results.

We selected a balanced sample using a selection methodology described in Valliant et al.¹⁶ In following this methodology, we divided the sampling frame into two additional strata: one for the 111 largest agencies in terms of revenues, and another for the remaining 4,756 agencies. All firms in the “large agency” stratum were selected for the sample, and 899 firms from the remaining stratum were selected. In total 1,016 firms were selected for the sample. Table A.1 is a summary of our sample design.

Table A.1 – Sample Design

Stratum	Number of Companies	Total Sales per D&B (Billions)	Sample Size
1. ACA International Additions	6	\$0.01	6
2. Highest D&B Sales Stratum	111	\$10.20	111
3. Remaining D&B Stratum	4,756	\$4.16	899
Total	4,873	\$14.37	1,016

Response Quality Review

ACA International hired an outside survey firm to field the web-based survey. A total of 152 responded to the survey. Diagnostic analysis was performed on the response data, and several questionable response values were identified. For example, some responses had unusually high or low commission rates compared to other similar agencies. Some survey questions were also left blank, making it unclear whether this meant that the respondent did not want to provide the information or if a blank was a response of zero.

The survey firm contacted agencies identified in our diagnostic analysis in order to determine if the response value for the question was correct or not. Several respondents indicated that the original value was incorrect, and provided us with the correct value. The survey firm was not able to reach all the agencies with questionable responses, and the questionable responses for these agencies were treated as “no response.” The survey analysis is based on the remaining 146 complete responses. Table A.2 is a summary of the unweighted responses we received for the survey questions.

Table A.2 – Survey Response Summary
(Dollar amount in millions)

Question	Response Count	Average	Median
1. Gross Collections on a Commission Basis	146	\$55.7	\$9.5
2. Commissions Earned	146	\$13.3	\$2.2
3. Revenue from Purchased Accounts	146	\$8.8	-
4. Number of Employees	146	371	32.5
5. Number of Telephone Collectors	146	171	19.5

¹⁶ Valliant, R., Dorfman, A. H., and Royall, R. M. (2002). *Finite Population Sampling and Inference: A Prediction Approach*. John Wiley & Sons, Inc., New York.

Estimation

We used a prediction- (or model-) based statistical methodology as described in Valliant et al. to derive national estimates for the third-party debt collection industry. Under this methodology, statistical regression is used to develop mathematical relationships between auxiliary variables such as D&B revenues or employment with survey response values of all survey respondents within each stratum. The mathematical relationship is then used to predict values for all unobserved members of the sampling frame based on the auxiliary information. Survey response values are aggregated along with predicted values within and across strata to obtain estimates. The variances of the estimates are calculated by comparing observed and predicted values for each survey response. Variances are calculated within each stratum and then totaled for the overall variance. The margin of error of each estimate is based on the corresponding variance, and is assessed at the 90-percent confidence level using a confidence factor based on Student's t distribution. The results of this estimation methodology for each survey question are provided in Table A.3.

Table A.3 – Estimation Results

Question	Estimated Value	Margin of Error
1. Gross Collections on a Commission Basis (Billion)	\$51.9	±23%
2. Commissions Earned (Billion)	\$11.5	±23%
3. Revenue from Purchased Accounts (Billion)	\$6.0	±52%
4. Number of Employees	216,751	±20%
5. Number of Telephone Collectors	122,577	±17%

Survey Questions

Survey data referred to in this report are based on the responses to the following five questions:

COLLECTIONS

1. In 2007, what was the total amount of gross collections generated by your agency on debt collected on a commission basis? \$ _____
2. In 2007, what was the total amount of commissions earned by your agency on accounts referred to you for collection? \$ _____
3. In 2007, what was the total amount of revenue generated by your agency from gross recoveries on accounts you purchased and own? \$ _____

EMPLOYEES

4. How many total employees (counting full-time and part-time equally) did you employ as of December 31, 2007? (Example: 3 full-time and 2 part-time would be 5 total employees.) _____
5. How many telephone collectors (counting each employee who communicates with debtors by telephone for any reason) did you employ as of December 31, 2007? _____

APPENDIX B

ABOUT PRICEWATERHOUSECOOPERS NATIONAL ECONOMIC CONSULTING

Since 1984, PricewaterhouseCoopers LLP's National Economic Consulting (NEC) group has provided clients with a broad range of economic, statistical, and modeling services. NEC is an integral part of the Washington National Tax Services office, the firm's policy analysis and advocacy organization. Our clients include corporations, trade associations and coalitions, government agencies, law firms, and other organizations.

Economic Impact Analysis

We analyze the impacts of private sector decisions on the economy, as well as the effects of government decisions on the private sector. For companies, we estimate the contributions of their operations to the regional economy. For trade associations, we quantify the industry-wide impacts of government mandates, such as environmental regulations. For associations and coalitions, we project the effects of tax and spending proposals on economic indicators, such as employment, investment, and exports, by industry and geography.

Survey, Research, Statistical and Data Analysis, and Benchmarking

We focus on locating the data our clients need, drawing on our team's experience using a wide range of public and proprietary databases and our experience working with large computer files. We also have experience designing and assisting with the implementation of company surveys for associations and coalitions, maintaining professional standards of confidentiality and increasing compliance with anti-trust regulations. In addition, we help clients implement proprietary benchmarking studies to enable comparison of their performance to that of their peers.

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