



Collection House Limited

Overview of Purchased Debt Ledgers (“PDLs”)

Debt Purchase contributes approximately 71% of total revenue

Collection House buys portfolios of charged off/written off distressed debts. These consist largely of unsecured consumer loans.

Presently holds debt purchase contracts with 4 of the 5 largest sellers in the financial sector and has also purchased debt from 3 of the largest Australian telcos.

Fundamental Elements of Purchased Debt

The Debt

The face value of a Debt:

- ✓ Consists of the Principal sum, interest thereon and any charges payable under the Credit Contract as charged by the debt seller
- ✓ Is crystallised at the date of purchase
- ✓ Is a fixed amount – i.e., a liquidated claim of \$xxxx.xx
- ✓ Is immediately due, owing and payable (not by fixed or determinable installments)
- ✓ The debtors' obligations to repay the debt – plus default interest plus legal recoverable costs continue to apply until all moneys have been paid in full

Fundamental Elements of Purchased Debt

Upon purchase, Collection House assumes the rights, powers and responsibilities under the Credit Contract, including that:

- ✓ Collection House is deemed to be the Credit Provider
- ✓ Collection House is required to observe all of the consumer protection provisions and other relevant legislation
- ✓ Collection House can enforce the terms and conditions of the Credit Contract against the debtor including the debtor's continuing personal covenants to pay the full amount of the debt, charges and legal enforcement cost specified (if any)
- ✓ Collection House can provide to the debtor a valid discharge upon payment of the debt
- ✓ On purchase, debts are assigned to Lion Finance Pty Ltd (holding company), and the assignment is "absolute", as apposed to an equitable or conditional assignment. As such, debts can only be sold back to the original credit provider in specific and pre-agreed circumstances

Typical Credit Contracts offered as Purchased Debt

- ✓ Forward Flow agreements with major banks and financial institutions for unsecured consumer finance debt. Forward Flow agreements are generally 12 month contracts with financial institutions to purchase debt
 - credit cards
 - personal loans
- ✓ Some secured debt
 - motor vehicle finance
- ✓ Some telecommunication debt
 - mobile and landline
 - internet
- ✓ Limited commercial debt to date

Steps required before acquisition of Purchased Debt

Due Diligence requirements

- ✓ A risk in the PDL business is over paying for debt, either due to poor initial due diligence or due to actual debt sold varying in quality to original expectations. We have many means to mitigate these risks.
- ✓ A number of diligence steps are required for both once off and forward flow purchases, in order for Collection House to maximise its ability to recover the debts and to minimise its potential downside.
- ✓ Due Diligence tasks prior to agreeing to purchase include:
 - ✓ Reviewing the original credit provider; and
 - ✓ Reviewing the data; and
 - ✓ Considering future collection environment (internal and external)

Steps required before recovery of Purchased Debts

Due Diligence

Pre Purchase

Due Diligence

- Review the Original Credit Provider's:
 - ✓ Lending practices
 - ✓ Pre sale collection practices
 - ✓ Compliance with Legal and Regulatory obligations
 - ✓ Warranties provided under the Sale and Purchase Agreement
 - ✓ Ability to provide supporting documentation – contracts, statements, notices

Steps required before recovery of Purchased Debts

Due Diligence

Pre Purchase

The Data

- Review a sample of debt being offered under the Agreement which usually includes all or most of the following information:
 - ✓ Demographic information
 - ✓ Date of debtor default
 - ✓ Date of last payment
 - ✓ Average days past due
 - ✓ Average balance
 - ✓ Statute barred date
 - ✓ Incidence of insolvent, bankrupt, deceased and/or elderly customers
 - ✓ Vendor history / log notes
 - ✓ Availability of supporting documentation/statements

Steps required before recovery of Purchased Debts

Due Diligence

Post Purchase

Once a contract is executed and the debt accounts are received, a number of ongoing further checks are performed to ensure integrity of the assets:

- ✓ Validation of accounts to ensure agreed “exclusions” are adhered to
- ✓ Ineligible accounts returned for buyback (refund) – this often includes customers which are insolvent, bankrupt, deceased and/or elderly
- ✓ Structured and unstructured information from vendors are scanned to detect such accounts upon receipt
- ✓ Any other defective or ineligible accounts (eg missing key information) are also returned for buyback
- ✓ These processes help ensure we are getting the credit quality that was originally represented during pre-purchase due diligence

Purchased Debt in Detail

Operational Campaigns

- ✓ Once debts have been purchased, the debts become part of a complex multi-step process designed to facilitate the maximum level of recoveries over the shortest possible time frame – the approach taken to each customer account is to collaborate with the customer to help solve their financial problems as quickly as possible
- ✓ Collection efforts are undertaken on a day to day basis with dedicated ownership by a Customer Service Officer, and with supplementary teams effort on a campaign basis (which can involve either letter or phone contact).
- ✓ Use of automated telephone dialing queues (auto dialler), manual telephone queues, letters and SMS messaging
- ✓ Heavy use of analytical approaches to segmenting accounts to obtain most cost efficient outcomes
- ✓ Campaign reporting in place to identify overall and individual performance
- ✓ Customer Service Officers enjoy a significant performance based bonus scheme

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Purchased Debt in Detail

Discounting

What happens if a customer cannot pay an account ?

Obviously this is quite often the case due to the nature of the debts, and we have a number of possible avenues we can take depending on each customer's circumstances.

These may include:

- ✓ Allowing repayment of the account by an arrangement repayment plan
- ✓ Determining if the customer is in a hardship situation, and/or should receive a moratorium on collection for a period of time, subject to later review
- ✓ Considering a discounted settlement of the account
- ✓ In special cases, writing off the account

Purchased Debt in Detail

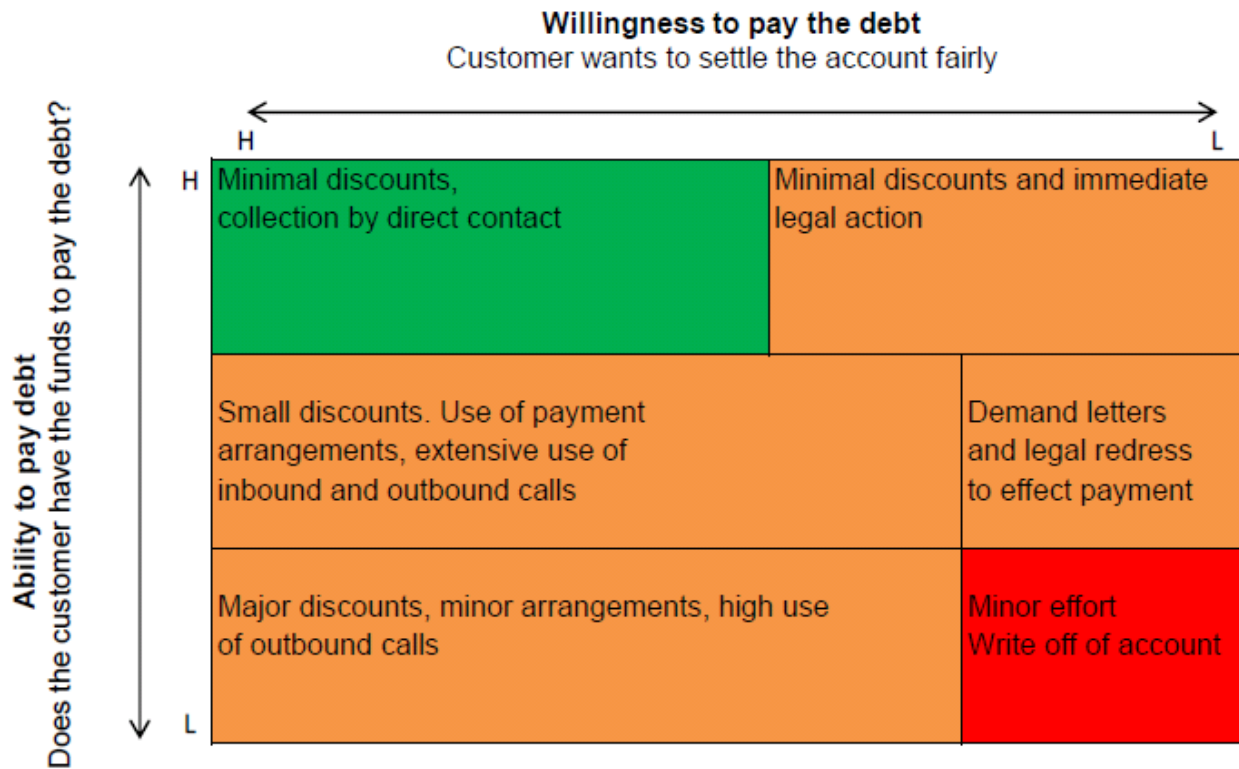
Working accounts

The performance of working accounts is constantly monitored:

- ✓ Daily snapshot of accounts which have exceeded the standard follow up period and are overdue for actioning
- ✓ Assists in campaign planning and ensures work being conducted on older debt is being scrutinised across the business
- ✓ Regular action is required to locate customers

Collection strategies

Working accounts



...collection strategies are tailored to customer ability and willingness to pay

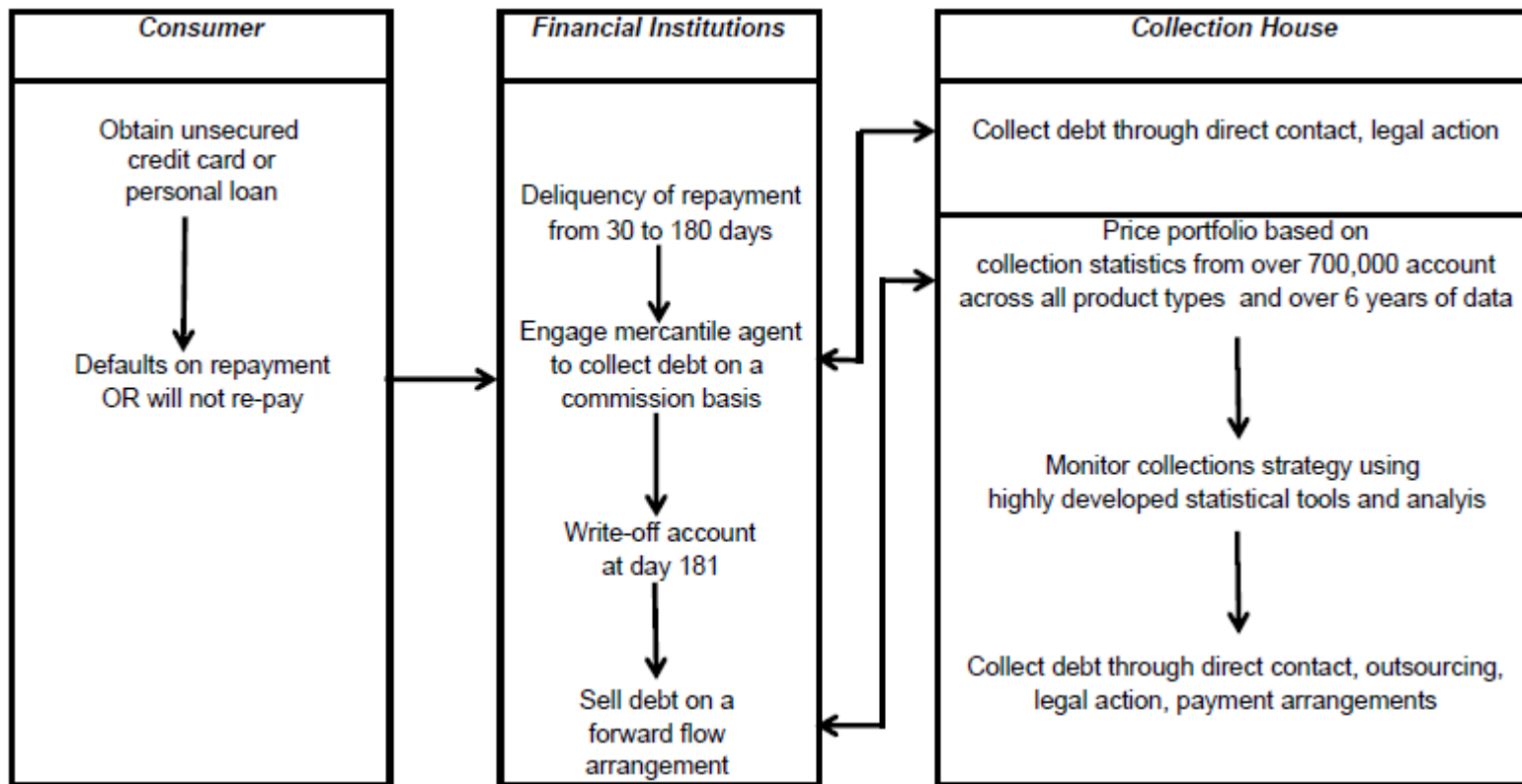
Purchased Debt in Detail

Legal Referral

If customer does have the means to pay or service the account but refuses without valid cause, it may be escalated to Collection House's in-house legal team for litigation

- ✓ All legal action undertaken by 100% owned subsidiary Jones King Lawyers
- ✓ Accounts referred by CSO's as identified
- ✓ Account scoring report also helps identify accounts to be escalated

Collections life cycle



....Collection House has two opportunities: **commission collections and debt purchase**

Relevant Governance and Regulation

- **ASIC/ACCC Guidelines for Debt Collection: Collectors and Creditors**
- **NCCP – National Credit Consumer Protection Act, 2010**
- **Corporate Governance – AS8000:2003**
- **ASX Corporate Governance Principles and Recommendations**
- **Risk Management – AS/NZS ISO 31000 – 2009, Compliance – AS3806:2006, Complaints Handling – AS/ISO 10002 – 2006**
- **Corporate Policies & Procedures – Professional Practice Management Systems (PPMS) – and ISO 9001 accreditation**
- **Privacy Act**
- **AASB 9 – Financial Instruments; AASB 139 – Financial Instruments – Recognition and Measurement.**

What is the “FV movement”?

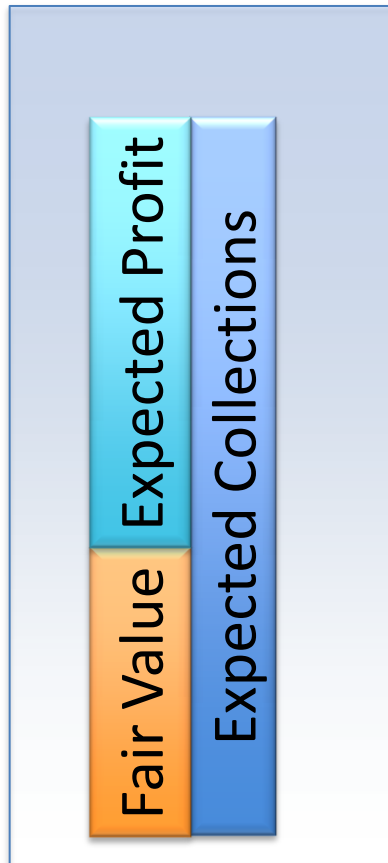
- The future economic benefits of the purchased debt ledgers are consumed over the life of the asset
- Collection House purchases a debt for less than its face value and then proceeds to collect as much as it can in relation to that debt. Collections in excess of the purchase price represent revenue to the company.
- The company will not purchase a ledger tranche if it does not believe that a profit can be made from that tranche.
- On this basis, the company considers that each dollar collected against a particular debt can be broken into a portion which represents recovery of a portion of the purchase price of the debt, and an amount which represents a gross profit.
- It follows that each time a collection is made, the carrying value of the PDL book decreases by a smaller amount than the total collection.

Accounting for Purchased Debt

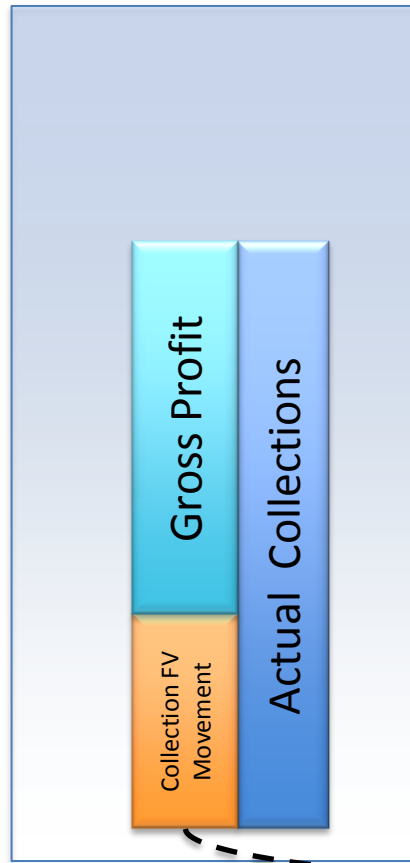
Accounting for Fair Value ("FV") movements of the PDL book
What is the "FV movement"?

Purchasing Activity

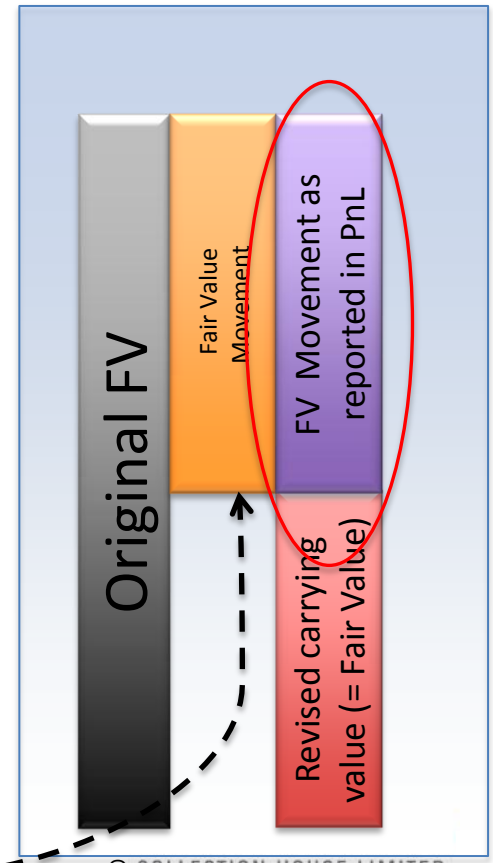
Accounting



Collection Activity



Valuation Activity



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Fair Value Adjustment Expenses (previously referred to as “amortisation”)

Accounting

Example

- | | | | |
|----|---|---------|--------------|
| 1. | Debt Purchase (Purchase Price \$1,000, Face Value \$10,000) | \$1,000 | \$10,000 |
| 2. | What % do we expect to recover of the Face Value? | | 20% |
| 3. | Expected collections (Face Value x % recoveries expected) | | \$2,000 |
| 4. | Fair Value rate initially at purchase set (Purchase Price / Expected Collections) | | 50% |
| 5. | Expect time (generally) to recover purchase price | | 12-15 months |

Accounting

	Purchase Price	Asset Value
Debt Purchase	\$1,000	\$1,000
Year 1 collections - \$1,000		
Fair Value Adjustment on Year 1 collections	(\$500)	\$500
End of Year 5 collections - \$2,000		
Fair Value Adjustment on balance of collections	(\$500)	\$0

* Note: Does not include any cost of collections or cost of funds



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www.collectionhouse.com.au