Company: Encore Capital Group Incorporated
Event: 33rd Annual Growth Stock Conference
Participant: Ken Vecchione - Chief Executive Officer
Paul Grinberg - Chief Financial Officer
Date:

Interviewer

Let's get started. My name is Bob Napoli. I am the analyst for William Blair that covers Financial Services and Technology. For complete list of research disclosures of potential conflicts of interest, please visit our website at www.williamblair.com.

We are excited to have with us today, Encore Capital. The new CEO, Ken Vecchione, as well as the old CFO, Paul Grinberg. Now, this has been one of the most dynamic companies in the specialty finance base. They have been very active in consolidating the industry. They seem to have the wind at their back. Now, Ken has 35 years' experience in financial services. He's been with publicly traded banking and credit card companies, has come in to a great opportunity. I'm gonna turn it over to Ken and Paul.

Ken Vecchione

Good afternoon, everyone. Thank you. 4:40 is like sitting at the kid's table during Thanksgiving but, you know, kids are never -- they're all there and everyone's running around and up until moments ago, I was not frightened to get out but everyone is frightening me with this big storm that's coming. So, I may be available to do this at the U.S. airways lounge later on today.

I'm gonna take the first half of all this. I'll do the presentation. I have a previous engagement. I hope to get out. Paul is gonna field all your questions. He'll probably start with what Ken really meant to say was the following. So, for the lawyers, and let's talk a little bit about who is Encore, for those who don't know us. Our primary business is to invest in default receivables and also, through our Propel business. We are also in tax, lien transfer, and tax lien collection business. We bought Propel in 2012, of 1st Quarter.

Today, we have a relationship with one out of every seven people. We focus on analytics and with the closing of asset acceptance, we will have nearly 60 million consumer accounts and with our purchase combined over $130 billion of defaulted receivables. Okay? Our analytics are focused and directed on the individual consumer. Our goal is to assist consumers to repay their obligations overtime. We have collected nearly a billion dollars over the last 12 months. Collected dollars come from assets and deals that we did a month ago, a year ago or even up to a decade ago. And our analytics enable us to drive the value of this assets for a very long period of time for a long time horizon.

So, Encore employs an owner model. And let me tell what that means. We acquire assets and we hold on to them. This benefits several groups of constituents. One, the original creditor benefits because we're able to monetize their debt and pay a better price since we're gonna hold on to a longer period of time. It helps the consumer because the consumer will know who he or she is dealing with over a longer period of time and also for us, it helps us recover collections. 50 percent of all the accounts we get are people that we have already seen before. Onto the model here, the original creditor has 181 days to collect their money. They then generally sell to collection agencies which have a very tight time frame of four to six months. There's pressure on that to get it done and then we come in with our owner model, which is 84 months to collect, that we create a partnership and a strategy and hence, we believe the owner model, which is elongated overtime, is the preferred model for us.

We work with consumers to pay us back. Therefore, this is a sales process which is different. This way, we think about it. We think about our -- the people that we have defaulted debt as consumers. So, it's important, since I said that 50 percent of all the customers are people that we've seen before. It's important that they have a good consumer experience. We use surveys to help under -- teach us on how to deal with the consumer in a more efficient and courteous and respectful way. All right? We break up into -- well, let me say this one.

So, not only do we work with consumers, we also take the time and we develop a consumer credit research institute so we can understand how consumers think and how they spend their money and we take those earnings and we dovetail them back into our decision modeling science here. And finally, what we do is we always try to respect consumer in all that he or she do and we try to give them a good experience and a respectful experience at that. Growth and scale are the critical ingredients for our business for cash collections. You can see from '07 to 2012, we've gone from 365 million to almost a billion dollars. The cost of collecting in that time has come down from 51.5 percent down to 40 percent, and this is while we've been making investments in compliance, oversight, audit, and risk management procedures. So, our cost have been coming down overall but we've been investing in those areas.

What that has done is driven our adjusted EBITDA up 27 percent and our earnings per share up 42 percent. All right? And this has come -- our earnings per share, in 2007 was 52 cents and it moved to $3.04. So, it's almost six times the growth. For our first quarter, just to keep that in mind, the benefit of scale, and efficiency are seen here. Collection's up 17, revenues up 14. We drove our cost of collect down to 36.5 percent. Adjusted EBITDA is up 21 percent and EPS grew 23 percent. All right? Our company is a mass company and it's focused on to me, ERC is the most important thing that we have. Today, it sits at nearly $2 billion with the asset acceptance deal, it will rise to $3 billion and that's been growing 17 percent. To get that growth, we've been deploying capital over year, 22 percent per year. Last year, we did $562 million of capital deployment. We had our Investor Day just last week, and we gave guidance that 2013, we'll be about $700 million all in. That includes Propel as well as the core business and a little bit of Cabot in there. We'll talk about Cabot. That's our purchase we just made two weeks ago.

And then in 2014, we also gave guidance that $700 million would be about the right capital deployment as well. So, all this has generated shareholder return up 26 percent and this is the benefit of size and scale along with growth. So, we're about total shareholder return and I'll talk to you about that in a second. Our goal is to have total shareholder return above the SNP top quartile of 10 percent and the benefits of the scale that we have has been driving the return up 26 percent. The crux here, and the momentum of the business, all starts with the management team. What I'm gonna show you now is our value creation strategy. It starts with the management team. We've got a wonderful management team, what I like to say about them is they're a group of people that liked being a group of people. And I'll take something from the old CEO, Brandon Black, who said, no one takes to go into debt collection as a career. So we have to be something special as a company. And also, we have special people here and I was quite surprise at the caliber and the quality of people highly analytic, very, very smart. But they like to learn and through their learning, they continue to improve in the decision modeling science and everything we do is about doing the right thing to our consumers and we believe in being -- having this principle intent in all that we do. So, I think I got the right people, the right team, the right attitude. I'm new to the team. So I'm gonna join the ecosystem that's there. You're not gonna see me take out the team and put all new people in there. In fact, what we'll do is we'll augment the team as we continue to grow with all the growth prospects that we have in front of us.

So, let's talk about the four pillars that will support the company. The first pillar is superior analytics. This means that -- this is our growth strategy. We are a growth company and we want to develop modeling capabilities that will prevail against our rivals and capture opportunities that are in front of us. And therefore, we must continuously invest in our decision science capabilities and focus on the individual consumer, not the segment. And that's really the secret to what we do here.

Second pillar, is our operational and scale leadership. We need to maintain our industry leading, cost platform. We need to continue to refine our debt recovery management model. We need to enhance and emphasize our internal legal platform which we're doing, and we need to continue to invest and involve our consumer decision science modeling. At the end of the day, we need to continue to work to lower their cost to collect every year.

One of the most important jobs and this is where Paul and I always argue about. Who has the most important job? But we've decided that it's gonna be a draw here. But the most important thing that we can do is have strong stewardship of your capital. All right? That requires us to make sure that we're getting the right return for all the purchases that we make. It requires us not to chase market share for market share sake. It requires us to make sure we have above our weighted average cost of capital. It also requires us to make sure we have access to market and the capital that we get is low cost and the capital is sustainable over time.

The last piece of the model, pillar four, happens to be our extendable business model. And here, our model is uniquely scalable. All right? And what you've seen here, and we'll talk about in a few minutes, is asset acceptance, which falls under pillar four as well as the Cabot deal, which falls onto pillar four. And as we talk to the investor community going forward, this is how we're gonna refer to the things that we're doing. This is our value creation strategy. Not a corporate strategy. This is our value creation strategy and we believe, if you do items one through four, and what you're gonna get is growth, margin expansion, more free cash flow, and that, we believe will lead to PE multiple expansion. It is our goal to being the top quartile total shareholder return. We say that's 50 percent plus over year. We get that through the following. Basically, and on recent surveys, 7 percent is what most investors think is an adequate return, three percent coming from dividends and shareholder buybacks, one percent from margin expansion, and three percent from net income growth.

And the difference between that expectation and the top quartile, is usually 700 to 800 basis points, and that's how we set, you know, being the top shareholder return of 15 percent or greater. So this is the model we're gonna use to talk about the business and the consumer going forward. So, much like, you know, you see the pictures here of transportation that is from, you know, horseback to rocket ships, we have taken our consumer modeling and we have continued to enhance it. From basic segmentation, to individual consumers, down to the individual consumer level, and now, to the credit research institute, we're taking that R&D. We're applying that behavioral, those learning to our modeling.

So generally, most people look at the consumers as one mass segment. This is the standard industry view of a consumer portfolio. All right? But inside of that portfolio, are a variety of different people. And what we do is we take those people and we put them into groups. The group on the left is high willingness, moderate capability. We would expect to collect from that group. Low willingness, low ability, we won't even talk to this group. We won't spend our money. We won't spend our money. We know we're not gonna get any money. Low willingness, high ability, may require us to take some legal action. So, this is how we take our consumers and we break them into individuals and then based upon that, based upon these categories, we determine what the right approach is, to return capital.

Okay. Through what we've done over the years, we've become 11 percent more effective. And if you just take our 2008 vintage and index it, we're better in what we do by 11 percent. We kind of put that into real dollar terms. In 2012, we collect $442 million. 2008, we only collected $398 million. That's $44 million of incremental cash. That's 50 cents higher in incremental EPS when you also deduct for the cost to collect. And as I said, our cost to collect over time has gone down from 51.5 percent to the first quarter, of 36.5 percent, improving analytics, increased specialization in the call centers. Our scaling of our India call center, we have nearly 1900 people that work in India. It's just an amazing operational site there and about the third of the cost of our U.S. call centers. And lastly, we're working on improving the cost structure and the cost platform of our internal legal investments.

So, stewardship is important to us. Debt is our working capital. We need to employ that and you need to make sure we get strong cash flows that are returned to the company. Strong cash flows allows TSR to drive investments. And what we're trying to do is focus everything on that TSR. So, the TSR is at the heart of what we want to accomplish. And around that TSR, all the strategies that we will need to employ. All right? And when we can't find opportunities, and right now, we have plenty of opportunities to deploy our capital. But when we can't find opportunities to deploy capital, we will then return the capital to shareholders when we have no other alternatives.

So, let's talk a little bit about ERC. First, our debt, as the end of the first quarter, was $812 million and you can see that rising from about $300 million in 2007, to $12 million in 2013. Our ERC inclusive of asset acceptance, is $3 billion. And when you take our gross ERC, less our cost to collect in taxes, we are left with $1.7 billion. Take the $1.7 billion, subtract out the $800 million, and that is basically equal to what our market cap is today. The question you normally get is, how do we know your ERC's right? You know, how can we trust that?

Well, one, we set our initial curves conservatively and over time, we have outperformed those initial curves by about 20 percent. So we feel comfortable that the ERC of $3 billion is a very realizable number. So, our access to market gives us a variety of other opportunities. What we've also done is, well, we have $800 million sitting against our core business. We also have $300 million sitting against our Propel business. So the Propel facilities are incremental and separate from our core debt facilities. It has no impact on our ability to purchase core receivables and we continue to deploy those dollars based upon opportunities that the propel business has.

So, our core strategy is to continue to deliver total shareholder return attractive and sustainable. Shareholder return. All investments are bound by our internal IIR guidelines. Paul and I make up the investment committee at the company. We've got a variety of ways that we can deploy the capital. We can deploy it into portfolios that issuer sell. We can buy portfolios from either our competitors, our resellers. We could buy companies like Asset Acceptance Corp., we could go out and we could deploy capital to different geographic regions like Cabot Credit Management. We can look for other adjacent businesses or other new business lines. But no matter what we do at the capital, we are bound by our IIR guidelines and making sure that we are good stewards of the capital.

So we pursue the number of deals and initiatives that align with our core business. Again, the Propel deal was an adjacent business. Cabot is an existing business that we like in the U.K. So this gives you sense of what we deploy. We bought Propel for about $187 million. Cabot, we bought for £128 million, which was roughly $200 million. The asset acceptance deal basically satisfies our 2013 purchases. It's about $400 million. And we came into the year saying that we do about $400 million in the U.S. We'll leave this year doing with the two deals of Cabot and with Asset Acceptance and what we're still continuing to buy, and what we will buy in Q4. We'll leave with doing about $700 million worth of purchases this year. But the fact that we're able to do this deal, we're able to do attractive returns, allows us to be selective about what else we want to bid on for the rest of the year.

Now, we'll bid on almost everything but we'll bid to high IIRs. And if we get that deal, great. We'll use our liquidity for that. If not, we'll save the liquidity and we'll save it for the 4^{th} quarter when we'll be back in the market a lot stronger. As -- the Asset Acceptance is an interesting deal. Part of the deal is absolutely a shutdown of their public company infrastructure. Part of the deal is a wind down of their book, which will be moving over to our platform and then part of the deal is taking advantage of their internal legal platform, which means that we're gonna be -- Encore is gonna be moving to their internal legal platform. But when we look at other deals that we've done, we did $190 million plus portfolio, $100 million plus portfolio, both portfolios over performed against our initial expectations. Today, Asset Acceptance is performing higher. We haven't gotten in there. We're closing the deal tomorrow. Asset Acceptance is performing higher and our initial expectations are ready. And this is just from the team asset.

So, we like to deal, as I said, because I think we got it for somewhere between two and two and a half times. It's a lower cost structure. We're gonna take the Asset Acceptance structure in over nine months, bring it down to our cost structure. And then as I said, we have the opportunity with internal legal to move our platform to their platform. They actually bought the software company that we were gonna use to build our internal legal platform and they're in a few more states that we are. So we'll take advantage of migrating to their platform. So we'll still keep the call center open in Warren, Michigan and we'll still keep the call center open in Tampa as well.

Back to Propel, and one of the things that we have to do as a company to make sure investors feel comfortable with the capital they give us, we have to tell you what we're gonna do with it and then we got to go out and execute against it. So, when we bought propel a year ago, we said, there were three things that we wanted to do. We wanted to penetrate the Texas market. We wanted to lobby and introduce legislation in other states and we want to look for new opportunities. And against those three objectives, we continue to deploy capital. They're great opportunities in the state of Texas. Nevada just opened up TLP business. The bill has been approved but will be signed at the first week of July and we'll be able to start marketing sometime in September. So, we'll start building that. And we'll look to do other states as we go forward. And last but not the least, we've gotten into the tax collection business and we'll deploy about $50 million this year in that business as well. So, this is what we told you we're gonna do and this is what we've done.

Okay? Propel has moved from the end of the quarter. Portfolio of $137 million to $154 million. You see some of the basic characteristics of the pool, ones that really stand out to me is that we have loan-to-value of under 5 percent. Okay? We only have 1 percent foreclosure rate and most importantly, zero loses. On our risk adjusted basis, this is a great business. And the reason why we have zero loses, is if we're gonna foreclose. We're in a super priority position. The bank comes in and pays off the lean because they don't want us handling the foreclosure process.

A little bit about Cabot. Cabot's been business for over 14 years. It's acquired over $7.7 billion of face value of debt. It has an ERC of £934 million, $1.4 million, $1.5 million depending on the exchange rate that you use, deployed last year, over $130 million of capital. It's on track. We're deploying more than that this year. We plan to close the deal in the third quarter and after we close the deal, all those purchases that are still remaining to be made will be lucrative to us. Cabot is the largest player in the market. And that was our goal. When we started looking around, there are certain things that we set out for. We wanted a market leader, which Cabot is, we wanted a seasoned team and they have a seasoned professional and accomplished team to run that business. We want -- we liked the U.K. market because it has a robust growth to it. There's pent-up supply that's sitting with the banks that's gonna be forthcoming and we want to participate in that. And it's semi-performing paper. That's paper that's already generating a cash flow when the banks sell it. And the reason why the banks are selling the paper, is one, for capital reasons two, the administrative cost of overseeing that. So, growing market, IIRs are very, very strong there. They're actually higher than the IIRs domestically. We also -- we can all arbitrage IIRs, we can arbitrage the regulatory environments if we wanted to do that. As I said, the deal's expected to close in 2013, and it supports our long term, 15 percent EPS growth rate.

We said on investor day last week, you can think about our EPS for 2013 between $3.50 and $3.60 a share. So everyone's using $3.55. That's the 15 percent and, you know, Encore -- sorry, Cabot support that this year and will help us towards that 15 percent in the following year. So lastly, I'll end here with a minute left that this shareholder houses everything that we're going to do. This is how it's gonna drive us. So when you think about Cabot for a moment, they have good analytics, especially in the semi-performing paper. They've got cost leadership in their market, which we like. They have access to capital, which is great. And lastly, we have -- there's an extendible business model on their side because they can do roll ups and consolidations. And on our side, we can leverage our Indian operations during the day time. That place is idle during the day time and we can also leverage our earnings and decision science modeling and lastly, they don't any tertiary or secondary paper and we can help them with that and that will be a new opportunity. To the extent that we employ our Indian operations, we'll also get a revenue stream from Cabot as well, for that work. So, with that, and 26 seconds left and a flight that I need to catch --

Questioner

How would you compare, if you ask yourself, to ______ [00:25:52].

Ken Vecchione

To whom?

Questioner

______ [00:25:53]

Ken Vecchione

Are they in this market? So, I'm not gonna do that. They're, you know, I've been eight, nine weeks the market. Their stocks performed really well, they're a good company. I have met some of the guys today for the first time. They seemed like nice guys. I'll just tell you what we're doing and, you know, our goal is to give more value back to the shareholders. We've been undervalue in the last 60, 70 days. We've seen 2.5 times increase in our P/E Multiple. We're focused on that and we believe we can get that up as long as we continue with our 15 to 20 percent growth rate. We have slightly different business models. They're more in the BK paper. Okay? And we have more of the global footprint than they do.

Questioner

______ [00:26:42] discussion on, what are you gonna do, for those you acquired from ______ [00:26:49], are you gonna -- how do you think about them? Are they running on a different database, including your own database?

Paul Grinberg

From an accounting perspective, we'll treat it as one purchase and we'll account for it as one large purchase. So, it will be our Q2 2013 pool group, we're largely just be that portfolio. The accounts will --

Questioner

From a day to day operate --

Paul Grinberg

From an operating perspective, some of those accounts will continue to be worked in the Asset Acceptance call centers. Others will get transferred over to our domestic and our India call center overtime. So, ultimately, the goal is to reduce the cost to collect from the asset book and in order to do that, we'll need to move some of those accounts to our platforms. So, we've been working for the last 90, 120 days to figure out the exact strategy of what moves, where and when, and we'll start executing on that strategy tomorrow.

Questioner

Paul, have you broken out 50 percent of collection from India or in American operations?

Paul Grinberg

We have. So, last year, about half of our call center collections came from India. About $160 million or so, when we break that up.

Questioner

On several -- a quick question about, from the call center. So you ______ [00:27:58] in India, what percentage of those have -- what does that make up for the total centers for each source and how do you sort of manage the quality, given that ______ [00:28:10] on all of that.

Interviewer

We have Ken for like 5 more questions. Let's try to focus on like big picture CEO, but he can answer this question.

Ken Vecchione

We have 3000 people in the entire company. About 1900 sit in India. About 350 of those are non-call center people technology finance, HR and so forth. We have the same set of policies that work across the company. We have a QA department that monitors all the calls and across the company and our policies and procedures are the same and they collect at the same level and the same rate as our U.S. business does, but they do it for a third less of the cost.

Questioner

And what does this company needs to do better than what it's done in the past and what have you been most impressed by, by what it has been doing? So, what's most impressive and what do you see -- I know it's only a couple of weeks since but --

Ken Vecchione

Well, the first thing we need to do is execute. All right? And as I said on Investor Day, Thomas Edison had a saying that, "Vision without execution is hallucination." And so, we want to make sure that we execute and do well in both the asset deal and on the encore deal. What was the second follow up question? Big picture, what am I surprised about? Again, so I'll come back to the quality of people. The cooperation among all the Type A people that are there, makes me feel very comfortable that we can do the integration, do it well, at asset acceptance. There's a different structure for Cabot that's more of an investment and that company's gonna stand alone and Paul and I and our executive chairman, George Lund, and one of our board members will sit on the board and that will be more management and more governance of the company and we're running the operations and doing operational reviews in doing day to day management. They've got a very accomplished team to do that.

Questioner

And you have a lot going on and -- but I don't think you're done. That will be, Encore's done. I think it's, you know, Encore has been, you know, strategic. But I mean, where else is this company going? Over the next five years, where do you see --

Ken Vecchione

Part of that is a little corporate strategy and I'm not ready to get in there but I think what you'll see, both in the U.K. and in the U.S., is continued roll ups. And if there's a company that needs to be rolled up or wants to sell for a variety of reasons, they'll come to us. They'll go to the others but I think with our lower cost base, we'll have an opportunity to be the most aggressive and the best chance of winning the deal, much like Asset. Yes?

Questioner

Is the regulatory structure, in out stream, how big were the opportunities for those that are falling ______ [00:30:58].

Ken Vecchione

Yeah. I think -- so I think the smaller guys who haven't invested in their regulatory framework, are gonna be surprise when the CFTB comes to visit them. There will probably some fines but more importantly, they're gonna tell them to build that framework in. And that's gonna create a step variable in their cost structure. And if they can't absorb that, then I think that's one of the catalysts for consolidation. As it relate to the top four or five people, the large banks are auditing all of us and they have a certain expectation level. We will meet that expectation level. I assume the other banks will meet that expectation level and that's the group that they're gonna continue to go to. My sense is, if I was on the other side of this, I would make sure that all banks -- I'm sorry. All four or five players want a little bit during the cost of the year to keep everyone honest and coming back to the table but I also believe that since all of those four or five companies are slightly different and all have slightly different opportunities besides this core business, I think all show up to bid, but sometimes they won't bid strongly as they need to if they got another opportunity. If we have an opportunity to put more money overseas, we'll do that. If it has a better return and we may come in with an IIR that's not as much as aggressive as some of the other guys.

Questioner

How long would it take to take out ______ [00:32:21].

Ken Vecchione

You know, I've been dealing with regulators my whole life. There isn't a regulator, I don't I haven't dealt with. And it's sometimes very hard to predict what they're gonna do. I think CFTB is trying to figure out what they want to be and what their rules and policies are and they're gonna evolve that overtime. But, you know, my guess is in the next two years. I think you'll see a fairly good shake out as they go through once and does everyone and set a level of expectation.

Questioner

What are you most concerned about if these targets ______ [00:32:55].

Ken Vecchione

Well, besides, besides two large acquisitions, 60 days on the job, and outgoing CEO is not around, I would say trying to get out tonight would be my biggest -- you know, my general nature is I worry about everything. And I believe that you've got to master all the details. Not me, but just the whole company's got to be detail focused in order to make these deals working. And attention to detail is the most important thing that we can do.

Questioner

How about loan assets, would charge out low as they are and you come from a credit card industry, can you expect the credit card industry to go back to become more aggressive and, I mean, concerned about loans, I mean, there's nothing we can do about that?

Ken Vecchione

Well, first, I mean, that's why we have Propel and that's why we have Cabot in case the flow comes down. The banks will do what they do best and, you know, my sense is someone at Citibank or JP Morgan is gonna say to the head of the card group, you need to grow. And their tight credit standards are gonna be losable with it and then they're gonna be loosen some more because you go to do performance year over year. So I think they'll get back to more originations over time which will lead to more defaulted receivables plus you've got a couple of guys that have been offline, that are coming back online soon. And you've got the audits that have stopped the sale, that will be happening and we believe in the 4th quarter, you'll see more of the larger banks come back into the market and we'll be ready to be there in the fourth quarter.

Questioner

So your confidence on flow of debt over the next --

Ken Vecchione

Yeah. I don't angst about if we have an off quarter. We've got plenty of, you know, we've got $3 billion of ERC and we've got other opportunities to deploy our capital. So I don't angst if the returns are not there. And if they're not there, and we do a thorough review and we conclude that they're not there, then the money's gonna come back and do a stock buyback program. So either way, we'll think about the investor first.

Questioner

The -- I mean, we can -- I think if you need to run, I don't want you to miss your flight.

Ken Vecchione

I'll give you one more shot and then Paul will correct me and everything I said.

Questioner

New market, so I guess, the size of the market you're in, have you guys been doing research in like, Latin America or Australia or --

Ken Vecchione

Well, I'll tell you a funny story. Paul did turned down a Turkey deal. That was a smart career move for everyone. You know, we get calls and we're not gonna go into another market until we get Cabot really cleared and working right. Cabot is the beachhead to go in. And we also have a partner, JCF, and we have to, you know, see how they feel about that as well. We may have occasionally, I would guess, we're gonna have two different investment viewpoints. Theirs maybe a little shorter, ours maybe a little longer, and we'll have to work that out while we sit on the board together. So far, that marriage after days has been splendid. So we have no problems and we can try to work on how we're gonna govern the company together on the last couple of calls.

Questioner

We're not looking at the margin as much right now, but really, let's review the pricing protocol.

Ken Vecchione

Like Paul's, we have all the time. It has been elevated and we think it's probably peaking at this point and, you know, with more supply coming online, and with fewer buyers and some of the rational buyers out of the market, Asset Acceptance is one of the irrational buyers. You know, we think pricing has peaked and it will stay where it is, maybe get a little better. Paul, do you see it differently?

Paul Grinberg

No. I think as Ken talked about, the issuer is auditing the debt buyers and as they've gone through that process, they haven't sold because they want to make sure that they get their panel of accrued buyers out there and as soon as they complete that process, they'll start selling again. We think that will happen in the fourth quarter, so the supply-demand balance will be more favorable to us than it has been earlier in the year. And so, one of our strategies for doing the asset deal was to be out of the market and in time, when pricing was the highest and our expectation is that it will come down and moderate and we'll be back in the market at that time.

Questioner

The Propel business, I mean, it's like it's one of those that sounds to be too good to be true kind of businesses. How much of yield comes down year over year and I think there's been at least, I know there's been some more capital that's coming to that market.

Ken Vecchione

Well, on the TLP business, you know, yields are probably floating more around the 13 percent level and before, they're floating around the 15 percent level. So, they have come down, people market against that. You know, marketing in Texas against a potential 40 plus percent interest rates, so it's still, 13 is very attractive for consumers to take advantage of. The TLC business is a little bit more competitive. Hedge funds are in that. Those returns have come down but as Paul always reminds everyone in the company, on a risk adjusted basis, with no losses attached to them, these are still very, very attractive markets.

Paul Grinberg

And I think the other point with tackling business is that we're raising separate pools of capital from that business. So, really is, it's not a matter of, do we take capital for our core business in deploying the tax only business, a separate pool of capital. So, we don't make that decision because we have separate funding for it. So, it is incremental profit that the business is generating and the risk adjusted returns are still very, very strong.

Ken Vecchione

Anyway, thank you all very much. Appreciate it.