

Could Asset Acceptance Exit Create Health Care ARM Market Leader?

Asset Acceptance recently announced it was divesting a large medical receivables portfolio and exiting the space. The buyer, Capio Partners, is positioning itself to lead the healthcare debt buying sector.

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Capio Partners LLC is buying all of Asset Acceptance Capital Corp.'s health care receivables -- a portfolio with a face value of approximately \$2 billion.

The purchase positions Atlanta, Ga.-based Capio, which was founded less than three years ago, to be the nation's leading buyer of health care receivables.

The Atlanta-based debt buyer and its funding partner Aequitas Capital Management, Inc. will pay between \$1 million to \$1.5 million for the portfolio, said Jim Richards, Capio's president and CEO. Richards said the purchase did not include a Deerfield Beach, Fla. office, which had housed Asset's health care receivables subsidiary.

Asset Acceptance (Nasdaq: AACC), a major buyer of consumer charged-off receivables, announced late last month that it was exiting the health care receivables space -- a sector it entered in 2006 when it bought Premium Asset Recovery Corporation (PARC) for \$16.5 million ("Asset Acceptance to Acquire Medical Debt Purchaser PARC," May 1, 2006). Asset Acceptance said it will close the Deerfield Beach facility, reducing the company's annual operating expenses by approximately \$2.5 million.

Enticed by the growing volume of self-pay health care receivables, Asset Acceptance had hoped to leverage its debt buying expertise to become a leader in the health care debt buying sector. But the business was not performing to the company's expectations, the company's CFO Reid Simpson told insideARM.com.

"It's a financial decision," Simpson said. "This line of business for us was in fact underperforming for some time. The cost to collect was much higher than our other lines of business."

Kaulkin Ginsberg Director Mark Russell noted that several key senior executives who came to Asset Acceptance with the PARC acquisition and managed the subsidiary have left Asset. The bigger issue for Asset, and most other debt buyers who have expanded into the healthcare market, is that liquidating medical receivables requires different collection and regulatory strategies than other types of consumer accounts.

"You don't have the same information when you buy healthcare receivables that you get when you buy other consumer credit, such as credit cards or auto loans. For example, you don't know why the (health care) debt exists because you're not allowed to know that," Russell noted.

Russell said integrating a different strategy is challenging for any company, particularly if the new strategy provides little benefit to its core business.

Industry experts say health care debt purchases also are more challenging because with thousands of health care providers, it requires a larger sales force to identify and close a deal, compared with the limited pool of sellers in other ARM sectors. And health care providers are reluctant to sell, fearing an aggressive buyer could damage their relationship with patients.

“(Sellers of health care receivables) still consider their debtors patients, not just debtors, and they want to retain a relationship. The agreement debt buyers have with health care institutions have additional stipulations you wouldn't see between a debt buyer and credit card issuer,” Russell said.

In support of that point, Simpson noted the sale to Capiro is still awaiting the necessary consent from the participating hospitals per their purchase agreements.

Simpson said the divestiture will allow Asset Acceptance to focus on its traditional lines of business and work to grow the company's revenue and profit over the long term.

“Our view is that supply of charged off debt will be there for the foreseeable future at what we believe to be attractive pricing for us to grow the business,” he said.

It's the second time in as many years that Capiro has purchased the health care receivables division of a major debt buyer who entered the space in search of volume growth. Last year, Capiro bought the two-year old health care receivables division of Atlantic Credit & Finance of Roanoke, Va., for an undisclosed amount (“[Field of Medical Debt Buyers Narrows Further with Capiro Partners Acquisition](#),” February 19, 2009).

Richards said he contacted Asset Acceptance more than a year ago about purchasing its receivables if the company ever wanted to exit the market. He said he contacted Asset Acceptance again after noticing the company had not purchased a medical receivables portfolio in several months.

“I planted the seed that if they ever change their focus and decide they don't want to be in the healthcare space, I'd be interested in the portfolio and they'd have an exit plan,” Richards said.

Capiro has purchased between \$7 billion and \$7.5 billion in health care receivables since September 2008, Richard said. Most of the paper is being worked at Capiro's Sherman, Texas-based collections facility, which employs about 125 workers and will add as many as 25 more staffers to accommodate the volume growth from the Asset acquisition, Richards said.

Richards said Capiro hopes to have annual revenues between \$40 million and \$50 million by its fifth anniversary.

“The plan is coming together,” Richards said of Capiro's goal to be the industry's leading buyer of health care receivables. “It's a little slower than we'd like...But other than that, it's going good.”