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Debt Buyers Look Forward To Moving On With Chase Settlement In The Rearview Mirror

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Debt buyers and other participants are generally satisfied with the terms of JPMorgan Chase's settlement with the Consumer Financial Protection Bureau, and expect that it will have little impact on future debt sales, either from Chase or anyone else in the industry.

"It's probably a good thing to have some guidance," said Chris Runci of Runci Group. "It's better that this has been resolved and made it clear to other sellers what they need to do start selling debt again."

The CFPB and 47 state attorneys general announced the $125 million settlement yesterday. Among the provisions going forward is that any portfolio sold by Chase will not be allowed to be re-sold by the portfolio's buyer to anyone other than Chase. Much to the chagrin of many buyers, most portfolio transactions include this type of restriction.

"About 80% of the stuff we're buying has a no re-sale restriction," said Daniel Mendez of Diverse Funding Associates in Cheektowaga, N.Y. "The reality is that most large debt buyers don't resell anyway."

Many debt buyers said that if Chase opts to resume selling debt portfolios - the bank stopped the practice in 2013 - most buyers would not be on the preferred list of purchasers. But there were some who questioned how valuable Chase portfolios would be if any are brought to market.

The settlement provisions "make Chase paper less valuable," said Aron Tomko of Bayview Solutions. "There is no exit strategy."

Smaller debt buyers may begin to get squeezed out of the marketplace as more organizations and institutions are expected to adopt the terms of Chase's settlement as their own for future debt sales. Based on the terms of the settlement, the market has been tilted more toward the larger buyers.

"With less competition, the creditors are going to have a smaller number of purchasers," said Scott Wortman, a partner at Warshaw Burstein, a New York-based law firm. "This is going to hurt competition and innovation in that sector."

Wortman did point out one interesting fact in the settlement. Under the terms, Chase is required to conduct due diligence on all buyers of its debt portfolios. But the settlement does not include any definition or explanation of what that due diligence should include.

Other sources noted that the three-year limit on the age of debt that Chase can sell will also impact the availability of portfolios in the marketplace, should others adopt the same standard.

But regardless of how the industry will react and evolve as a result of the settlement, many are happy to move on.

"Something was being held over our heads has gone away," Mendez said. "People can start making decisions again."

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