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Portfolio Recovery Associates, Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Bill Carcache - Fox-Pitt Kelton.

Bill Carcache - Fox-Pitt Kelton

Can you talk about how much of the sequential decline in commission revenues was driven by seasonality given the seasonal boost last quarter versus just weaker performance potentially in the current quarter?

Steven Fredrickson

I would say the majority of it was driven by seasonal forces, particularly with some of our audit discovery work. We didn't have billings and collections perhaps as timely as they could have been in the first quarter, although they tend to be seasonal and more weighted toward year end as well as a lot of our business license fee revenue that comes in toward year end. So, again, I would say the majority of it was seasonality driven.

Bill Carcache - Fox-Pitt Kelton

And can you share your thoughts on how you're thinking now about, clearly the BK business performance remains strong on the basis of cash collections, but can you just share your thoughts on whether you feel better or worse now in terms of your level of perceived risk for that business relative to last quarter in light of the risks associated with the administration's actions, if you could just speak to that.

Steven Fredrickson

Sure. We remain very, very cautious in our underwriting assumptions and believe that through primarily underwriting assumptions, to some degree through contractual terms as well, that we are properly mitigating what could happen in the bankruptcy legislation. So we believe we understand what the possibilities are and that we're covering ourselves in the underwriting process.

Bill Carcache - Fox-Pitt Kelton

And when you say covering yourselves, I guess, in terms of risk, what risk do you see looking out into the future for that business and what kinds of things are you doing to mitigate those?

Steven Fredrickson

Well, I think the primary risks include dividend rates changing over time, cram-down legislation that could skew payments away from unsecured creditors potentially, and also fallout rates potentially increasing as customers are less able to completely fulfill a plan. And we are again attempting to quantify worst case or reasonable worst case scenarios for each of those three, factor them into our underwriting assumptions and, using assumptions like that, price portfolios to what we think is an appropriate level.

Bill Carcache - Fox-Pitt Kelton

And then finally the last question is your cash collections are at record levels but your amortization rate is at record levels, and so it seems like you're being as cautious or as conservative, also, as you've ever been. Can you just talk about whether the amortization rate is something that you think about each quarter or whether it's a result, just something that kicks out? And then if you could speak to where you see it going from here, that would be helpful.

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