

Debt Sale

Selling Debt Owed to the City: The City does not offer its outstanding debt for sale to collection agencies.

Background

In certain circumstances, creditors (including governments) may sell debt, often to a collection agency, in order to monetize amounts owed but not yet collected. The price that a purchaser will pay for the debt varies based on a number of factors, including the type of debt, the type of debtor, the age of the debt, and the collection efforts already made with respect to the debt. Creditors selling debt generally package together numerous accounts with similar features for sale, and buyers often purchase these packages of debt through a bidding process. Upon sale, the seller gives up any right to further pursue the debt or to control the tactics used to collect the debt, and the purchaser keeps everything they are able to collect from the original debtors.

The average sale price of debt sold in this manner is 4 cents for every \$1 of original debt owed, or 4 percent. In other words, a debt buyer might pay \$40 to purchase a delinquent account where the balance owed is \$1,000. The older or less likely a debt is to be collected, the lower the price.

Revenue

Revenue from the sale of debt would depend on the factors described above for all of the accounts in the City's debt portfolio, and the market for that debt. In selling debt, the City forgoes the opportunity to collect any of those dollars in the future through its own efforts, offsetting some of the immediate revenue from the sale of the debt. Annually, the City collects approximately \$36 million on debt over five years old and almost \$10 million on debt over ten years old from fines imposed for violations such as building code violations, parking tickets, and other vehicle-related violations.