

Jefferson Capital: Which Consumer Debt Should It Buy Next?

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Decision scope: The next phase of U.S. portfolio purchasing: scale purchases of uncharged-off but significantly credit-deteriorated loans, or concentrate on charged-off and insolvency portfolios.

Case convention: This is a classroom decision exercise. The alternatives and committee assignment are hypothetical; they do not describe an actual internal debate or private management plan. No later offering outcome or company result is included.

The decision

Jefferson Capital had built its business around acquiring consumer debt portfolios and collecting on them. Its June 2025 prospectus described U.S. purchases of performing loans as an area for expansion. The company said it had selectively acquired performing pools in 2022 and 2023 and believed its experience in distressed debt could transfer to them. A recent, much larger purchase from bankrupt retailer Conn's gave the strategy a concrete example: Jefferson acquired a mixed portfolio that included loans not yet charged off by the originator. [C1a, pp. 17-18; C1c, pp. 2-5]

For this exercise, assume you are preparing a recommendation for Jefferson's capital-allocation committee at the cutoff date. Should it make uncharged-off but significantly credit-deteriorated consumer loans a larger part of its U.S. purchasing strategy? Should it focus marginal capital on charged-off and insolvency portfolios, where its operating playbook is more established? Or should it pursue both through a limited, evidence-gated program? Explain what evidence, operating capabilities and financial results would change your recommendation. The public record does not disclose an internal capital budget or numerical hurdle for this choice.

What does "performing" mean here?

The label can obscure the risk. In response to SEC staff, Jefferson said it did not separately track "semi-performing" loans. It described "performing" loans as loans not yet charged off by the originator, while acknowledging that the loans generally had significant credit deterioration. It also explained that a loan pool can share risk characteristics even when accounts differ in delinquency status. These are the company's accounting and portfolio descriptions; they do not establish how any loan will perform after purchase. [C1b, pp. 1-2; C1c, pp. 2-4]

The distinction matters because an account can be current or recently delinquent and still carry meaningful risk of migration into delinquency or charge-off. After purchase, Jefferson may also need to absorb a servicing handoff, reconstruct payment histories, communicate new payment instructions and estimate expected losses. In a bankruptcy-related sale, the seller's closure,

data quality and disruption to payment channels can affect both what the buyer knows and when cash arrives. [C1c, pp. 2-6]

Conn's: an acquisition, not a return comparison

Conn's, a furniture and consumer-electronics retailer and lender, entered bankruptcy in 2024. Jefferson's purchase included two broad types of accounts. The larger pool had not been charged off by Conn's; the smaller pool had already been charged off. Jefferson said the uncharged-off pool combined Conn's installment and revolving accounts. It described 53.2% of those accounts as delinquent or recently delinquent and forecast that a majority of the remaining 46.8% would become delinquent. That second statement was a company forecast, not an observed outcome available at the cutoff. [C1c, pp. 4-6]

The purchase therefore offers evidence that Jefferson could acquire and classify a large mixed book, and that it viewed an uncharged-off pool as potentially attractive. It does not show the realized return on either pool. Jefferson did not disclose loan-level collection curves, separate vintage returns or account-level information about reliance on Conn's stores for payment. The company told SEC staff it could not identify which accounts had used in-store payment. [C1b, pp. 1-2; C1c, pp. 4-6]

Exhibit 1. Conn's purchase: disclosed amounts and classifications

Amounts are company-reported unless marked approximate or derived. The response letter reports rounded pool allocations.

Purchase detail	Uncharged-off pool	Charged-off pool
Principal balance	\$567m	About \$1.5bn
Allocated purchase amount	\$226.3m (92.3%)	\$12.0m (4.9%)
Company description	Not charged off by originator; generally significantly credit deteriorated	Charged off by originator
Additional disclosure	53.2% delinquent or recently delinquent; Jefferson forecast a majority of the remaining 46.8% would become delinquent	No separate return disclosed

C1a reports approximately **\$245m** of net cash paid at closing for the Conn's portfolio purchase. The two rounded allocations above sum to \$238.3m; subtracting that figure from the approximate \$245m leaves an **approximate \$6.7m** residual. Jefferson's letter says the remainder was allocated to cash and assembled-workforce intangibles but gives no exact split or exact reconciliation. The allocation amounts and percentages are not precise enough to infer an exact pool price or return. A discount to face value is not an investment return. [C1a, p. 5; C1c, pp. 4-5]

A growing business with rising financing costs

Jefferson's 2024 results showed higher portfolio revenue and operating income, alongside a sharp rise in interest expense. Most reported revenue came from owned portfolios rather than servicing. Servicing grew faster in percentage terms, but remained a small share of consolidated revenue. These company-wide results do not reveal the return on the Conn's purchase or the economics of the next marginal dollar deployed. [C1a, p. 89; audited statements p. F-4]

Exhibit 2. Jefferson's reported financial context

USD millions except percentages. MD&A amounts are rounded to one decimal; reported growth rates follow the prospectus. Audited statements are in USD thousands.

Measure	2023	2024	Change / note
Total revenue	\$323.1	\$433.3	+34.1% reported
Owned portfolio revenue	\$293.6	\$395.9	+34.8% derived from displayed values
Servicing revenue	\$20.7	\$29.1	+40.6% reported from rounded values
Credit-card revenue	\$8.8	\$8.3	−5.7% derived from displayed values
Net operating income	\$164.1	\$220.3	-
Interest expense	\$48.1	\$77.2	+60.5% reported from rounded values
Cash collections on owned portfolios	\$431.0	\$584.6	-
Principal amortization	\$(137.4)	\$(188.7)	Deducted in deriving portfolio revenue

The financial statements report servicing revenue of \$20.678m in 2023 and \$29.118m in 2024. Those exact values imply 40.8% growth; the prospectus reports 40.6% using the rounded \$20.7m and \$29.1m figures. Interest expense was \$48.108m and \$77.239m; exact values imply 60.6% growth, compared with the reported 60.5% based on rounded amounts. Portfolio cash collections less principal amortization equal portfolio revenue using the displayed figures: \$431.0m − \$137.4m = \$293.6m in 2023, and \$584.6m − \$188.7m = \$395.9m in 2024. Cash collections, portfolio revenue, operating income and net cash returns are different measures. [C1a, p. 89 and p. F-4]

The rise in interest expense places funding cost among the questions for a capital decision. The prospectus does not provide a segment-level debt bridge that attributes the increase to any one acquisition or portfolio category. Nor does it give current marginal funding costs, available capacity, purchase-level hurdle rates or returns by asset status. The growth figures therefore provide context, not a direct comparison of strategic choices.

What the industry evidence can-and cannot-tell the committee

Public competitor filings show that other large debt buyers combine portfolio ownership with some servicing activity, but the reported mixes are not direct benchmarks. Encore Capital reported 2024 revenue of 92.2% from debt purchasing, 6.4% from servicing and 1.4% from other sources. PRA Group reported \$1.408bn of 2024 portfolio purchases. Their scale, geography, accounting and portfolios differ from Jefferson's, and neither disclosure provides a matched return comparison for uncharged-off versus charged-off consumer loans. [C3, Item 7 and revenue table; C4, Item 7]

Research offers mechanisms and diligence questions rather than a company-specific answer. Studies of recovery prediction find that pre-purchase account attributes and information gathered during collection can help predict recovery in their particular samples. One study of a single European bank-to-collector sale of defaulted mortgage and credit-card loans found higher test-set explanatory power when bank recovery-history features were included; it did not measure the returns from buying performing loans. The Federal Trade Commission's historical U.S. analysis associated portfolio prices with factors including age, debt type, face value and prior contingency-collection history; seller source was not statistically significant after its controls. These findings suggest the value of account-level information and careful cohort segmentation, but they do not supply Jefferson-specific price, recovery or cost assumptions. No located study directly compares debt buyers' risk-adjusted returns on performing-but-deteriorated and charged-off or insolvency pools. [A2, A5, A11; see source register]

Collection methods also have trade-offs. Research on regulation and consumer outcomes suggests that credit availability, recovery and consumer hardship can respond to collection rules and practices. The samples and designs differ from Jefferson's full portfolio, so these studies do not produce a single collection-cost or regulatory multiplier. A decision should consider complaint and dispute rates, documentation, settlement outcomes, legal exposure and recovery timing alongside nominal collections. [A3, A4, A6]

The strategic choice

The committee can consider three author-created paths. They are discussion alternatives, not known Jefferson proposals:

1. **Scale uncharged-off, significantly credit-deteriorated pools.** Use Conn's as evidence of acquisition capability and expand the target set beyond charged-off and insolvency portfolios. The case for this path depends on pricing, data, payment continuity, loss migration and post-purchase collections supporting attractive risk-adjusted economics.
2. **Keep marginal deployment concentrated in charged-off and insolvency assets.** Prioritize categories where Jefferson has a longer operating history and established collection capabilities. This may limit exposure to transition and classification uncertainty, while leaving the company more dependent on assets with uncertain recovery timing, bidding pressure and collection costs.
3. **Run a selective, evidence-gated program alongside the core book.** Preserve both channels while setting explicit cohort-level review points for price, forecast accuracy, delinquency migration, servicing transition, funding costs and compliance outcomes. The committee would need to specify what evidence permits expansion or contraction; public disclosures do not provide a numerical cap or hurdle.

A purchase decision combines portfolio price, projected cash timing, principal loss, cost to collect, funding, information quality, servicing continuity and risk classification. Any strategy also depends on whether sellers will offer comparable pools repeatedly. Conn's emerged from a bankruptcy and was a mixed portfolio; one transaction may not establish a steady pipeline.

Questions for discussion

1. Which strategic path should Jefferson pursue, and what evidence matters most to your recommendation?
2. What does the Conn's transaction establish about Jefferson's capabilities? What does it leave unknown about returns?
3. How should the committee distinguish current delinquency, originator charge-off status and expected credit deterioration when comparing pools?
4. What cohort data and operating milestones should Jefferson require before expanding purchases of uncharged-off loans?
5. How should rising interest expense, forecast error, servicing continuity and regulatory or consumer outcomes enter the decision?
6. What observable results would cause you to change course? Identify the measures, review period and trigger logic without treating consolidated revenue growth as a portfolio return.

Sources and conventions

Company and competitor sources are indexed with versions, locators and reading-depth notes in the Jefferson Capital source register. Company facts and calculations are cross-referenced in the evidence extraction. The cutoff uses the June 13 substantive S-1/A as the latest filed public prospectus; later filings and outcomes are excluded. In the exhibit, values are company-reported unless labeled derived or approximate. The strategy alternatives are hypothetical teaching choices; no private deliberations are represented.