

**Part 2A of Form ADV: *Firm Brochure***

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**This brochure provides information about the qualifications and business practices of Security Credit Services, LLC (hereinafter “SCS” or “firm” or “we”). If you have any questions about the contents of this brochure, please contact us at (662)-281-7220 or at [dblaylock@securityholdingsllc.com](mailto:dblaylock@securityholdingsllc.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about SCS is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for SCS is 154737.**

## **Item 2. Summary of Material Changes**

We originally filed this Brochure with the United State Securities and Exchange Commission (“SEC”) on May 16, 2011. The following material changes to the Brochure have been made:

- Item 4: Our firm’s assets under management has been updated.
- Item 5: Our firm’s Organizational Fee has been added and a clarification of responsibility for expenses has been added.

We are entitled to a one-time organizational fee equal to 1.5% of the gross purchase price of Units in the offering for an LLC. In return, we are responsible for all expenses for the offering of the LLC interests. These expenses include, but are not limited to, legal, accounting, printing, travel, meals, state securities filing fees and the sales commissions and expenses of placement agents utilized by SCS. Previously, we had been entitled to reimbursement for these expenses, with the reimbursement not to exceed 1.5% of the gross purchase price of Units in the offering for an LLC.

- Item 13: Thompson Dunavant PLC, one of our auditors, was acquired by Mayer Hoffman McCann P.C., and Mayer Hoffman McCann P.C. now provides our financial audit and certain audits related to debt collection guidelines. Our firm has also hired a new firm, Kirkpatrick Price LLC, to audit our internal control activities.

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#### **Item 4.           Advisory Business**

Security Credit Services, LLC (“SCS”) is a Mississippi limited liability company based in Oxford, Mississippi. SCS has been in business since 2003, and is a wholly-owned subsidiary of Security Holdings, LLC, a Mississippi limited liability company. SCS was formed for the purpose of acquiring delinquent consumer accounts receivable from financial institutions and managing the collections process on these accounts through privately offered investment pools.

##### Limited Liability Companies

SCS is engaged in the acquisition and collection of unsecured defaulted consumer accounts receivable (“Receivables” or “Debt”) on behalf of its clients. Our clients include several private investment pools formed as limited liability companies (“LLCs”). Each LLC has designated SCS as the exclusive manager responsible for acquiring delinquent consumer accounts receivable. Currently, SCS manages 16 LLCs in this manner including:

American Debt Purchasing Pool 0905, LLC  
American Debt Purchasing Pool 0907, LLC  
American Debt Purchasing Parallel Pool 0907, LLC  
Michael T. Lewis Debt Pool 0907, LLC  
American Debt Purchasing Reinvestment Pool 0907, LLC  
American Debt Purchasing Pool 0908, LLC  
American Debt Purchasing Parallel Pool 0908, LLC  
American Debt Purchasing Reinvestment Pool 0908, LLC  
American Debt Purchasing Pool 0209, LLC  
American Debt Purchasing Reinvestment Pool 0209, LLC  
American Debt Purchasing Parallel Pool 0209, LLC  
American Debt Purchasing Pool 1109, LLC  
American Debt Purchasing Reinvestment Pool 1109, LLC  
White Purchasing Pool 1109, LLC  
American Debt Purchasing 0610, LLC  
American Debt Purchasing 0811, LLC

##### Portfolio Acquisition and Collection Services

Our firm invests in Debt portfolios from several sources on the open market. We seek to analyze the viability of each individual Debt portfolio by applying our own analytical methodology to each portfolio prior to acquisition. By undertaking the due diligence process prior to acquisition, we look to quantify what percentage of the portfolio is likely to be successfully collected in order to determine the purchase price for the Debt. Pursuant to the applicable governing and offering documents, our firm has the sole decision-making authority to complete a portfolio purchase for each LLC.

SCS allocates portions of these Receivables portfolios among several LLCs depending on the size of the portfolio and the available investment capital (“capital threshold”) of each LLC. The allocation of a portfolio among two or more LLCs is done on a random selection process governed generally by the capital thresholds of each LLC.

### Collections Strategy

Upon acquisition of the portfolio, our firm engages third-party collection agencies and law firms which undertake the collections process of the debtor accounts. Our firm utilizes these third-party vendors to more efficiently undertake the collections process on a nationwide level. We manage the utilization of these third parties for efficiency, cost and overall responsiveness.

By actively managing the collections process undertaken by our third-party service providers, we are able to analyze data on an ongoing basis and gauge the effectiveness of the collections process. As a result, we can decide in a timely and effective manner whether to transfer Receivables from collections to litigation or to simply sell uncollected Receivables.

### Ancillary Responsibilities

In addition to our responsibilities in managing the collections process, SCS is also responsible for collecting the recovered funds and administering the payment of all costs (including fees) and the distribution of proceeds to our investors. However, in accordance with applicable terms of the original offering of LLC interests, SCS reserves the right to reinvest proceeds in the acquisition of additional Debt portfolios if we determine it is in the best interests of the LLC.

### Assets

We manage each LLC on a discretionary basis in accordance with applicable governing and offering documents. Discretionary assets under our firm's management were \$111,607,101 as of December 31, 2011. We do not manage any client account on a non-discretionary basis.

## **Item 5. Fees and Compensation**

With respect to each LLC, SCS will receive an Organizational Fee, an Acquisition and Portfolio Fee, a Collection Fee, a Revenue-Based Fee and may also be entitled to a Sales Commission.

### Organizational Fee

SCS is entitled to a one-time fee equal to 1.5% of the gross purchase price of Units in the offering for an LLC. In return, SCS is responsible for all expenses for the offering of the LLC interests. These expenses include, but are not limited to, legal, accounting, printing, travel, meals, state securities filing fees and the sales commissions and expenses of placement agents utilized by SCS.

### Portfolio Acquisition and Collection Services

**Acquisition and Portfolio Fee:** an annual amount equal to 4% of the total capital committed to each LLC is paid to SCS regardless of the capital contribution requirements of the LLC. This fee is paid quarterly.

**Collection Fee:** an amount equal to the Applicable Percentage (determined by the classification of the Debt collected as set forth below) of gross collections of all Receivables collected on behalf of each LLC. The Collection Fee is payable as Debt is collected irrespective of whether the LLCs are profitable or ever generate cash flow. Furthermore, after two years of collection efforts for any indebtedness, SCS has the right to negotiate, in our discretion, fee structures with unaffiliated collection agencies. SCS shall be responsible for paying all collection fees irrespective of whether the Collection Fees paid to SCS by the LLC are higher or lower than the fees charged by collection agents to SCS. If the collection agency's fees are higher than SCS's Collection Fee, SCS shall be responsible for paying the difference, and if the fees are lower than SCS's Collection Fee, SCS shall have the right to retain the difference between the lower fee and the Collection Fee paid by the LLC.

Types of Debt Classification:

**Prime Debt:** Indebtedness for which no collection agency has attempted collection after the debt has been charged off by the credit issuer.

**Secondary Debt:** Indebtedness for which only one attempt for collection has been made post charge-off by the credit issuer.

**Tertiary Debt:** Indebtedness for which two or more attempts for collection have been made post charge-off.

<u>Debt Classification:</u>	<u>Applicable Percentage (%)</u>
Prime Debt	30%
Secondary Debt	35%
Tertiary Debt	40%

Revenue-Based Fee and Hurdle:

After our investors have received distributions equal to a fifteen percent (15%) annualized return on invested capital (excluding invested capital previously returned) plus their invested capital, SCS will receive fifty percent (50%) of the net cash flow of the LLC that would otherwise be available for distribution to our investors.

Sales Commission:

When our firm determines that it is in the best interest of an investment vehicle to sell uncollected Receivables, we typically hire a third party to arrange such sale. We reserve the right to hire ourselves or an affiliate to arrange these sales. The sales commission paid to our firm or an affiliate will not exceed four percent (4%) of the sales price.

### Fees in General:

Our firm directly debits any fees owed by the LLCs. The fees are not negotiable except in separately managed accounts.

### Expense Reimbursement:

The LLCs are responsible for all expenses that we or the LLCs incur in connection with the LLC's business, and these expenses are paid from the investments in the LLCs. The two exceptions to this rule are (a) expenses directly attributable to collecting Receivables, which are covered by our Collection Fee and (b) expenses related to the organization of the LLC and the offering of the Units of the LLC, which are covered by our Organizational Fee. Claims, demands, actions and litigation against the LLC or the Manager arising out of the collection process and liability or settlements related to this are the responsibility of the LLC and not our firm.

## **Item 6. Performance-Based Fees and Side-By-Side Management**

As we have disclosed in Item 5 of this Brochure, our firm accepts a revenue-based fee from each LLC, which is not based on the capital appreciation of the assets of the LLCs. A prospective investor must either demonstrate a net worth of at least \$1,500,000 or must have at least \$750,000 under management immediately after subscribing to the interests of the LLC(s).

Prospective investors should be aware that revenue-based fee arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Furthermore, since certain affiliated persons of SCS may invest in one but not another of the LLCs, a conflict of interest is created whereby we have an incentive to favor one LLC over another. Since we endeavor at all times to put the interest of our clients first as part of our fiduciary duty as a registered investment adviser, we take the following steps to address these conflicts:

1. We seek to disclose the existence of all material conflicts of interest in our Private Placement Memorandum that is given to each investor.
2. We collect, maintain and document accurate, complete and relevant investor information, including the investor's applicable qualifications for a performance-based fee arrangement, financial goals, objectives and risk tolerance.
3. We have implemented policies and procedures for fair and consistent allocation of investment opportunities among all LLCs.
4. We periodically compare holdings and performance of all LLCs to identify significant performance disparities indicative of possible favorable treatment.
5. We educate our employees regarding the responsibilities of a fiduciary, including the equitable treatment of all clients.

Revenue-based fees are charged in accordance with the requirements of the Investment Advisers Act of 1940.

**Prospective investors must understand the revenue-based fee method of compensation and its risks prior to investing in one or more of the LLCs.**

#### **Item 7.           Types of Clients**

As disclosed above, SCS's only clients include several private investment pools formed as limited liability companies ("LLCs"). The minimum investment in previous LLCs has been \$1,000,000. However, on a prospective basis, the minimum will be \$5,000,000.

Our firm only accepts investments for the LLCs from (a) Accredited Investors (as defined in Rule 501(a) of Regulation D of the Securities Act of 1933) and (b) non-U.S. investors that meet the requirements of Regulation S.

#### **Item 8.           Methods of Analysis, Acquisition Analysis and Collection Strategies**

Our firm employs fundamental, technical, and charting analysis to formulate client recommendations.

Acquisition Analysis: Our firm identifies its defaulted consumer accounts ("Receivables" or "Debt") for purchase primarily through three industry relationships: (1) direct relationships with credit issuers; (2) direct relationships with brokers who sell Debt; and (3) direct relationships with other Debt-buying partners. Purchasing through our established relationships allows our firm to perform due diligence on the prospective portfolio prior to purchasing it. Therefore, we are able to apply our analytics and methodology to the data and more accurately quantify the appropriateness of the portfolio for acquisition and collection on behalf of our clients. In analyzing a potential Debt portfolio for acquisition, we take many factors into account, including but not limited to (1) geographic concentration, (2) average balance, (3) cost of collections by state and (4) previous collection activity.

One significant risk that our firm sometimes encounters in quantifying the suitability of a Debt portfolio is purchasing a portfolio from a credit issuer with whom we have no previous collections history. We seek to reduce this risk by purchasing multiple Debt portfolios to avoid allocating too significant an amount of investment capital to any one Debt portfolio. This discipline allows us to analyze collection results for an initial period, while also measuring the acquisition price compared to actual collections. If the collection performance is consistent with our due diligence assumptions, we then secure similar portfolios going forward, making sure that the underwriting methods and data characteristics are consistent with the previous month's statistics.

Collection Strategy: Upon acquisition of the Debt portfolio, our firm engages third-party collection agencies and law firms which undertake the collections process of the debtor accounts. One hundred eighty days after the engagement of these third-party collection agencies, our firm reassigns uncollected Receivables to different agencies along with the full collection file and



history. Unless Receivables are transferred to law firms to initiate litigation, the uncollected files are reassigned to collection agencies every 180 days for the cycle of the collection process. The collections process is estimated to be five or six years.

When the firm determines that legal action is a more appropriate course of action with respect to an individual uncollected Debt, the Debt is transferred to one of the firm's designated law firms and legal action is commenced. Such legal action may include filing suit against the debtor, garnishing the debtor's wages, obtaining a judgment against the debtor and filing a lien on the debtor's assets. Our firm has the authority and reserves the right to sell an uncollected Debt or Debts at any time if we determine it is in the best interests of the LLC(s).

***Clients should understand that investing in any securities involves a risk of loss of both income and principal.***

#### **Item 9. Disciplinary Information**

Our firm has no reportable disciplinary events to disclose.

#### **Item 10. Other Financial Industry Activities and Affiliations**

Our firm is a wholly-owned subsidiary of Security Holdings, LLC, a Mississippi limited liability company.

Security Holdings, LLC also owns Security Card Services, LLC, a merchant services company which sells credit card processing services to businesses.

Several officers of SCS are also officers or employees of Security Holdings, LLC, and Security Card Services, LLC and may spend up to 15% of their professional time with these related companies.

Richard DeVoe, an accountant with DeVoe, Carr Financial Group, PLLC, is a member of the Board of Managers of Security Holdings, LLC, parent company of SCS. DeVoe, Carr Financial Group, PLLC prepares income tax returns for each of the LLCs, SCS and Security Holdings, LLC.

#### **Item 11. Code of Ethics, Participation in Client Transactions and Personal Trading**

##### Code of Ethics Disclosure

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. Our Code of Ethics includes policies and procedures for the acquisition of debt portfolios and investment decisions. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code provides for oversight, enforcement and recordkeeping provisions. A copy of our Code of Ethics is available to our advisory clients and prospective

clients upon request to Mr. Doug Blaylock, Chief Compliance Officer, at the firm's principal office address.

Our firm retains the right to negotiate the fees paid to collection agencies and law firms and as a result, these fees may be lower than the Collection Fee paid to us by our clients, and our firm will retain the difference. Additionally, our firm has negotiated fee arrangements with some outside vendors that result in higher profitability for our firm based on the amounts collected by the specific vendor. As a result, our firm may have an incentive to assign more uncollected files to such vendor due to this arrangement.

Additionally, our firm and its principals may and often do acquire membership interests in the LLCs. Our firm and its principals may acquire up to five units in any LLC alongside investors.

Furthermore, removal of our firm as manager of an LLC is allowed only for fraud, willful misconduct or material breach of the underlying LLC agreement. Such removal requires a determination of members holding at least 75% of the units in an LLC (including those held by our firm and our principals).

## **Item 12. Brokerage Practices**

SCS does not select or recommend broker-dealers for LLC transactions. As described in Item 14, SCS does retain a broker-dealer as placement agent for the sales of limited liability company interests in an LLC.

As described in Item 8, SCS identifies Receivables for purchase primarily through three industry relationships: (1) direct relationships with credit card issuers; (2) direct relationships with brokers who sell Debt; and (3) direct relationships with other Debt-buying partners. From time to time, we may also purchase Debt at auctions.

SCS's established industry relationships are a critical component of its debt-purchasing strategy because these relationships allow SCS to review certain data in a Debt portfolio prior to purchase. By reviewing the Debt portfolio prior to purchasing, SCS is able to apply its analytics to the data and estimate what percentage of the portfolio will be collectible over a set period of time. This in turn helps SCS determine the appropriate purchase price for the Receivables. Factors considered by SCS when selecting the counterparty from which to purchase Debt include SCS's familiarity and past business experience with the counterparty, the counterparty's reputation and professionalism, the quality of the counterparty's services and of the Debt portfolio, the cost of the Debt portfolio and whether or not the counterparty permits SCS to view certain data regarding the Debt prior to purchase.

When SCS determines that it is in the best interest of an LLC to sell particular Receivables or an entire Debt portfolio, SCS may hire a third party to arrange for the sale and pay this broker a commission. However, SCS reserves the right to hire itself or an affiliate to arrange for these sales. Commissions paid to SCS or its affiliate will not exceed four percent (4%), which is consistent with market rates. Market rates currently are approximately four percent (4%) to six percent (6%) of the sales price of the applicable Receivable or Debt portfolio, depending on the

amount of the sale. When selecting a broker for the sale of Receivables or an entire Debt portfolio, SCS has an inherent conflict of interest as it stands to earn additional compensation by selecting itself or an affiliate. Factors considered by SCS when selecting the counterparty to sell Receivables or an entire Debt portfolio, including whether to select a third party, SCS or an SCS affiliate, include the size and perceived value of the Debt, whether SCS or an affiliate has an interested, unaffiliated buyer, the commissions proposed by third-party counterparties for selling the debt, SCS's familiarity and past business experience with the counterparty and the counterparty's reputation and professionalism.

### **Item 13. Review of Accounts**

#### Account Reviews

As disclosed above, once a Debt portfolio is constructed, SCS utilizes third-party vendors to efficiently collect Receivables on a nationwide level. We manage the utilization of these third parties by monitoring their effectiveness, efficiency, cost and overall responsiveness. The monitoring of collections is carried out by Joan Chandler Rasberry, Director of Operations.

By actively managing the collection process, we are better able to analyze data on an ongoing basis and gauge the effectiveness of the collections process. As a result, we can decide in a timely and effective manner whether to transfer Receivables from collections to litigation or to simply sell uncollected files.

#### Investment Reporting

Investors in one or more of the LLCs will receive an annual audited financial report for the LLC(s), prepared by an independent auditor that is both registered with and subject to regular inspection by the Public Companies Accounting Oversight Board (PCAOB), within 120 days of the end of each LLC's fiscal year. Currently, SCS uses Mayer Hoffman McCann P.C. f/k/a Thompson Dunavant PLC, an independent certified public accountant, to conduct annual financial audits of its LLC clients. Mayer Hoffman McCann P.C. also reviews SCS's collection agencies to ensure that they are complying with the Fair Debt Collection Practices Act and other debt collection guidelines. In addition, SCS has retained Kirkpatrick Price LLC of Tampa, Florida, to perform a SAS 70 audit, which consists of a review of SCS's control objectives and control activities, which often include controls over information technology and related processes. Results of these audits are available to investors in the LLCs upon request. Finally, SCS utilizes DeVoe, Carr Financial Group, PLLC for income tax preparation.

### **Item 14. Client Referrals and Other Compensation**

Our firm does not receive any additional compensation from third parties for providing investment advice to its clients and does not compensate anyone for client or investor referrals. However, SCS does engage broker-dealers from time to time to act as a placement agent with respect to clients' private placement offerings. Such broker-dealers' compensation is based on the number of investors who participate in each private placement. Any placement agent hired

by SCS in connection with such offerings will be required to be registered with the Securities and Exchange Commission as a broker-dealer and will be required to be a member of FINRA.

**Item 15. Custody**

Under applicable regulations, SCS is considered to have custody of LLC assets. This interpretation arises by virtue of SCS's, or an affiliate's, authority as Manager of the LLCs. As an adviser with custody, we urge all investors in one or more of the LLCs to carefully review their audited financials that we provide annually within 120 days of each LLC's fiscal year end.

**Item 16. Investment Discretion**

We have sole authority with respect to the management of the acquisition, collection and disposition of Receivables on behalf of our clients.

**Item 17. Voting Client Securities**

Due to the nature of the underlying Receivables invested in on behalf of the LLCs, no proxies are received by SCS for voting purposes.

**Item 18. Financial Information**

Under no circumstances will we collect fees in excess of \$1,200 more than six months in advance of services rendered.