

## Live Debt Auction? The Man Behind the Plan Sees a Need

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By H. Michael Jalili

A veteran auctioneer plans to hold a live auction of bad debt next month and hopes to create a trading floor dedicated to buying and selling debt portfolios.

Joel Langer, the founder of Chicago Debt Exchange, said buyers and sellers of these portfolios do not have an effective way to find out the portfolios' worth.

"Debt has always been sold very silently," Mr. Langer said. "The bottom line is that something is worth what somebody's willing to spend, and there is no better way than a live auction to determine the market value of something."

He is looking for buyers and sellers to participate in the Sept. 13 Live Auction Exchange. Chicago Debt Exchange will register attendees and oversee the event.

He said the auction will sell charged-off consumer debt and other debt, and will be similar to the Chicago Mercantile Exchange, where commodities such as wheat, corn, and livestock are traded daily.

Debt portfolios often change hands several times, sometimes through sealed-bid auctions. Mr. Langer said he hopes to organize monthly auctions, and he said live ones would make pricing more efficient and could spark more trading volume.

"What do banks do now to sell their debt portfolios?" he said. "They go to brokers, they go here, they go there. I'm opening the market for everyone, because right now the market is as small as who the broker knows or who the banker knows. I'm taking the debt industry to a level of making it live, open, and transparent, which it's never been."

Mr. Langer, a member of the Illinois State Auctioneers Association, is listed on its Web site as a specialist in several auction categories, including antiques, art, charity, and real estate. He organized a debt portfolio auction in January 2005 in New York to sell the assets of the debt buyer Capital Acquisitions and Management Corp., which was selling the debt in compliance with a court order.

In next month's event he will take bids on behalf of the U.S. Bankruptcy Court Northern District of Illinois on debt portfolios valued at more than \$500 million. He said he has invested \$300,000 in the auction, and that more than 100 people have signed up. He is not charging a registration fee but will get a percentage of the purchase price from the buyers.

Mr. Langer plans to offer many other types of debt portfolios besides the consumer chargeoff ones at Live Auction Exchange. Industry watchers said that would make evaluating the portfolios difficult.

Alfred Brothers, the chief executive of Cavalry Portfolio Services in Phoenix, a buyer of nonperforming debt, said a debt auction "does make some sense" but "the caution that I have is that these are nonperforming consumer loans; these aren't commodities."

"It's not like a share in a public company," Mr. Brothers said. "Looking to buy these portfolios, you need some information and experience to evaluate the information on that portfolio. You need to come to your own estimate of value."

Bidders at Live Auction Exchange will need information about portfolios - for instance, on the origination and servicing policies and on attempts to collect, Mr. Brothers said.

"All of these things have a big bearing on what the remaining recovery from the file may be," he said. "And you can look at one file of accounts that may look identical to another file, but just what has already happened to one of them may make a difference in terms of what's going to be collected from them. They're not corn, they're not soybeans."

Mr. Brothers attended the New York auction and placed bids; he has not decided whether to attend the Chicago auction.

Paul Lagrady, a consultant at Kaulkin Ginsberg Co, a Bethesda, Maryland company that advises debt buyers, said the face value of debt portfolios in the United States is around \$110 billion. He also said market is growing because consumers are carrying more debt and creditors often want to quickly convert the debt into cash.

J.P. Kelso, the president of PRS Assets LLC in Denver, which buys and sells charged-off receivables, said that some businesses auction off their debt portfolios, and the buyers often spend weeks or months analyzing them before closing a deal. And many debt buyers prefer to conduct their business in privacy to protect their methods.

"The idea of a trading floor based upon market supply and demand" does not sound good, though "being timely and quick lends itself to strong discipline and to being a healthy and good business deal," Mr. Kelso said.

"I would think the only people who would participate would be those that lack the ability to do it any other way, and most of us who've been doing it for a long time prefer to rely on our relationships and history to get our transactions done," he said. "Every time you share your business with everybody else, it's not your business anymore."

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