

Point, click, unload!

*Well, it's not quite that simple
to sell off troubled loans online.
But it's easier than you'd think.*

Typically, a bank attempting to sell troubled debt can expect to be hosting various visitors who want to look at the paperwork behind the loans — or loan, if it's big enough. It's a time-consuming process, but necessary before the buyer is likely to finalize the deal.

But buyers who peruse the loans posted on the online marketplace operated by DebtX — The Debt Exchange — can do their due diligence, place bids, and more, right from their desktop.

Online secondary market technique

The Debt Exchange platform, at www.debtX.com, for those buyers and sellers who are registered, represents the front end of a sales system that, while substantially automated, still involves a great deal of human involvement.

The company's asset-sales experts help customers price a loan or package of loans, based on their knowledge of the market for both troubled and non-troubled debt. The smallest unit the organization will deal in is \$1 million. The company bases its pricing advice on a combination of recent market sales as well as a proprietary pricing model.

DebtX staff set up summary pages about loans or loan packages, giving the basics of what's being offered. These summary pages include links to supplemental materials, such as photos of properties, loan documents, and appraisals.

Because documentation can often become voluminous, the materials are typically organized into categories and enhanced with search and other time-saving features.

The documents are scanned so registered buyers who have paid a fee for online access to the files — to ensure that they are in earnest about the potential purchase — can look the materials

By Steve Cocheo, executive editor



over. All this material is subject to a confidentiality agreement.

The purchasing process can be set up a number of ways, depending on the seller's preference. In general, the party interested in a listed troubled asset or assets enters a sealed bid, which is evaluated against bids received from other prospective purchasers in the system. Some packages are set up to allow bidders to submit multiple bids on the same package.

Shaking out more buyers

Prospective buyers' ability to browse and bid on assets that interest them without having to go anywhere to see the "guts" of a deal helps broaden the potential market for a package, according to J. Kingsley Greenland II, president and CEO of The Debt Exchange.

"It's somewhat like doing an initial public offering," says Greenland, a veteran investment banker. "It's highly structured, and you have a lot of people structuring deals, but you still do it through a competitive marketplace." Greenland believes that the potentially broader field of offers can improve the final price.

Assisting in the use of the platform are standardized forms developed by DebtX for use by firms listing assets on the company's website. Greenland says that the typical debt-sales process uses highly customized forms, and that coming up with model forms for sellers to use saves time. Similarly, Greenland says that the firm has done much to streamline and standardize the closing process. (Transfer documents are posted online as part of the documentation, for example, to allow buyer attorneys to review them as early as possible.)

All together, "this takes a lot of the friction out" of the process, says Greenland.

A shifting market

The platform is not a "build it and they will come" affair. As the loan sale advisor, DebtX staffers in offices around the country engage in several kinds of sales efforts to drive potential buyers to deals listed on the online service.

In 2006 more than half of the loans posted on DebtX involved commercial real estate. Greenland says that commercial real estate's share has been dropping in recent months as more subprime residential loan packages come to the online marketplace.

The bulk of DebtX's revenue from the process comes from fees earned from the sellers.

"So the worst case for us," says Greenland, "is to post an asset and for it not to sell." **BJ**