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FINANCE: THE INTERNET

## An eBay of Deadbeats

Want to pick up some cheap debt? The Web is the place to be

If everything from fine art to used wedding dresses can be auctioned off on the Internet, why not bad debts? Newly minted Web sites are vying to sell off such problem debts as unpaid credit-card bills, auto loans, home mortgages, and even uncollected lawsuit settlements. "The market for distressed debt is the greatest it's ever been, which is spurring the Internet movement," says Edward I. Altman, professor of finance at New York University's Stern School of Business.

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- An eBay of Deadbeats
- TABLE: Buying Bum Loans on the Net

The sites are drawing notice from major corporate players. Sprint Corp., for instance, recently put \$145 million of its unpaid telephone bills up for sale on DebtAuction.com. Bank One Corp. has listed \$211 million of unpaid credit-card receivables on rival Debtforsale.com. Another site, E-Debt.com, recently sold a portfolio of troubled consumer rentals of such products as electronic goods for Erie Capital Corp.

**VULTURE FIRMS.** The online sites are still small, and most have been in business less than three months. But they could change the face of debt collection, an industry that deals in some \$1 trillion in unpaid loans outstanding in the U.S. "The Internet brings down costs dramatically," says Ed Bankole, who heads research on defaulted credit-card debt and auto loans at Moody's Investors Service. That's because the sites could eliminate bad-debt brokers, the middlemen in what has long been a cumbersome and opaque market.

Bad loans don't trade on an open exchange. Deals are done privately, and crucial information turns on personal relationships. On the sell side are banks or credit-card agencies that find collecting on bad debts costly. They'll list duff loans in industry newsletters or solicit interested agencies to submit sealed bids-- a process that can take months. On the buy side, eager to acquire the debts at only pennies on the dollar, are collection agencies, attorneys who specialize in suing debtors, and "vulture firms" that sweep up defaulted loans to gain control of debtor businesses. In between, usually, are brokers who bring the two sides together.

The Net promises to shortcut the effort by lining up buyers and

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|         |          |       |
|---------|----------|-------|
| DJIA    | 11021.59 | -4.00 |
| S&P 500 | 1287.23  | -1.91 |
| Nasdaq  | 2302.60  | -8.51 |

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sellers at the click of a mouse. That gives lenders a way to clear their books and get cash in as little as a week. Discounts from face value aren't any different on the Net: Although neither DebtAuction.com nor Sprint will confirm the figure, industry insiders say Sprint's \$145 million portfolio fetched just \$2 million. But the sites charge lenders commissions of only 0.5% to 1%, compared with the 5% to 15% that brokers demand.

The new Web sites have some big-league sponsors. Wachovia Bank has a stake in CollectionsX.com, which in turn has an alliance with credit information agency Equifax. DistressDebt.com, a credit analysis site that plans to get into sales, is backed by Dun & Bradstreet, Chase Manhattan Bank, and Wasserstein Perella. "We can promise a consistent supply of bad loans from D&B, which has the largest portfolio of delinquent debt in the world," says the site's CEO, Benjamin Waisbren.

Still, the new sites have their naysayers. "The dot-coms can never match the standard broker's level of service," says John Park, a partner at bankruptcy-debt buyer National Capital Management. Park says that traditional brokers provide too many essential services, such as detailed information on the nature of the debt.

But some sites are already closing that gap. To help buyers devise their bids, CollectionsX.com now tells them how old the debt is and what efforts have gone into trying to collect. Thanks to its Equifax tie, it can inform buyers how much money the debtor has stashed in other accounts. Some of the sites offer perhaps as much as "90% of the due diligence" provided by brokers, says Brian Cutler, chief technology officer of Arrow Financial Services LLC, a buyer of debt in Lincolnwood, Ill.

Still, lenders are wary about the sites. Legally, they must sell problem loans only to accredited buyers, so they must thoroughly vet bidders. The sites claim to do some of this homework: "We provide a buyer profile, which we verify from Dun & Bradstreet or the Federal Trade Commission," says Patrick Beharelle, president at CollectionsX.

Some brick-and-mortar brokers say margins on the Web are too low for the new sites to survive. But others, such as National Loan Exchange, see the handwriting on the wall. National plans to start selling debt online within the next few weeks. Better low margins, apparently, than no margins at all.


By Pallavi Gogoi in Chicago

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**TABLE**

**Buying Bum Loans on the Net**

| WEB SITE   | WHEN IT STARTED | FACE VALUE OF DEBT SOLD |
|------------|-----------------|-------------------------|
| E-DEBT.COM | Mar. 20         | \$200,000               |




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|                  |         |                 |
|------------------|---------|-----------------|
| DISTRESSDEBT.COM | June 15 | Not selling yet |
| DEBTFORSALE.COM  | June 19 | \$121 million   |
| DEBTAUCTION.COM  | July 4  | \$145 million   |
| COLLECTIONSX.COM | Sept. 5 | None so far     |

DATA: BUSINESS WEEK

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