

Price vs. Liquidation

"Does Price Drive Liquidation or Does Liquidation Drive Price?"

*By Larry Mollner,
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Last July I was asked to speak at the ACA convention in San Diego on the ABD Best Practices Panel. Asking why you would invite me, "I have had only 3 yrs experience in the debt buying space", I was told it was because of my background (didn't say age) and the insight I might convey to the attendees.

I was fortunate to have some very experienced co-presenters on the panel and as we prepared, it was obvious that what we all had to say about debt buying was pretty much the same. Know the seller, know the paper, do your analytics based on your knowledge of the paper and only pay what it is worth.

Only paying what it is worth is the key to a successful debt purchase. You might think you know the liquidation curve but the price at the time of purchase is the only certainty, so it had better be right. At the convention we went through the standard due diligence questions and contract items that must be in every purchase a debt buyer makes. Note: a CD of the presentation is available through the ACA.

The most striking thing to me about the panel's presentation was the question and answer session after the prepared remarks. The subject of evaluation came up and I made the comment that **knowledge of the paper and batch tracks was extremely important.** Knowing the previous liquidation curve is great but the buyer must recognize that Creditors, Collection Agencies and/or Debt-Buyers have been working the file, and they are applying more analysis, which is thought to improve their collection process. I made the point that to think that today's portfolio is of the same value as that of 2 or 3 years ago was foolish. This only begs the question, "If the file is worth less, why does it sell for more?"

"If the File is Worth Less Why Does It Sell For More?"

Questions from the floor lead into a discussion of determining the right price. I pointed out that as a funder of debt buyers, Ravinia sees numerous models and evaluation methodologies. I then made the comment that *liquidation curves drive the price.* What surprised me was the number of strange looks and comments I received.

In an attempt to clarify myself, I pointed out that we have seen, on numerous occasions, models with a liquidation curve driven by price. Yes, Excel spreadsheets showed that if you paid more you would liquidate more.



I think it took me three times of trying to explain it before I finally just stated that *"Liquidation determines Price and anyone whose model had price determining liquidation had it wrong."*

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I left the crowd with a final thought: with better analysis and stronger collection efforts by original credit grantors and each up stream buyer, what made people believe prices should be higher today?

Maybe you have the answer.

This article was written by Larry Mollner from Ravinia, a client of Lighthouse Consulting.

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