

GFI to launch desk for tax lien debt trading

Print

By Telis Demos in New York

Published: March 10 2010 15:18 | Last updated: March 10 2010 15:18

GFI, an inter-dealer broker, announced on Wednesday that it is launching a new trading desk to make a market in tax lien receivables, the first such marketplace.

Investing in tax lien debts has grown as local and state governments in the US, who rely on property tax revenues and sell such debts to investors to generate cash, have **struggled with their finances in the recession**.

Last year local governments held \$50bn in tax lien debts, about \$30bn of which were sold to investors, according to the National Tax Lien Association (NTLA). That grew from about \$15bn new issues in 2008 and in total represents a \$100bn market, according to the NTLA.

The desk at New York-based GFI will be headed by Howard Liggett, executive director of the NTLA, and Thomas McOsker, who also runs a New York hedge fund called Sycamore Capital Partners that invests in tax liens. He was previously at Lazard Asset Management.

Tax lien receivables are debts owed by delinquent property taxpayers to county and municipal governments. Investors purchase certificates at auction in exchange for money eventually collected from the debtor by the government. If the taxes are not paid, the investor often becomes a senior debtholder in the foreclosure.

According to Mr McOsker, the need for a secondary market arose as many investors did not want to become holders of claims in foreclosed properties.

"Considering the exponentially rising foreclosure market and persisting credit constraints, many investors need to sell," he said. "We will be creating liquidity for two major markets, the municipalities that are struggling to repay their debts and the institutional investors looking to divest."

The practice of selling tax lien receivables to investors has existed for decades, and 28 states currently do so. Local authorities rely on such funding for 70 to 80 per cent of their infrastructure spending, according to figures from the National Association of Counties.

But there is currently little secondary trading. Some receivables were securitised in the mid-1990s but today represent only a small portion of the market, according to Mr McOsker.

Purchasers of tax liens include **hedge funds** and asset management firms, such as MD Sass, a New York-based investment advisor with \$6.5bn in client assets. Intermediaries, such as Xspand, a subsidiary of JPMorgan Chase based in New Jersey, often purchase the debt and re-sell it to investors.

In the past year, secondary trading of non-traditional investment securities has grown, as the market was flooded with delinquent debts of all kinds, and as specialised hedge funds needed to de-leverage and generate cash.