

COIN WORLD

Some basics: Auctions 101

By [Armen Vartian](#) | 01-06-12

Article first published in January-2012, Expert Advice section of Coin World

Auctioneers bring buyers and sellers together. Collectors know that they achieve the highest prices by exposing their coins to the maximum number of buyers.

With coins of only narrow collecting interest, this exposure is even more important, and the seller must have confidence that what few collectors there are in a particular area will know that his or her property is for sale. But auctioneers do much more than advertise coins.

A professional auction house acts as warehouse, appraiser, insurer, photographer, researcher, bank, salesperson and credit manager for its consignor, and authenticator, appraiser and delivery service for buyers.

The following is a simplified explanation of an auction consignment agreement.

Consignment rules

The consignment agreement gives the auction house the exclusive right to sell the items being consigned until the date of the auction. The agreement also describes the auction house's charges, which primarily involve the seller's commission, a percentage of the "hammer price" (winning bid) of each item.

The seller's commission structure aligns the auction house's interests with the consignor's, as increasing the hammer prices increases compensation to both. These commissions can sometimes be negotiated in the case of large consignments. In some cases, auction houses require consignors to compensate them for certain additional out-of-pocket costs such as photography, grading fees and other costs specific to the particular consignment.

Advances

Because sometimes a lengthy period of time occurs between when goods are consigned and when the consignor is paid for them after sale, firms usually offer consignors advances, which are loans, with interest, payable from the proceeds of the sale, and secured by the coins being consigned.

Advances usually involve a loan agreement and a security agreement, both of which will be on that auction house's standard printed form and will not (ordinarily) be negotiable.

The consignment agreement will contain a warranty from the consignor that he or she has good title to the goods being consigned. No auction house is likely to accept a consignment where the consignor does not warrant title.

However, consignment agreements typically do not require the consignor to make express or implied warranties regarding authenticity, condition or rarity.

In fact, one reason collectors place property at auction is to have it examined and cataloged by the auction house's experts.

The flip side is that consignment agreements usually provide that the auction house has complete discretion with respect to all aspects of cataloging.

In order to protect bidders, auction houses allow consignors to establish reserves. Reserves are confidential prices below which the lot cannot sell. At the auction, the auction house will open bidding, and will bid up to the reserve price (against the other mail and floor bidders) on behalf of the consignor. If other

bidders do not outbid the reserve, the lot will be “bought in” and returned to the consignor.

Obviously, consignors do not consign property with the intent to buy it back. However, “buy-ins” are even more unhappy events for the auction house. The auction house has done all its cataloging, advertising and auctioneering, but without a sale it is deprived of a seller’s commission as well as a buyer’s fee. Therefore, auction houses usually require a “buyback fee” in the event that a consignor buys in his own property.

Payment of consignors — and return of unsold property — is called “settlement.” The timing of settlement varies, but for rare coin auctions 45 days is standard.

Armen R. Vartian is an attorney and author of *A Legal Guide to Buying and Selling Art and Collectibles*.