Realty Executives Florida Keys
1824 Flagler Ave
Key West, Fl 33040
Phone: 305-296-4422
Cell Phone: 305-304-2433
FAX: 305-296-4462
jimsmith@realtyexecutives.com

Hello, everyone …   1 December 2012

The Hurricane Season ended uneventfully, at least for the southernmost USA. Our condolences for those impacted by Hurricane Sandy … proof that even Cat I hurricanes can be very dangerous.

I suppose November will be best remembered for Election Day and the end (finally!) of political TV ads and so-called debates. Aaah, the cruel parents who would name their son Wolf Blitzer! And didja hear about the new SitCom "The Real Housewives of Tampa"?

<u>Table of Contents for this issue</u>:

I'm in the dark about my internet show and the KONK Broadcasting Network. Last I heard the studio was going to relocate, and there's been radio-silence ever since. Maybe I've been quietly fired? I'll suspend the www.KONKNET.com newsletter input until the smoke clears!

There are many positive articles in the news about real estate. There seems to be little doubt that a "comeback" has begun. That makes macro-sense for believers in the approximate 13-year real estate cycle, given that the last market peak was 2005-2006 … it's time for the graph to reverse course. This last downturn was a doozie, and there is still a LOT of clean-up to perform. But buyers, and especially investors, are out scouring the landscape. Even Warren Buffett is "long" on real estate these days, but he is so BIG that he can't buy raw real estate … he's buying real estate *companies*. Still, a good sign ☺

The Fiscal Cliff … this could be interesting, but I must confess I can't get too fired-up about it. I'm a little weary of Beltway crisis-after-crisis-after-crisis, need a break from all the tension and uncertainty. Locally, what we <u>are</u> getting fired-up about is the beginning of the "season" in the tropics! Real estate-wise, there is a LOT of optimism. Another good sign ☺

Jim Smith, Broker Associate and part-owner
Realty Executives Florida Keys
1824 Flagler Ave, Key West, Fl 33040
Ph: 305-296-4422 ext 244
Cell: 305-304-2433
FAX: 305-296-4462

Big disappointments in November

The New York Times

By SHAILA DEWAN   October 12, 2012

Business Day

Scrutiny for Home Appraisers as the Market Struggles

A low appraisal will limit the amount the bank will lend, forcing buyers to come up with more cash or negotiate a lower price. An appraisal can be an arbitrary, personal decision … and there is no appeal process.

Appraisals are generally ordered by banks so they can verify the value of collateral before granting a mortgage. Now, with banks far more cautious about lending, a low appraisal can torpedo a deal.

The problem is so widespread that this week the National Association of Realtors blamed faulty appraisals for holding back the housing recovery, saying its members had reported that more than a third of all deals were negatively affected by a low appraisal.

Appraisers use previous sales of comparable houses to help value a home. If prices are just starting to climb, and sales take two or three months to close, there can be a lag before the change in prices is observed. The Realtors report said appraisers were improperly using foreclosures and neglected properties as comparable homes, failing to account for market conditions like scarce inventory and bidding wars, and working in areas where they lack local expertise. Since the housing crash, appraisal management companies take a healthy cut of the consumer's fee and hire inexperienced, low-cost appraisers … and they create unrealistic requirements, like six comparable sales instead of three, at a time of few sales. Sales volume could be an additional 10% - 15% higher if we had normal appraisal practices. And it would create more jobs.

Appraisers took issue with the complaints and pointed out that unlike real estate agents, they have no bias or incentive to help complete a deal. "Appraisers don't set the market, they reflect what's happening in the market," said a spokesman for the Appraisal Institute. "Don't shoot the messenger". Blaming the appraiser for a bad housing market is like blaming the weatherman because you don't like the weather.

Any transaction involving a mortgage is limited by the appraisal — an assessment that is part science and part art and is based on a variety of factors. Some appraisers said agents misunderstand the way homes were valued. For example, although bank-owned homes generally sell at a discount, but some bank-owned homes are in good condition, and in some neighborhoods bank-owned sales dominate the market, and thus determine prices.

In some areas the light sales activity can cause legitimate worries. In other cases, agents use appraisals to convince sellers that their expectations are too high and that they should ask less or accept a lower offer. But in other cases, sellers know that traditional buyers are competing with cash investors who will pay more.

Agents can try to head off low valuations by arming the appraiser with relevant comparable sales and information about renovations or upgrades that are not readily visible, like insulation. Buyers who disagree with an appraisal can ask the bank to review it, ask for a second appraisal, pay for their own appraisal, or file a complaint with the state, though agents said the chances of salvaging a sale were slim.

Appraisers see some irony in the accusation that, so soon after a housing bubble, they are being accused of holding prices down. They said buyers should not be too eager to make a purchase that is far above recent sales in a neighborhood. They can account for small to reasonable increases in values, but they cannot account for $20,000 jumps in a month.

KEY WEST multi-unit properties: Properties not under contract, and recent sales.

	List Price:				$-per-Unit:	
DUPLEXES:						
701 Elizabeth St:	$ 995,000	ROI	**2.48%**	duplex	$ 497,500	
1612 Bertha St:	$ 410,000	ROI	**8.23%**	duplex	$ 212,500	
814 Whitehead St:	$ 535,000	ROI	**4.91%**	duplex	$ 267,500	
1321 South St:	$ 675,000	ROI	**3.74%**	duplex	$ 337,500	
914 Frances St:	$ 795,000	ROI	**2.49%**	duplex	$ 397,500	
809 Fleming St:	$ 649,000	ROI	**7.05%**	duplex	$ 324,500	
1106 Pearl St:	$ 435,000	ROI	**4.91%**	duplex	$ 217,500	
1911-13 Patterson:	$ 405,000	ROI	**9.13%**	duplex	$ 202,500	Under contract 10/22
1100 Angela St:	$ 1,190,000	ROI	**2.55%**	duplex	$ 595,000	
903-05 Catherine St:	$ 339,000	ROI	**5.54%**	duplex	**$ 169,500**	
1022 Grinnell St:	$ 398,000	ROI	**6.68%**	duplex	**$ 199,000**	
3 UNITS:						
1022 Washington St:	$ 849,000	ROI	**8.01%**	3-units	$ 283,000	Under contract 11/23
717 Fort St:	$ 400,000	ROI	**6.33%**	3-units	**$ 133,333**	
1614 Dennis St:	$ 649,000	ROI	**7.62%**	3-units	$ 216,333	
307 Elizabeth St:	$ 879,000	ROI	**5.25%**	3-units	$ 293,000	Expired unsold 11/8
611 William St:	$ 1,499,000	ROI	**1.05%**	3-units	$ 499,667	
1703 Johnson St:	$ 279,999	ROI	**6.38%**	3-units	$ 139,999	**SOLD $235,000 11/16**
4 UNITS:						
1127 Washington St:	$ 598,000	ROI	**6.82%**	4-units	**$ 149,500**	**SOLD $550,000 11/1**
1125 Washington St:	$ 685,000	ROI	**5.01%**	4-units	**$ 171,250**	**SOLD $410,000 11/2**
1023 Whitehead St:	$ 850,000	ROI	**11.79%**	4-units	$ 218,750	
1119-23 Simonton:	$ 1,500,000	ROI	**2.79%**	4-units	$ 375,000	
530 William St:	$ 1,645,000	ROI	**10.36%**	4-units	$ 411,250	
Greater than 4 UNITS:						
400 Simonton St:	$ 1,599,000	ROI	**2.61%**	6-units	$ 266,500	
1301 Truman Ave:	$ 925,000	ROI	**10.36%**	8-units	**$ 115,625**	

SALES:

1127 Washington St: **$550,000**

1125 Washington: **$410,000**

1703 Johnson St: **$235,000**

keysnews.com
FLORIDA KEYS
The Florida Keys and Key West's Daily Online News

18 November 2012
BY REGINA E. CORCORAN

Oh, we need a little Christmas

Santa has arrived early for as many as 150,000 homeowners with second mortgages held by Bank of America. This is part of the settlement agreement among the five largest mortgage servicers, state attorneys general and the federal government. The five big guns are Bank of America, JPMorgan Chase, Wells Fargo, Citibank and Ally Financial (formerly GMAC). The federal government and 49 state attorneys general won decisions against these five of fraudulent foreclosure practices and "robo-signing" of key mortgage foreclosure documents.

Santa Baby has sent 150,000 letters to homeowners offering automatic extinguishment of their second lien mortgages. The letters started going out in July 2012 and will continue through the end of 2012. This will result in an estimated $2.5 billion of mortgage relief.

Here's the bad news. It doesn't help those who suffered due to disreputable mortgage foreclosure practices. **And the badder news**: Homeowners may not request relief. Only those loans selected by Bank of America will be released.

Who qualifies? Customers who have a 2nd mortgage or equity line with Bank of America qualify. It does not matter who the first mortgage holder is. However, the BofA loan must be delinquent. Alternatively, the borrowers may be "underwater" and owe more on their home than what it is worth. In a small number of cases, borrowers may be seriously delinquent on their first mortgage. Here are a few frequently asked questions.

(1) Do I have to accept the offer? No, you may opt out in writing within 30 days of receiving the letter. You would be an idiot, too (*JSmith: Regina didn't say that, but I couldn't help myself*.).

(2) What effect does this have on a foreclosure in progress? BofA has eliminated the debt and released its second lien on the property. However, this has no bearing on the actions of the first mortgage holder.

(3) How does this affect the borrowers' credit? Bank of America will report to the credit bureaus that the loan is paid and closed and has a zero balance.

(4) What are the tax implications? Bank of America may be required to report the eliminated debt to the Internal Revenue Service. Under certain conditions, debt cancellation does not result in tax liability. Above all, seek the advice of a qualified tax preparer, tax attorney or CPA.

(5) What if the second mortgage was already discharged through a bankruptcy? First, see the paragraph above regarding tax preparers, CPA's and tax attorneys. Although the loan may have been discharged through the bankruptcy, the lien still remains of record against the property. Through this extinguishment, Bank of America will release the lien against the property. They will also change the credit report to reflect that the loan is paid in full with a zero balance, as opposed to being discharged through the bankruptcy.

Finally, of course, this will improve the borrowers' equity position in their property.

JSmith Note: I can confirm absolutely that Bank of America is doing exactly what Regina reports above! I know because I have a customer who had this happen just 2 months ago. One day, out of the clear-blue-sky, the owners of a short-sale property received a letter from Bank of America that began, "You are approved for a full principal forgiveness …"

That might also have been a good day to buy a lottery ticket 'cuz they were definitely HOT!

My Current BUYERS in the Lower Florida Keys:

December 2012

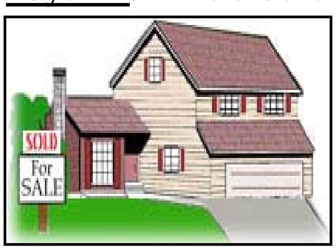
These are a sample of 5 buyers I am currently working with, in no particular order … what they are searching for, what their concerns are, what issues must be overcome, etc. Some of this may resonate with you, too! It will be a challenge to highlight 5 new buyers each month … but, let's see how it goes. By my calculations, the present inventory of buyers will be exhausted in a few short months, so I'll need a steady pipeline of newbies to replenish the inventory and keep this column going. Anyway, if you are a seller (or know someone who is), maybe one of these buyers would be a good match! I hope you find this interesting, even with identities withheld. If you are one of my buyer-prospects, surely you will recognize yourself!

Buyer #1: A long-time colleague from our Sunrise Rotary Club connected me with a friend of his, and fellow real estate investor. They had pin-pointed an Old Town single-family home as a potential monthly vacation rental. It was a short-sale needing some work (no surprise) at a great price of $249,000. We jumped on it, as did several others, and eventually registered a very competitive bid. But we lost out to a higher offer. So, now the search resumes for another candidate. If you are aware, or can recommend, an Old Town property with good rental potential, there is a cash buyer waiting in the wings! Transient license would be nice, too.

Buyer #2: Once again, a former listing may have produced a current buyer. So, the real estate literature may be true … having listings puts you in touch with more buyers than simply working with buyers alone. The benefit is enough to offset the fact that listings are an "expense" (money and time), especially if they don't sell. This is a contact made almost a year ago who is now possibly in the market for a small property or condo in Key West. We should be re-acquainted in the next month and expect to begin a search for a property in the $300K range in Key West.

Buyer #3: Our local MLS is wired-up electronically to dozens of other real estate websites around the country, so listings get a great deal of exposure. If a buyer in, say, Arizona finds my listing in Key West on-line, the website forwards that "lead" to me. Most recently, this has happened with Trulia.com and I'm in touch with a buyer from the 703 area code (Northern VA). The listing he inquired about had sold this past summer, but he's in the market for a similar property, if one pops up for sale. I'll be trying my best to find … Old Town condo, $250K range.

Buyer #4: There is a large military population in Key West and, being a military retiree, I sometimes meet people near the end of their military careers who are beginning to think of "settling down" and realizing that the Florida Keys has a LOT to offer. Been there! I happened to meet a person in exactly that boat (no pun) who has several months to make the *big* decision. I promised not to be a pest, so I can't divulge too much. I can be a small pest by writing about the scenario on this page, and offering my assistance during his analysis of KW as a possible retirement home.



Buyer #5: Services that provide internet "leads" can be useful, but like the EPIRB from my US Coast Guard days, the false alarm rate is about 98%. The one-or-two-times-out-of-a-hundred when it works, it more than makes up for the false alarms. I'm in contact with an out-of-state client who will be visiting Key West in a matter of days. And he wants to see properties for sale … single-family homes in Key West in the $300K-to-$400K price range. I'll be very happy to oblige and hope that he will become one of the *successes* in the internet lead business!

By Les Christie @CNNMoney October 23, 2012

Latest in mortgage fraud: Flopping

NEW YORK (CNNMoney) -- Why would anyone spread possum urine around a house, turn up the heat and close all the windows for a few days? Because they're flopping, of course.

Flopping is the latest in mortgage fraud, in which sellers actually want as low a price as possible.

The scheme works if they are underwater on their mortgage, and their lender agrees to a short-sale, forgiving the difference between the sale price and the amount owed. The seller unloads the home for the sandbagged price to an accomplice, who can then clean it up and flip it for a quick gain.

Suspicious short sales accounted for just fewer than 2% of all short-sale transactions in 2011. Floppers averaged a 34% gain. The average profit: $55,000. Fraudsters can get away with it because banks are swamped with short sale requests -- they have more than tripled in the past three years.

The possum urine trick was an extreme example of the methods used to discourage homebuyers, said mortgage fraud specialist Interthinx. "It smelled like a Hazmat site," they said. Other tactics:

(1) Floppers pull out appliances and take cupboard doors off their hinges.
(2) They leave dirty laundry lying around and paint fake water damage on the ceilings.
(3) They might also invent plumbing or electrical problems, and give appraisers fake repair estimates created by cooperating contractors.

The sellers point out the flaws to legitimate shoppers, and when no one buys, the sellers have a convincing argument to make to the bank, according to LexisNexis Risk Solutions. They can say: "Look, I've tried to move this property for six months and haven't been able to -- we need to lower the price," said Coyle. "They convince banks that the value of the property has deflated." It can be hard to refute bogus damage claims without full investigations, according to the Fraud Investigation arm of Freddie Mac.

One flopping scam that relied on heavy repair estimates was repeated several times in the Ogden, Utah area. A group kept claiming houses had been contaminated with residue from crystal meth labs. "It was the same cast of characters on multiple properties," said Freddie Mac. Noticing the pattern, they investigated and broke up the ring.

Freddie Mac solicits help from the public to bust floppers and has a toll free number to report suspicious activity: **1-800-4fraud8**.

JSmith Note: In all the short-sales I've been involved with (too many!), buyer and seller *and Realtors* sign an affidavit stating that this is an "Arm's Length Transaction". Falsifying that document is fraud, all by itself. Realtors know better than to get involved in this kind of scam. Buyers and sellers, I dunno. Sellers have been in a difficult or impossible situation in the last 7 years. Faced with losing their home, their "nest egg", their reputation and their credit, things kinda get reduced to the lowest-common-denominator. Keep alert … these things are happening.

THE QUANTS: How a New Breed of Math Whizzes Conquered Wall Street and Nearly Destroyed It

(2010, by Scott Patterson, Crown Business, imprint of Crown publishing Group)

(JSmith note #1: I've been wondering how-in-the-world Wall Street believed that if you took a thousand crappy mortgages and lumped them together, the result would be an investment-grade, AAA-rated security. It was the Quants who did that … and it quickly ran away with itself. Too good to be true, and at some point Wall Street had to know it had invented a deadly weapon instead. What was the arithmetic that turned straw into gold? I'm a quantitative guy, and I'd like to see it explained. This is an abbreviated excerpt from "The Quants", as close as it comes to a non-math explanation.)

If an investor buys a single sub-prime mortgage loan worth $250,000 she bears the entire risk if that loan defaults, certainly possible since sub-prime loans go to the least creditworthy borrowers. But if a thousand $250,000 sub-prime mortgages were pooled together and turned into a single security worth $250 million, that one default would be of little concern since it represented such a small part of the security's total value.

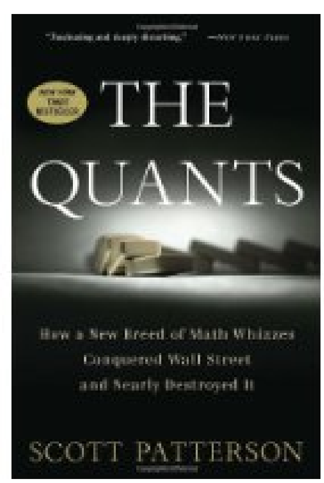
The $250 million security could be divided-up into slices. The riskiest slices could be bundled-up again into new securities called Collateralized Debt Obligations (CDOs) which took into account that the slices carried different risks. Higher risk came with its corollary … higher reward. Between 2004 and 2007 billions of sub-prime mortgages were stuffed into these CDOs and sliced into "tranches". Higher quality tranches were rated AAA, and at the other end some were so bad they were not rated at all.

Bizarrely, the ratings weren't based on the quality of the underlying loans … they were rated on which tranches got paid first. AAA tranches had first dibs. When borrowers started to default, the investors of the lowest-tier tranches got whacked first. If enough borrowers defaulted, higher rated tranches would suffer.

Quants had to figure out how to price these CDOs. Their answer: correlation. If the pool of loans started experiencing a 5% default rate, the quants could calculate the impact on each of the slices. The deadly assumption was that AAA slices had little in common with the poor-quality slices, in terms of likelihood of default. Or, said differently, the correlation was very low.

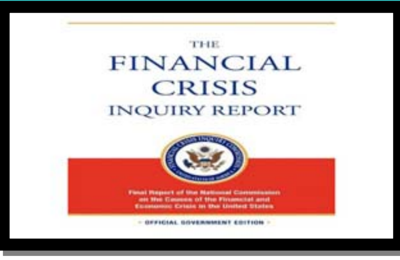
Slowly, the error was realized. The correlations were instead very high. A few people (mostly hedge funds) realized that once defaults started, all the CDOs were suspect. CDOs could be "shorted" by buying insurance on them … credit default swaps. When the CDO went bad, the insurance policy paid off. For those who foresaw the collapse of the housing market, it was a can't-lose bet. Huge profits were made.

JSmith note #2: The author of this book also wrote *Dark Pools* about high-frequency trading, mentioned in an earlier newsletter. I would recommend both books! I still don't have my answer to the grain-size I'm looking for, probably because the actual mathematics and electronic wizardry are so high-powered and incomprehensible that almost no one can really understand them. The Quants thought they did, and their management was eager to take advantage, fueled by competition, the race for market-share and huge performance bonuses. Rating agencies had no clue. The regulators had no clue. The investors had no clue. The damage was incalculable.



Financial Crisis Inquiry Commission

post #20



The Financial Inquiry Commission spent more than a year examining the causes of the financial crisis. It held 19 days of public hearings, interviewed more than 700 witnesses and reviewed millions of pages of documents.

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Parts I, II and III of the FCIC report have been covered previously. This begins Part IV called "The Unraveling" with nine Chapters focusing on early 2007 through the full-blown crisis of September 2008. This post covers events of September of 2008: **The Bankruptcy of Lehman Brothers**:

Solvency should be a simple concept … if assets are worth more than liabilities, you're solvent. But on the weekend of 9/12-thru-9/14, experts from US Treasury, Wall Street and the Fed could not agree whether the 157-year old Lehman Brothers was solvent. No one could adequately *value* Lehman's assets. Its toxic real estate holdings and reliance on short-term funding (commercial paper and repos) were grave concerns.

Treasury and the Fed were reluctant to delve deeply into Lehman's problems because it would send a "negative signal" and spook the markets, which would further erode Lehman's ability to get short-term funding … and *that* would drive the company into bankruptcy.

On 9/12, Treasury called an emergency meeting of the "Heads of Families" … the CEOs of the big Wall Street firms at the NY Fed. The CEOs were told that a private-sector solution was the only alternative to prevent a Lehman failure. Treasury made it clear … no government assistance, "not a penny".

Merrill Lynch CEO John Thain realized early in the weekend meeting that Merrill would be the *next* failure, so he cobbled together a rescue whereby Merrill was acquired by Bank of America. On Saturday, Treasury thought they had a deal whereby Barclays would purchase Lehman and avoid the bankruptcy … but Great Britain's bank regulators would not allow British taxpayers to underwrite an American bank. A private-sector solution could not happen without the Fed agreeing to loan to Lehman. The Fed refused because Lehman had insufficient reliable collateral, and the Fed believed Lehman would fail anyway, saddling the US taxpayers with tens of billions of dollars of losses. The Fed explained that legally it is not allowed to lend without a reasonable expectation of repayment.

At 1:45 AM Monday morning on 15 September 2008, Lehman filed for bankruptcy. The Dow plummeted more than 500 points on that day. $700 billion in value vanished from retirement plans, pension funds and other investments. It was the largest, most complex and far-reaching bankruptcy case ever filed in the US. In the main bankruptcy proceeding, there were more than 66,000 claims, exceeding $873 billion.

The Commission concludes: The financial crisis reached cataclysmic proportions with the collapse of Lehman Brothers due to inadequate regulation, risky trading, enormous leverage, reliance on short-term funding and massive derivatives exposure.

The US government acted inconsistently and added uncertainty and panic in the financial markets by deciding to not rescue Lehman Brothers … since it had *already* rescued Bear Stearns, Fannie Mae and Freddie Mac. Immediately after Lehman Brother's failure, the US government then rescued AIG.

Southernmost Stars: **1 December 2012** The least expensive properties currently on the market on the island of Key West. Changes from last month are in **blue**!

Ten least expensive Condos or Townhomes in Key West:

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	$/Sqft:	Other:
1830 Fogarty #2	**$149,000**	**1**	**1**	**460**	**324**	**Affordable Housing**
3930 N Roosevelt #314S	**$169,950**	**2**	**2**	**804**	**211**	**Foreclosure**
3312 Northside #709	**$179,000**	**2**	**1**	**630**	**284**	**Conventional**
508 Louisa St #1	$179,000	1	1	214	836	Affordable Housing
1624 Bertha	**$195,000**	**2**	**1**	**681**	**286**	**Conventional**
3655 Seaside #126	$224,000	2	2	800	280	Foreclosure
1207-09 William #3	$225,000	3	2.5	1183	190	Foreclosure
3930 S Roosevelt #105W	$239,000	3	2	1070	223	Conventional
58 Merganser Dr	$265,000	2	1.5	780	340	Conventional
3625 Seaside #25309	$265,000	2	2	798	332	Conventional

Missing from last month: 3312 Northside #612 … under contract
3635 Seaside #402 … under contract
3029 N Roosevelt #48 … under contract
112 Golf Club Dr … under contract

Ten least expensive **Single-Family Residences** in Key West:

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	$/Sqft:	Other:
1200 6th St	$245,000	2	1	740	331	Conventional
1209 Margaret St	$249,900	3	1	864	289	Conventional (cash only)
1218 Rear-Packer	**$280,000**	**2**	**1**	**596**	**470**	**Conventional**
2008 Patterson Ave	$289,000	3	1.5	850	341	Short-sale
3355 Donald Ave	$299,000	2	2	1008	297	Conventional
900 Thomas St	**$329,000**	**2**	**1**	**700**	**470**	**Conventional**
2016 Patterson Ave	$339,000	1	1	800	424	Conventional
104 Geraldine St	$349,000	3	2	1370	255	Conventional
411 Virginia St	$339,000	3	3	1652	211	Conventional
2509 Harris Ave	**$339,000**	**3**	**2**	**1670**	**203**	**Conventional**

Missing from last month: 3407 Eagle Ave … under contract
2920 Seidenberg Ave … under contract
3624 Duck Ave … replaced by less expensive property

35% of last month's STARS are under contract! Prices up, availability down. That's a very good sign!

Least expensive does not necessarily mean *best value*. That is determined subjectively by factoring-in other variables like appreciation potential, amenities, special features, location, condition, age, style, appeal, etc.

Jim Smith, Broker Associate, part-owner
Realty Executives Florida Keys
1824 Flagler Avenue
Key West, FL 33040
Cell: 305-304-2433
jimsmith@realtyexecutives.com