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

Hello, everyone … 2 March 2011

Ooops, February was a *short* month, caught me by surprise! I thought I still had a couple of days to go before preparing and launching this newsletter. But OK, here it is … the March edition. There are a variety of topics this month, but overall I think the theme is the 2007-2008 near-collapse of the US financial markets and the resulting economic downturn. Against that backdrop, it seems very short-sighted to focus entirely on the 2x4 square mile island of Key West, or the 108 mile chain of keys. Whatever problems we have in the Florida Keys are relatively insignificant by comparison.

Table of Contents for this issue:

I plan to summarize the Financial Crisis Inquiry Commission (FCIC) report in newsletter articles for the next several (maybe many) months. For me, it paints an alarming picture of asleep-at-the-switch regulators and runaway personal avarice on Wall Street. When *Inside Job* won an Oscar for best documentary film, did you catch the winner's comment, basically that nothing has changed? And in the spirit of "piling on", Bethany McLean has some pithy comments, backed by credibility … like, whatever is good for the finance industry is not good for you! And prisons treat criminals better than banks treat some home owners. Ouch.

The article on Strategic Defaults does not change the subject … a phenomenon brought about by the financial crisis. Neither does the article on healing credit scores, made necessary because of the financial crisis. Ugh. Where is my "man cave" when I need it?

The KONK-AM radio show has been a lot of fun, and a lot more work than I expected! But we are rolling along on Thursdays at noon. The 13-year sales history of Las Salinas condos is not a pretty picture, unless you want to get in today at 2001 prices! In my mind, it is a good example of how the snapshot of the "market" is distorted greatly by distressed properties. There's no pressure to prop-up the prices of distressed properties … the owners aren't getting a penny on the sale, the lenders seem not to care about sales prices. Until the inventory of distressed properties is erased, the true *market* is an unknown.

Jim Smith, Broker Associate, part owner
Realty Executives Fl Keys
1824 Flagler Ave
Key West, Fl 33040

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

19 February 2011

Letter to the Editor of THE KEY WEST CITIZEN:

The Financial Crisis Inquiry Commission (FCIC) Report is a must-read for all Americans. The FCIC Report tells the truth in unflinching terms. The FCIC findings are solid and irrefutable.

FCIC Chairman said, "***I think there is much anger and confusion about what brought us to the point where 4 million Americans lost their homes, 13 million might still lose their homes, $11 trillion of life savings were wiped out, and 26 million people are out of work. They want to know how and why this happened.***"

The FCIC Report recounts the events during the past 30 years that resulted in the US fiscal crisis of 2007-08. It chronicles the rise of "shadow banking" that outgrew and outstripped commercial banking, and attributes the financial collapse to systematic deregulation culminating in the repeal of the Glass-Steagall Act in 1999.

The FCIC Report documents the explosion and subsequent collapse of the derivatives bubble. It shows how the financial (monetary) system mushroomed at the expense of the real (physical) economy. It explains what happened to the U.S. economy and reaches the following conclusions:

(1) The financial crisis was **foreseeable**, and **avoidable**.
(2) It was brought about by **fraud** and **mismanagement** by Wall Street and government regulators.
(3) The problem has **not** been "fixed" by bailout or by financial reform.

There is no solution without the reinstatement of Glass-Steagall, which separates commercial and investment banking activities. Speculative (derivative) debt must be sorted-out from legitimate debt in bankruptcy reorganization. Glass-Steagall allows a return to the credit-based system of productive physical economy prescribed by the U.S. Constitution.

Read the FCIC Report online (**http://fcic.gov/report**) or in published form. Decide for yourself what you think it means. A dramatic change in policy is the only thing that will prevent an even worse crisis … the breakdown of the international monetary system.

Mark Whiteside, Key West

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(JSmith note about Glass-Steagall): In 1933 Commercial banks were accused of being too speculative, not only investing their assets in stocks but also buying new issues for resale to the public. Banks began taking huge risks with their depositor's money. Unsound loans were issued to companies in which the bank had invested, and clients were encouraged to invest in those same stocks. The Glass-Steagall Act (GSA) put a firewall between banking and investing. In 1999 Congress repealed the GSA with the establishment of the Gramm-Leach-Bliley Act, allowing affiliation between commercial and investment banks and allowing banks to provide a broader range of services.

(Another JSmith note): The FCIC report is an ambitious read, being over 500 pages, but I'm going to tackle it and report on it for the next several months in the newsletter. The 14-page "Conclusions" is a manageable executive-summary, and enlightening. It gives names and points fingers, starting with the Federal Reserve and the Securities and Exchange Commission. But most damaging (my opinion) was the breakdown in accountability and ethics. The public's trust in the integrity of our financial markets is essential, and it was mightily damaged. I'm used to "Dereliction of Duty" and "Conduct Unbecoming" leading to courts-martial and ending careers. Not so, apparently, elsewhere.

(Last JSmith note): **Mark Whiteside** is a local physician in Key West, highly admired … a very sharp guy who comments often in Letters to the Editor. In my estimation, his words should carry significant weight.

The Palm Beach Post
NEWS

POMPANO BEACH, Fla. – March 1, 2011

Some Homeowners Who Can Pay Mortgage, Still Default

She has a sales job with a six-figure salary. He owns a successful tech company. And they are in foreclosure. They could make the $5,200 monthly mortgage on the waterfront property in Pompano Beach bought in 2004. But they do not.

They crunched the numbers: $770,000 outstanding on their 1st and 2nd mortgages. His business was down, her company was laying off workers and other investments had tanked. It made no sense to hang on to their underwater home. So they stopped paying. The foreclosure notice came in October.

It is called **strategic default** – borrowers who have enough money to make their mortgage payments but do not. They owe so much on a home now worth so little, that they decide to walk away. It's an ethical dilemma … refusing to repay a loan when they are able, and worrying what the neighbors will think.

How prevalent are strategic defaults? The answer is unknown. In a study conducted by the Federal Reserve Board, half the home owners walked away when they owed twice what their home was worth. A Palm Beach Post analysis of foreclosed homes purchased since 2006 found 72% are worth less than half of the original loan.

In business, strategic default is common … considered savvy for financially troubled companies.

(1) Last year, Morgan Stanley walked away from a $1.5 billion mortgage on five buildings in San Francisco despite record-breaking profits in 2009.

(2) Real estate giant Tishman Speyer Properties walked on $4.4 billion in New York housing development loans after the properties lost $2.2 billion in value. The company had billions of dollars in assets, including Rockefeller Center and the Chrysler Building, which it could have leveraged.

(3) After chastising homeowners who strategically default, the Mortgage Bankers Association dumped its Washington HQ in a short sale. The MBA sold the property for $41.3 million. In 2007, the group purchased it for $79 million.

Ethicist OK with decision. "No, it's not wrong," says the Ethicist column in The NY Times. "Why should homeowners be held to a higher ethical standard?"

The moral imperative is often self-imposed. Owners worry that walking away will depreciate their neighbors' property. And if all underwater owners walked away, the housing market would crash. The stigma is hard to live with, but the stigma is very much a function of how many people do it. Once it's socially acceptable, it becomes easier to do. Some economists predict we will reach a tipping point where getting rid of a bad investment outweighs the damage to property values and reputations. Conclusion … expect more defaults.

We're not there yet, but it clearly is creating a tension in society. On one side are homeowners who did not lose their jobs or live beyond their means and are now struggling to make their mortgage payment. They resent the nextdoor neighbors who have stopped paying their mortgages and are living largely free until they are booted from their homes.

Multi-unit properties: 1 March 2011

904 Truman Ave 3-4 Unit

3-bedrooms, 3-baths, 1150 living sqft, lot = 2,000 sqft
Conventional sale
SOLD 23 February 2011 for **$310,000**
Asking Price $325,000
Rental income = ($3,100/mo) x (5% vacancy rate)
= $2,945/mo … or $35,340/yr
Taxes + Insurance = (2.5%) x ($310,000) = $7,750/yr
ROI = (income – expenses) ÷ (selling price)
= ($35,340 - $7,750) ÷ ($310,000)
= $27,590 ÷ $310,000
= **8.9 %**

1603 Flagler Ave duplex

2-bedrooms, 2-baths, 1,080 living sqft, lot = 5,141 sqft
Bank-owned
SOLD 23 February 2011 for **$244,000**
Asking price $229,900
Rental income = ($2,100/mo) x (5% vacancy rate)
= $1,995/mo … or $23,940/yr
Taxes + Insurance = (2.5%) x ($244,000) = $6,100yr
ROI = (income – expenses) ÷ (selling price)
= ($23,940 - $6,100) ÷ ($244,000)
= $17,840 ÷ $244,000
= **7.3 %**

3314 Northside Dr #12: duplex

3-bedrooms, 3-baths, 1404 living sqft, lot = unk sqft
Short-sale
ON THE MARKET asking price = **$212,900**
Rental income = ($2,500/mo) x (5% vacancy rate)
= $2,375/mo … or $28,500/yr
Taxes + Insurance = (2.5%) x ($212,900) = $5,323/yr
ROI = (income – expenses) ÷ (selling price)
= ($23,940 - $5,323) ÷ $212,900
= $18,617 ÷ $212,900
= **8.7 %**

1401-1405 Truman Ave: 7 units

16-bedrooms, 11-baths, 6209 living sqft, lot = 5,365 sqft
Short-sale
ON THE MARKET asking price **$850,000**
Rental income = ($9,800/mo) x (5% vacancy rate)
= $9,310/mo … or $111,720/yr
Taxes + Insurance = (2.5%) x ($850,000) = $21,250/yr
ROI = (income – expenses) ÷ (selling price)
= ($111,720 - $21,250) ÷ ($850,000)
= $90,470 ÷ $850,000
= **10.6 %**

The official magazine for the National Association of Realtors
REALTOR®
THE BUSINESS TOOL FOR REAL ESTATE PROFESSIONALS

Interview w/Bethany McLean: March 2011

Financial Crisis and Misguided Attacks on Home Ownership

Bethany McLean is a best-selling author and Vanity Fair contributor. She also wrote *The Smartest Guys in the Room* the story (later made into a documentary film) about the rise and fall of Enron.

Your book *All the Devils Are Here* suggests there were many culpable players in the recent financial collapse. Can you single out who was in the best position to prevent the debacle? Between banks, politicians, regulators, and Wall Street, there was a lot of blame to go around. No one group was responsible, as much as Americans would like there to be. But if I had to point a finger, I'd say Congress and the federal regulators bear the most blame because they could have done something. Consumer advocates as far back as the 1990s were testifying about the dangers of the subprime market. People were taking out loans they couldn't afford to pay back, and the Federal Reserve led by Alan Greenspan was in a position to address that. But nothing was done.

You say that subprime mortgages were not about spurring home ownership. Explain that. Home ownership was the scapegoat for the rise in subprime lending. But that was really about cash-out refinancings, not buying homes. As much as three-quarters of the subprime business during the boom times was for loan refinancing, for people who wanted to take the equity out of their homes with the assumption that home prices would continue to go up. These loans were much more about financing consumer spending than contributing to home ownership.

What is your take on the pushback against home ownership in the media and in government? The financial crisis has become a giant referendum on home ownership. *But the crisis in no way proves that home ownership is the problem*. People were living beyond their means and had more credit than they could handle.

Do you think the government should continue to support home ownership through programs like the mortgage interest deduction? These tax policies were in place long before the crisis, and the crisis didn't prove they were bad policies. What the crisis proved is that it's bad policy to lend people more money than they can afford to pay back. However, I do think that, as a country, we need to have a wide-ranging discussion on home ownership. Fixing Fannie Mae and Freddie Mac in isolation, without looking at the big picture, would be short-sighted. It might make sense to have the deduction for home-purchase mortgages only, not refinancings, which is all about people taking on more debt.

Do you believe the leading players involved in the mess learned a moral lesson from this? No, I don't think the politicians or the banks have learned anything. But I hope the American consumer has learned something. ***What's good for the financial industry probably isn't good for you***.

Could a crisis like this happen again? Something will go wrong in the financial system again. It just won't be exactly the same thing as this. We need the regulators to do their job, but to try to prevent it by enacting such tight regulations that we'd never have any innovation again would be a big mistake.

But haven't lenders become too restricted in their lending practices? Yes, they are relying far too much on a single FICO score to make decisions about a borrower. They need to look at the whole financial picture of an individual, including their length of employment and credit history. The FICO system is totally flawed.

Do banks still have a long way to go in restoring the confidence of the American people? I think the rage against Wall Street goes too far if it allows people to deny their own personal responsibility in the crisis. But banks continue to prove they have no respect for consumers. Just look at the way some tried to dismiss the sloppy foreclosure processing. Banks should treat home owners with at least as much respect as the prison system treats criminals. By comparison, prisoners receive more due process when they file suits about procedures being improperly followed than some of these home owners received.

The New York Times Your Money

Healing a Wounded Credit Score

By TARA SIEGEL BERNARD 18 February 2011

Millions of consumers have fallen out of favor with the credit scoring gods. What can these people do to repair their credit?

Focus on the all-powerful **FICO score** — the gold-standard of creditworthiness. The scale runs from 300 points to 850 points; the higher the better. FICO was developed by Fair Isaac Corporation two decades ago and it helps banks differentiate between borrowers, some of whom are temporarily struggling and others who chronically have trouble with money.

There are several ways to speed the process of improving a credit score, or at the least avoid even more credit trouble.

(1) ASSESS YOUR SITUATION: Make sure you can pay your bills on time and *not do any more harm*. Call the creditor and explain the situation and negotiate payments you can afford. Ask the creditor how that will be reported to the 3 credit bureaus: "Not paid as agreed" which can hurt your score? Or will the new terms say that you are now "Paying as agreed"? Get it in writing. Assess the damage by getting 3 free copies of your credit report from www. annualcreditreport.com. Each credit bureau (Equifax, Experian and TransUnion) generates their own FICO scores based on the data they collect. Credit card bills that end up in collections can cost anywhere from 80 to 150 points on your FICO score. A short sale or foreclosure will turn a FICO 790 into a FICO 590 overnight.

(2) CLEAN UP YOUR SCORE: Start with the low-hanging fruit. If the credit bureaus cannot verify the accuracy of a black mark, they are required to remove it. Next, paying off credit cards will give your score the most lift. Paying off a mortgage, a student loan or a car loan won't do as much. Get your so-called debt utilization rate into good shape ... the total amount of debt on each of your credit cards compares with your total available credit. People with FICO scores above 760 typically don't have debts that exceed 7% of their available credit. But if you are at 50% and can get the rate down to 30%, that will help.

(3) LEAVE A NOTE: Prospective employers may pull a copy of your credit report. All three major credit bureaus allow you to add a brief statement through their Web sites. These statements are not factored into the scores, however.

(4) GET SECURED CARDS: These cards require you to put a set amount of money in a bank account, say $250 or $500, which is used as collateral. And the amount of available credit should be equivalent to the amount on deposit. Be sure the issuer reports your payment information to the big three credit bureaus, since not all do.

(5) TALK TO A CREDIT UNION: These institutions may be more willing to work with members who have checkered histories. They may be more likely to consider alternative credit scores, or have products tailored for people with poor credit histories.

(6) AVOID CREDIT REPAIR OFFERS: Legitimate credit repair companies exist, but there's nothing they can do that you can't do yourself at little cost. These companies often besiege the bureaus with letters, and the bureaus are allowed to ignore what they believe are frivolous disputes. Be wary of companies that do not disclose in writing that you can do these tasks free on your own, that guarantee results or that try to charge you before they perform any services.

Hello, everyone …

This will be a recurring article each month, intended to convey meaningful information from my “Florida Keys Real Estate” radio show on KONK-AM, every THURs noon-to-1:00 PM. What happened in **February**?

The big announcement from Station Management dealt with programming changes. Henceforth, we do not actually broadcast “on the AM radio waves”. In the booth, we look, feel and act as though we are broadcasting on the radio … but, no. Instead, the broadcast (audio and video) is live on the Internet at www.konkam.com. It seems to be the new way to use the electronic media to provide content … at least advertisers think so. And advertisers pay the bills.

Thursday #1: My guests were **Karen Lane** and **Michele Grahl**, both active real estate agents/professionals in Key West. The topic was the “Impact of Information Technology on the Real Estate Industry”. Think computerized MLS systems, cell phones, digital cameras, FAXes, scanners, contact management systems, iPads, Google Earth, Facebook, Twitter, Linked-In, etc. And those impacts apply to just Realtors … think about technology in the rest of the real estate industry (lending, surveying, appraising, title searching, etc).

Thursday #2: My guest was **Ruben Concepcion**, owner of Keys Financial Inc., a mortgage loan brokerage. We discussed the local real estate market (slow growth), new teaser loan rates (haven’t we learned anything?), the large number of cash purchases (tight lending market), buy-backs of bad mortgage loans (not trickled down to original underwriters yet), and big changes at Fannie and Freddie (whoa, not so fast, bubba).

Thursday #3: My guest was **Woody Maykett**, the Perfect Storm of cancellations. Would he make it? Get it? First the *Key West Chamber of Commerce* cancelled out. Next *Keys Federal Credit Union* waived off. Then *Iberia Bank* didn’t show. I’m learning … when the target employee says they must first check with their Board or CEO or Marketing Department, it means they are probably not coming! No problem, I went solo with lots of other material. Who noticed?

Thursday #4: I was forced to take a **Holiday**! Listeners were entertained by rock-n-roll music, which was very appropriate BECAUSE my absence was due to driving to North Carolina for a “gig” with my mid-1960s rock-n-roll band, The Gents. AND, you heard it here first, The Gents will be playing in Key West over the Labor Day weekend!! Hot dang. Keep the kids on the porch, Martha, ‘cuz the leading edge of the Baby-Boom is gonna dance!

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

<u>Lower Keys Real Estate Data</u>: Just the facts, Ma'am ©

Las Salinas is a popular 216-unit condo complex on the Key West east side. For the 13 years from 1998 to 2010, this is how the real estate market has treated Las Salinas:

		500+ sqft 1-bd, 1-ba	750 sqft 2-bd, 2-ba	1070 sqft 3-bd, 2-ba	1250 sqft 3-bd, 2-ba	**Total**
1998	#Sold	3	11	9	1	**24**
	Avg $	$ 96,500	$124,100	$144,700	$155,000	**$129,700**
1999	#Sold	1	10	5	3	**19**
	Avg $	$110,000	$144,300	$156,900	$159,500	**$148,200**
2000	#Sold	3	5	5	1	**14**
	Avg $	$111,000	$143,900	$162,200	$160,000	**$144,600**
2001	#Sold	0	5	12	2	**19**
	Avg $	none	$163,400	$180,100	$180,000	**$175,700**
2002	#Sold	3	9	13	7	**32**
	Avg $	$142,300	$207,700	$219,400	$244,000	**$214,300**
2003	#Sold	3	7	7	2	**19**
	Avg $	$278,700	$303,200	$306,500	$322,000	**$302,500**
2004	#Sold	4	11	5	2	**22**
	Avg $	$311,800	$419,200	$438,000	$477,000	**$406,900**
2005	#Sold	4	5	6	1	**16**
	Avg $	$401,438	$498,600	$554,167	$590,000	**$511,051**
2006	#Sold	0	5	0	0	**5**
	Avg $	none	$349,000	none	none	**$349,000**
2007	#Sold	0	3	6	4	**13**
	Avg$	none	$358,000	$342,317	$372,500	**$359,492**
2008	#Sold	0	1	2	0	**3**
	Avg$	none	$300,000	$299,500	none	**$299,667**
2009	#Sold	1	3	7	2	**13**
	Avg$	$145,000	$186,333	$213,286	$206,500	**$200,770**
2010	#Sold	3	7	2	0	**12**
	Avg$	$134,000	$189,571	$225,000	none	**$181,583**

2005 would have been a good time to sell! Today would be a good time to buy. In the last 2 years, 18-of-25 sales were distressed properties (short-sales or bank-owned), and distressed values have been in a free-fall. Currently, 8 units are on-the-market (4 are distressed) ranging from $142,500 to $299,000.

If you want the facts, you should be talking to ***Realty Executives Florida Keys***. No BS.

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

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Southernmost Stars: **1 March 2011** 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:
3312 Northside #104	**$148,000**	2	1	736	**201**	Foreclosure
3312 Northside #208	$149,000	2	1	831	179	Conventional
3312 Northside #204	**$149,000**	**2**	**1**	**736**	**202**	**Conventional**
3201 Pearl St	**$165,000**	**2**	**1.5**	**1032**	**160**	**Short-sale**
3312 Northside #704	**$173,000**	2	1	856	**202**	Conventional
716 Emma St #2	$175,000	1	1	400	438	Foreclosure
3201 Flagler #610	$178,000	2	1	700	254	Conventional
3312 Northside #111	$179,000	2	1	792	226	Conventional
3312 Northside #613	$185,000	2	1	736	251	Conventional
2521 Fogarty Ave #1	**$185,000**	**3**	**2**	**1308**	**141**	**Short-sale**

Missing fm February: 3930 S. Roosevelt #210W … under contract
3314 Northside #114 … under contract
3930 S. Roosevelt #110E … under contract

Ten least expensive Single-Family Residences in Key West:

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	$/Sqft:	Other:
323 Angela St	**$115,000**	3	1	840	**137**	part-interest conventional
313 Catherine St (rear)	**$153,900**	1	1	224	**687**	Conventional
2315 Patterson	**$224,500**	**2**	**2**	**960**	**234**	**Foreclosure**
3005 Flagler Ave	**$224,900**	**4**	**2**	**1403**	**160**	**Foreclosure**
1133 Von Phister	$265,000	2	1	678	391	Short-sale
1705 Bertha St	$289,900	4	2	1410	206	Foreclosure
1321 20th St	**$289,900**	**2**	**1**	**836**	**347**	**Conventional**
2009 Seidenberg Ave	$299,000	3	3	1214	246	Short-sale
1209 Margaret St	$319,000	3	1	864	369	Conventional
804 Truman Ave	$319,000	2	1	768	415	Conventional

Missing fm February: 2914 Patterson Ave … listing cancelled
2012 Roosevelt Dr … under contract
1202 George St … under contract

Like February, the ceilings for the Top-10 Least Expensive are moving up … another 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
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1824 Flagler Avenue
Key West, FL 33040
Cell: 305-304-2433
jimsmith@realtyexecutives.com

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