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Hello, everyone …   1 July 2011

No Miami Heat questions, please. I still think they are a *beast*.

A holiday weekend looms. History buffs will remember that things were not as neat-and-clean as we'd like to believe, concerning the Declaration of Independence. In 1776, the 2nd Continental Congress's voice-vote that approved independence from Great Britain was on July 2nd. The paperwork (the actual wording of the Declaration) was approved on July 4th. The Declaration was delivered to the British authorities on July 6th. It took until near the end of 1776 for all 56 members to <u>sign</u> the Declaration of Independence. Many "originals" were prepared and signed later, once it became clear that this was a momentous document and turning point in US history. Happy 4th of July!

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

I have a concern about *The Banker's Latest Tricks* article. The author seems to have credibility and proof, and I have a 2nd article (not included) that reinforces the fact that the biggest banks reaped huge profits last year, 2/3rds of it coming from securities trading rather than their mission: the prudent extension of credit to finance trade and further commerce. Why my reluctance? It seems too egregious to be true. Where's the uproar? Best to take this article with salt. Maybe years from now we will understand this crisis better.

Meet my buyers … a "trial" new feature for the newsletter. Let's see how it goes. Let's see how long before I run out of inventory. Ha! Not going to happen.

I love the summer in the Keys. Some people think it must be terribly hot here in the summer, but the truth is that the highest recorded temperature *ever* is 97 degrees. I spoke to a JP Morgan Chase employee in Tempe AZ late this morning, where it was 114 degrees. I grew up in Memphis TN … now that's HOT! Washington DC was pretty dang hot, too. So, yeah, we have it good. Real good.

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The Bankster's Latest Tricks

By Ken Koenen 14 June 2011

I thought banks had gone as far as possible to take money from the taxpayers and the government through their TARP funds and the manner in which they paid it back, enabling them to pay bonuses to their executives without government interference. They did not make the money by doing what banks are supposed to do … lending. Instead, they invested it in the stock market, driving it up, and then selling and reaping the profits.

Of course, that results in **capital gains** … taxable income with no offsetting deductions other than capital losses. Banksters don't want to pay tax to the government (and taxpayers) who bailed them out. They had to come up with a way to create more capital losses. Here is what JP Morgan Chase did.

(1) They foreclosed on a property and reported the "transfer value" to the county recorder. The property for which I have the proof was reported to the county as having a transfer value of $143,000.

(2) JP Morgan Chase then issued to the previous owner a 1099-A, as required by Federal law, to report the amount of the obligation and the fair market value of the property. In this case the outstanding principal was $283,000.00. In spite of the fact that they had shown a transfer value of $143,000 to the county, Chase reported the Fair Market Value of the property was $345,000, more than $200,000 higher!

(3) JP Morgan Chase then put the property on the market for $147,000, even though they had already turned-down a short sale offer of $150,000 cash. They ultimately sold the property for $130,000.

What this means is that they now showed a **capital loss**:

(a) Capital loss = Fair Market Value ($345,000) minus final selling price ($130,000) = $215,000.
(b) This capital loss was used to offset the capital gains from their stock dealings.
(c) JP Morgan Chase saved $32,250 in Federal taxes, and who knows how much in state taxes.

Doesn't seem like all that much for a big corporation such as JP Morgan Chase, but multiply that by 100,000 foreclosures and you come up with something like $3 billion dollars in fraudulent tax evasion.

In the mean time, our government leaders ignore these facts and have allowed the big banks and the rest of the financial markets to run our country because they have all of the wealth. They continue to drive down the prices of homes through the foreclosure process, while the government sits on the side lines making meaningless gestures regarding helping homeowners, while allowing the banksters free reign.

The author is a California real estate and tax attorney … and a California real estate broker for 20+ years. See www.lawken.com *for more information.*

(**JSmith note**: one datapoint of personal experience with JP Morgan Chase … I had a $750,000 cash offer for my JP Morgan Chase short-sale listing, and the buyer "hung-in" there for 6+ months, waiting. JP Morgan Chase foreclosed instead, gave the listing to a different Realtor and the property sold for $630,000. I thought JP Morgan Chase didn't know what they were doing. Maybe I was wrong! Were they just manufacturing a capital loss?)

MULTI-UNITS: 1 JUNE 2011

1222-24 Johnson St **Duplex**

3-bedrooms, 2.5-baths, 1587 living sqft, lot = 4,400 sqft
Short-sale
SOLD 29 June 2011 for **$375,000**
Asking price = $429,000
Rental income = ($2,400/mo) x (5% vacancy rate)
= $2,280/mo … or $27,360/yr
Taxes + Insurance = (2.5%) x ($375,000) = $9,375/yr
ROI = (income – expenses) ÷ (selling price)
= ($27,360 - $9,375) ÷ $375,000
= $17,985 ÷ $375,000
= **4.8 %**

1614 Dennis St **3-4 Unit**

7-bedrooms, 4-baths, 4,308 living sqft, lot = 5,056 sqft
Conventional sale
SOLD 23 June 2011 for **$420,000**
Asking price $524,000
Rental income = ($5,200/mo) x (5% vacancy rate)
= $4,940/mo … or $59,280/yr
Taxes + Insurance = (2.5%) x ($420,000) = $10,500/yr
ROI = (income – expenses) ÷ (selling price)
= ($59,280 - $10,500) ÷ $420,000
= $48,780 ÷ $420,000
= **11.6 %**

1217 Packer St **Duplex**

5-bedrooms, 5-baths, 2500 living sqft, lot = 6701 sqft
Conventional sale
SOLD 7 June 2011 for **$652,000**
Asking price = $699,000
Rental income = ($4,000/mo) x (5% vacancy rate)
= $3,800/mo … or $45,600/yr
Taxes + Insurance = (2.5%) x ($652,000) = $16,300/yr
ROI = (income – expenses) ÷ (selling price)
= ($45,600 - $16,300) ÷ $652,000
= $29,300 ÷ $652,000
= **4.5 %**

1125 Washington St **3-4 Unit**

6-bedrooms, 5-baths, 2108 living sqft, lot = 4,973 sqft
Conventional sale
LISTING EXPIRED 8 June 2011
Asking price = **$685,000**
Rental income = ($4,000/mo) x (5% vacancy rate)
= $3,800/mo … or $45,600/yr
Taxes + Insurance = (2.5%) x ($685,000) = $17,125/yr
ROI = (income – expenses) ÷ (selling price)
= ($45,600 - $17,125) ÷ $685,000
= $28,475 ÷ $685,000
= **4.2 %** if sold at full price

SunSentinel.com
Sun Sentinel, 200 E. Las Olas Blvd., Fort Lauderdale, FL 33301

Daniel Vasquez Tuesday, June 28, 2011

Collecting unclaimed money in Florida

Claimants of unclaimed cash have trouble proving residency

Florida residents are finding it difficult to claim their share of $1 billion in unclaimed property and cash being held by a Florida agency for safekeeping. Some are finding one of the biggest hurdles is verifying their identity and that they lived at a particular address years ago.

The Bureau of Unclaimed Property is the caretaker of $1 billion in unclaimed money and property that once (and still) belongs to thousands of current and former residents. But they have to claim it to get it.

The booty of unclaimed cash and goods was collected by the state and came from dormant accounts in financial institutions, such as banks and savings and loans, insurance and utility companies, securities and trust holdings. Besides the cash, the bureau also banks watches, jewelry, coins, currency, stamps, heirlooms and other items from abandoned or forgotten safe deposit boxes.

How to file a claim: Anyone can check whether their name is on the list by visiting the bureau's Website at **http://www.fltreasurehunt.org**. You do not have to pay anything to check your name on the bureau's list. Or call the bureau’s CFO helpline at 1-877-693-5236.

The bureau works with people who do not have old documents or proof of past residency. But they need something that provides a link between themselves and the company related to the forgotten accounts in question. But the agency cannot make it so easy just anybody can walk away with money that doesn't belong to them, officials say.

There are several documents you must be able to provide:

(1) Your identity (name, Social Security number, date of birth, phone number).

(2) Copy of a valid driver's license, passport or other state or federal photographic ID and a signature.

(3) Proof of ownership of the property which may require producing evidence of the address listed on an old bank account or insurance policy.

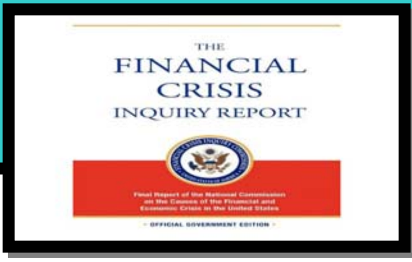
To get the form mailed to your current address, call the office of the Chief Financial Officer at 1-877-693-5236 for assistance. Getting back money and belongings held by Florida is a good thing. But be prepared to work for it.

There are companies and professional out there who may contact you saying they can help you make a claim for a fee, but they must be professionally licensed by the State of Florida and registered with the Bureau of Unclaimed Property. To view a list of professionals registered with the bureau, go to:

http://www.fltreasurehunt.org/ControlServlet
or call 888-258-2253 or 850-413-5555

Financial Crisis Inquiry Commission

post #5



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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Opening Section of the FCIC: "Setting the Stage" There are 4 key developments over recent decades that helped shape events that eventually shook financial markets and the economy. They are shadow banking, financial deregulation, changes in the mortgage industry and **securitization/derivatives**. Covered here is:

SECURITIZATION AND DERIVATIVES:

Fannie Mae, Ginnie Mae and Freddie Mac are GSEs (Government Sponsored Enterprises) who buy or guarantee federally-insured mortgage loans. They received special treatment … low borrowing costs and lax capital requirements. Eventually, the nation's mortgage markets moved to these lowest-cost and least-regulated havens. Most mortgage loans were no longer kept in the lender's portfolio … they were sold to the "secondary market". The GSEs were tremendously profitable. In 2000, they held $2 trillion of mortgages.

Securitization: Lenders would assemble a pool of mortgages and issue securities backed by those loans. The GSEs would guarantee them and collect fees in exchange. Investment banks entered the market in the 1980s and made these securities much more complicated than the GSE's basic mortgage-backed securities. The financial engineering behind these investments made them much harder to uinderstand. The new complexity threw a curveball to the three leading credit-rating agencies … Moody's, S&P and Fitch. They needed a new kind of analysis, and the securitization industry was happy to help. Investment banks paid handsome fees to obtain the desired favorable ratings. The securitization markets exploded.

Wall Street became a major player in these complex markets. Quantitative analysts ("quants") used advanced mathematical theory to *appear* to manage risk. Regulators relied on banks to police their own risks. The models turned out to be woefully inadequate. Once banks started selling their mortgage loans instead of holding them, they began to care less about loan quality. It only mattered that they could be sold … the buyer's "quants" would manage-away the risk.

Derivatives: Financial products whose prices are determined by the value of the underlying asset, rate, index or event. They are not securities … they are instruments (futures, options, etc) for hedging risk and speculating on changes in prices, rates, etc. In 1998 the Treasury Secretary, FED Chairman and SEC Chairman lobbied diligently (and successfully) to keep this market unregulated. Derivative traders could use great leverage, often with no collateral required.

A key derivative was the CDS … Credit Default Swap. The seller was insuring against a default in the underlying asset, but it was not considered "insurance". There were no reserves or collateral to hedge exposure. Buyers could insure against default on an asset they did not own. And at inflated values.

Approximately 97% of the risk of CDSs was concentrated in the very largest financial institutions … JP Morgan Chase, CitiGroup, Bank of America, Wachovia, HSBC and AIG.

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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 June?

Thursday #1: My guest was **Steve Hinchcliffe**, Mr. Everything and owner of Hurricane Shutters of Key West. See www.hurricaneshuttersofkeywest.com. It's the first week of Hurricane Season 2011. Hurricane shutters are needed for protection-and-security for your property. AND to reduce the cost of windstorm insurance (w/mitigation credits). Great info … different kinds of shutters, different codes in different places, HARC requirements, costs, savings, break-even analysis, etc. I'll have Steve on the show again at the end of Hurricane Season 2011, and we all hope there is not very much to discuss then!

Thursday #2: My guest was **John Isaksen**, owner of Isaksen Insurance Inc, with offices in Big Pine Key, and an Affiliate Member of the Key West Association of Realtors. 80% of John's business is homeowner's insurance (fire, wind and flood). John feels that only 20% of the premium insures a particular homeowner from the risks associated with a certain hazard … the rest goes to "re-insurance" helping insure *other* policy-holders against unrelated events. That's just the way it works, and too complicated to ever unravel.

Thursday #3: My guest was **Jedde Regante**, owner of Eco-Nomic Solutions, providing GREEN consulting services for the local construction industry. It's smart to be energy-efficient and promote environmental conservation. After all, next to the mortgage loan payment, utility costs may be the next highest category of homeowner expense! Not to mention earth-friendliness.

Thursday #4: My guest was **Chris Rabold**, Reverse Mortgage specialist at Wells Fargo … but at the last minute he was unable to drive down from Deerfield Beach. The reason? Just this week, WF stopped offering Reverse Mortgage loans! Big change in his plans. I carried-on as best I could with google-research and long-distance help from Chris. I discovered MUCH I did not know about these equity-conversion loans.

Thursday #5: My guest was **FICO Guru**, local consultant on personal credit and scoring systems. That would be me! Another guest was unable to make it ☹. If you need a loan to purchase a home, you will learn about FICO scores and creditworthiness criteria. Fortunately I have experience with lending and credit scoring, and I could fill the hour. Did you know that June had *five* Thursdays?

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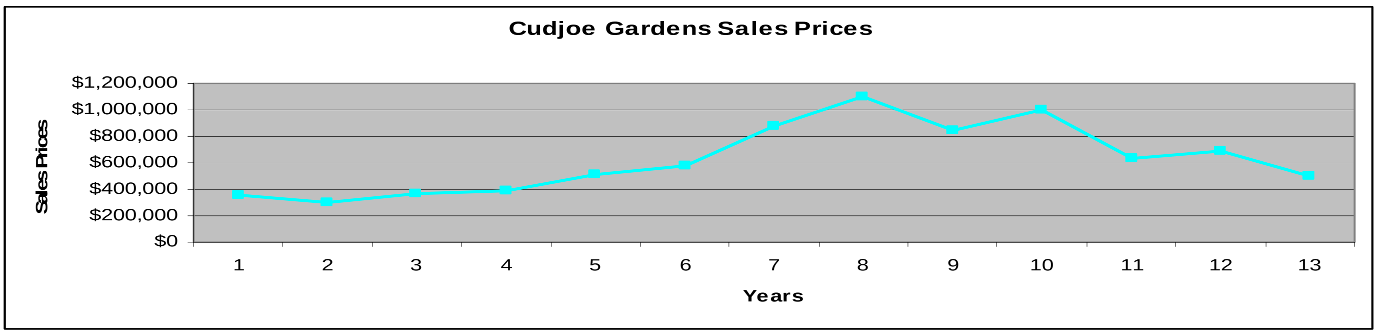
Lower Keys Real Estate Data: Just the facts, M'aam ©

Cudjoe Gardens is a popular residential community of over 400 homes approximately 21 miles from Key West. It is known for deep-water canals, easy boating access to open water and concrete, ground-level homes. The sales information below is from the MLS database for the last thirteen years. It shows the average sales prices of single-family homes in Cudjoe Gardens:

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
#Sold:	15	17	21	17	20	32	25	21	8	13	14	15	16
Avg $:	**354**K	**304**K	**369**K	**389**K	**512**K	**583**K	**875**K	**1.1**M	**845**K	**1.0**M	**633**K	**691**K	**500**K
Avg $/sf:	196	182	216	213	302	325	440	550	553	483	354	357	313



1998 through 2001 showed a small rate of sales price growth, probably less than the Keys-wide norm. But beginning in 2002, Cudjoe Gardens started getting noticed as an area of hidden value, and then the boom was ignited! Average selling prices cracked the $1,000,000 ceiling in 2005. 2006-7-8 marked the downturn in values, although 2007 showed a good rally. 2008 seems unjustifiably low. But you have to look at which properties sold … were they a fair representation of the whole population? My review of the raw data says they were not. 2008-9-10 sales were affected by the disproportionate number of smaller, distressed properties. With small sample sizes, just a few unusual sales can easily upset the statistics.

So far in 2011: 11 properties have sold, average sale price is over $645,000, average $/Sqft is 305.
21 properties are on-the-market, avg list price is $845,000, avg $/Sqft is 386.

2011 may be poised to show a very nice rebound from 2010!

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

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Current BUYERS in the Lower Florida Keys:

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: Professional engineer, Key West resident, probable cash buyer, looking for a bottom-dwelling Old Town or Casa Marina fixer-upper or even a major renovation project, already owns another Old Town rental unit. Not in a hurry (although able to act quickly), willing to consider short-sales and bank-owned properties. Anticipates putting construction engineering experience to work on a Key West property with overlooked or unappreciated potential. Has made several offers, ready to pounce on the right property!

Buyer #2: Kansas City MO couple (business-owners) looking for a family-sized property in Old Town, Mid-Town or Casa Marina area. They have been tempted by several nice properties in $650K-$750K range. Their intention for the next few years is to use the property as a vacation home (and possibly rental income-producer), then make it their primary residence upon retirement. Very strong financially. Currently re-evaluating long-range plans, may reconfigure business to accommodate *virtual* presence and accelerate full-time relocation to Keys. Needs an office-ready space, mixed-use property is possibility.

Buyer #3: Upstate New York apple orchard owner, single senior citizen, wants a nice, large Key West residence for winter-time usage and vacation home for extended family members. Old Town area preferred, likes to walk to restaurants and attractions. Very strong financially, owns several properties and a manufacturing business in East Coast locations. $1 million is not a scary number, but $800,000 is better. Has contracted previously on a bank-owned property, but opted-out after inspection revealed too much deferred maintenance and roof problems.

Buyer #4: Hardworking couple, currently Lower Keys residents in a canalfront rental, looking for a Lower Keys property between Big Coppitt and Sugarloaf, waterfront preferred, with potential for two separate living areas … duplex would be fine, or a stilt home with downstairs enclosure. Fixer-upper OK, willing and able to renovate. This couple has made several offers in the near-$300,000 range. Eager to purchase and relocate. Former owners of restaurant and residence, self-employed, ready to re-enter the residential real estate market in the Lower Keys.

Buyer #5: US Army Colonel (retired) and working at JIATF-South in Truman Annex, looking for a single-family home in Old Town, two-story home preferred, with history and charm. Veteran property-owner, wants space, walkability, neighborhood *feel*. She'll know it when she sees it! No hurry, but wants to find permanent residence relatively soon. Fixer-upper OK. Wants to use VA mortgage loan eligibility and can handle mid-$500K purchase price. Purchase offer currently being negotiated. This is intended to be the "forever" house!

Transcient Licenses … a big MULTIPLIER for rental income:

Transient licenses allow short-term rentals (28 days or less). The licenses are not issued any more, and their locations are regulated by the City. The only way to acquire a transient license for a non-transient property is to buy a transient license separately and transfer to the subject property, if the new location meets City criteria.

Here is an example of how valuable they are. Let's look at 1227-1229 Duval Street, currently on-the-market for $1,095,000 … two separate 2-bed/2-bath units and a nice pool. The location is at the "quiet end" of Duval Street, near the Southernmost Resorts and Butterfly Conservatory and Banana Cafe.

Check out www.tripadvisor.com and look for Key West Viva on Duval.



Without transient licenses: Long-term rentals

Income =	$4,000/month year-round for each =	$8,000/month	
	Occupancy rate estimate is 80% =	(0.80) x ($8,000) =	$6,400/month
Expenses =	Electricity ($300/mo each) =	$ 600/month	
	Water ($50/mo each) =	$ 100/month	
	Taxes ($12,000/yr total) =	$1,000/month	
	Insurance ($18,000/yr total) =	$1,500/month	
	Maintenance (2% of value) =	$1,825/month	
	Total =		$5,025/month
		Net income =	$1,375/month

ROI = ((12) x ($1,375)) ÷ ($1,095,000) = **1.5%**

With transient licenses: Short-term rentals

Income =	$350 average per night, each =	$21,000/month	
	Occupancy rate estimate is 80% =	(0.80) x ($21,000) =	$16,800/month
Expenses =	Same electricity, water, taxes,		
	Insurance and maintenance =	$5,025/month	
	Management fee (20%) x ($16,800) =	$3,360/month	
	Total =		$ 8,385/month
		Net income =	$ 8,415/month

ROI = ((12) x ($8,415)) ÷ ($1,095,000) = **9.2%**

So … transient licenses in this example (believed to be typical) increased net income by a factor of 6!

(1) AND the property is much more easily used by the owner, compared to long-term rentals.
(2) AND this property actually is on-the-market currently. Transient licenses add value.

All of the numbers in this example are estimates believed to be reasonable, and of course an interested buyer would have an inspection window or due-diligence period to confirm them.

Southernmost Stars: **1 July 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 #208	$149,000	2	1	831	179	Conventional
3312 Northside #204	$149,000	2	1	736	202	Conventional
3312 Northside #613	$175,000	2	1	736	238	Conventional
3312 Northside #111	$179,000	2	1	952	188	Conventional
3930 S Roosevelt #212N	**$184,134**	**2**	**2**	**750**	**246**	**Short-sale**
1500 Seminary #1C	**$189,900**	**2**	**1**	**686**	**277**	**Conventional**
3312 Northside #616	$195,000	2	2	831	235	Conventional
3207 Pearl Ave	**$199,000**	**1**	**2**	**1032**	**193**	**Short-sale**
173 Golf Club Drive	**$204,573**	**2**	**2**	**806**	**254**	**Foreclosure**
3312 Northside #713	**$225,000**	**2**	**2**	**856**	**263**	**Conventional**

Missing from May:
1830 Fogarty #3 … under contract
2521 Fogarty #1 … under contract
1830 Fogarty #6 … under contract
3312 Northside #215 … listing expired
24 Merganser Dr … listing expired

Ten least expensive Single-Family Residences in Key West:

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	$/Sqft:	Other:
1133 Von Phister	$265,000	2	1	678	391	Short-sale
1209 Margaret St	$275,000	3	1	864	318	Conventional
3 Hutchinson (rear)	$298,000	4	2	1304	229	Conventional
1701 Johnson #1	**$299,000**	**2**	**1**	**850**	**352**	**Conventional**
2009 Seidenberg Ave	$299,000	3	3	1214	246	Short-sale
1312 William St	$299,000	3	3	864	346	Short-sale
2108 Harris Ave	$309,000	2	1	1266	244	Short-sale
2425 Fogarty Ave	**$314,900**	**2**	**1**	**838**	**376**	**Conventional**
2929 Patterson Ave	**$344,000**	**3**	**2**	**1447**	**238**	**Conventional**
1619 Seminary	**$358,876**	**3**	**1**	**1040**	**345**	**Conventional**

Missing from May:
1321 20th St … under contract
1121 Watson St #2 … under contract
730 Windsor Ln … under contract
804 Truman Ave … under contract

In order to find the 10 *least expensive*, I had to raise the search criteria to $225,000 for condos and townhomes, and to $375,000 for single-family homes. That's gotta be a good sign for the market!

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.

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