

AMERICA, YOU'RE BEING MISLED

By Andrew Waite

You cannot have missed the news trumpeting foreclosures as the worst they have been memory. Granted they have reached significant numbers but month-over-month data shows that foreclosure rates have flattened out as troubled borrowers come to terms with their financial reality and restructure debt.

GARBAGE IN — GOSPEL OUT

“To err is human, but to really screw things up requires a computer.” (Anon) To this adage we would like to add, “and to boldly and universally proclaim your screw up, use the Internet.”

As a magazine we strive for editorial accuracy. We fact and copy check. We make mistakes, but “no one dies” and we don’t damage an economy.

Daily newspapers and other media often take inherently flawed data from well-intentioned real estate data aggregators like RealtyTrac. They ignore more complex data from sources like ForeclosureS.com. They blindly print the “best and most conveniently available” data as gospel. Scoop beats accuracy. As a result, they scare readers and damage advertising customers. Of course big foreclosure numbers justify the media’s years of dire housing predictions.

DATA DARK AGES

The first rule of data gathering is “get your ducks in a row.” Find ducks, get ’em and make sure they are ducks! Identify, gather, and normalize; then analyze. This is very difficult as everyone uses different criteria to collect data.

RealtyTrac marketing vice president, Rick Sharga says, “Our first issue is finding usable real estate data. There are about 3,140 counties in the U.S. and about 2,100 have a measurable volume of real estate transactions every month. Monthly about two thirds of

the counties provide recording data. By definition, it is mostly batch. You cannot assume automation or standardized data. It is also not accurate to assume the most populous counties are the most automated. Dallas County (as in Dallas, TX) still depends on a manual photocopy and microfiche systems. Some are highly automated and allow daily data downloads into a normalization routine while others require visits by agents who do physical data entry.”

GROSS FILINGS VERSUS NET FORECLOSURES

Results, not activity, measure the health of any enterprise.

Until four months ago, RealtyTrac counted all filings and reported these as a total number of foreclosures. The Colorado economic development department and Georgia media claimed that the data was inaccurate as multiple notices of intent to foreclose and other filings per property are not a true indicator of property foreclosures.

Alexis McGee president of ForeclosureS.com one of the older foreclosure data aggregator says, “There can be up to three filings against one property: Notice of intent (NOI), notice of foreclosure auction, and notice of REO (when a bank or lender takes back a property). In some states, it’s only two filings — foreclosure auction notice and REO notice. Then multiply this by the number of loans against the property. Despite the number of legal documents, it is still just one property.”

FILINGS OR PROPERTIES?

RealtyTrac still counts filings then calculates filings per household. A filing is the recording of any legal document that marks a stage in the process from delinquency and NOI to the far from inevitable seizure, sale and loss of a home by the delinquent borrower. The distinction between filings and an address is simple: a filing is a legal document versus the home or property.

With multiple filings per property it is easy to see why archaic county systems produce a larger number of filings to discrete addresses.

Over the 30 to 90 day march toward foreclosure, other change of status filings occur: NOI, notice of auction date and the deed recording return of ownership to the lender or another party.

Through Q'2 2007, RealtyTrac just reported gross filings. Now they have added a new field that identifies discrete property addresses affected by these filings. The immediate effect has been to reduce published foreclosure counts by 20 percent to 30 percent thus all foreclosure media reports prior to August 2007 are all suspect.

CANCELLATIONS, REDEMPTIONS & TITLE CHANGES IGNORED

Not all NOIs result in seizure by the bank. The current rate is about 40 percent. Again ForeclosureS.com McGee says, "It's desirable to report the number of REO filings — the formal notice that a home has been lost to foreclosure. With just these two numbers; NOI and REO, it's possible to get a truly honest picture of what's happening."

The other 60 percent of NOIs may be cancelled prior to exercise due to a work-out between the borrower and lender, redemption by a borrower paying the loan or property sale to a third party.

These numbers are never subtracted from most nationally published foreclosure data so the filings that are published are seldom adjusted to reflect the real number of net foreclosures.

"SCOOPING" POOP

How and why do newspapers miss this? They must believe that sensational headlines will shock lost readers back to reading newspapers. I cannot believe this works but it sure "spooks the (economic) horses."

Most daily newspapers are in trouble for reasons of cost and relevance:

1. The high cost to produce highly perishable daily content when the Internet delivers headlines more conveniently.
3. Editorial originality and uniqueness is lost as national wire stories and "news gatherers" are substituted for real journalists.
5. The pressure to produce headlines means accuracy is sacrificed for the story.
4. Busy people have little time for newspapers. The reader demographic is moving to the conservation side of wealth creation curve.
6. And the big one: their slavish embrace of new media to support the daily newspapers that trade print advertising dollars for Web impression pennies. Newspaper Web sites cannot pick up the revenue slack in a "free content" culture.

A face off with Facebook is a lost cause. Failed new media investments and demanding stockholders “wasted” former award winning newspaper giant Knight-Ridder.

Reading a computer screen is fine for news bytes, but not the leisurely and involved read a weekly or magazine fulfills. This has lead to a resurgence of regional weekly and monthly publications with original, focused and less-perishable editorial.

THEY KNOW NOT WHAT THEY HAVE DONE

Forgive them. The popular media follows housing with great interest because of local impact. But the New York and financial world perspective differs massively from your hometown. The national money center news feeds are out of touch. A local reporter in search of data will settle on almost any data that meets a demanding news schedule. This disconnect has resulted in consumers, professionals and investors reading and acting on these grim stories.

THE MORTGAGE ARMAGEDDON ILLUSION

1. More than 97 percent of all mortgages in the U.S. are current (per the Mortgage Bankers Association. 10/30/07).
2. 4.9 percent of the total mortgage market is sub prime loans with ARMs and of those 14.82 percent are in some stage of foreclosure. That’s 15 percent of 5 percent?
3. Till 120 days ago RealtyTrac foreclosures data only counted filings (this inflated the real number 20 percent to 30 percent.)
4. Discrete properties affected by filing have only been reported since August 2007.
5. Foreclosure counts typically do not subtract cancellations, redemptions or sales to third parties before final foreclosure ignoring a historic 60% of the activity.
6. The net effect as of 10/30/07 is that .069 percent of all homes in the U.S. have gone to absolute foreclosure. This is less than a rounding error.

HOW MUCH ARE MBS SECURITIES WORTH CONSIDERING THE VALUE OF THE ASSETS CURRENTLY MORTGAGED?

Now what was the problem again? Scared women, children and investors. Wall Street bankers with the latest failure in financial engineering have lost their ability to

value, measure risk, trade and fund mortgage paper. This frightened an already nervous home buying public. The underlying residential asset body remains intact and homes holding historic values given the last five year appreciation.

These bankers earned \$68 billion in bonuses in 2007? We guess a few Westchester wives and girlfriends were out a few minks, diamonds and pearls last holiday season.

God bless, sleep tight, buy and hold remembering people still need to live and shop somewhere.

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