



Summary & Overview:

Factors influencing the Bulk Purchase and Sale of REO Properties

Introduction

The acquisition of REO properties has become a significant buyer and seller mandate whose combined mission reflects a variety of associated but inter-related phenomena.

Seeding the New Mandate

The current global debt-based and privately-owned currency system creates varieties of crises by monetizing debt. Evidence of the system's effect manifested in America's Great Depression twenty years after the creation of the privately owned Federal Reserve during which;

- Farms became wrecked by huge debt and falling land prices
- Banks and Factories closed
- Exchanges were destroyed
- The economy collapsed, unemployment soared and hunger prevailed

In terms of numbers, the effect brought the U.S. to a standstill;

- National income dropped 52%
- Industrial production fell 47%
- Wholesale prices fell 32%
- The real value of debt rose 140%
- Unemployment rose 329% from 3.5 million to 15 million people (a quarter of the workforce)

In response, the best economic minds in the country devised a plan to reform the U.S. money supply. Henry Simons of the University of Chicago, with assistance from prominent University economists, created what would become known as the "*Chicago Plan.*"

Participating economists included Paul Douglas of the University of Chicago, Princeton's Frank Graham and Charles Whittlesley, Irving Fisher from Yale; Earl Hamilton of Duke and NYU's Willford King.

Simons made a timely observation which continues to resonate in our current environment;

“The mistake...lies in fearing money and trusting debt. Money itself is highly amenable to democratic, legislative control for *no community wants a markedly appreciating or depreciating currency...* but money is not *easily manageable alongside a mass of private debt and private near-moneys...* or alongside a mountain of public debt.” (p. 199EP)

Paul Douglas wrote, “This proposal [ed. note: The Chicago Plan] will of course *be opposed by the bankers from whom it takes the lucrative privilege of creating purchasing power ...* (CP, p.141)

As part of the “*Chicago Plan*”, the economists advocated incorporating the Federal Reserve banks *into the U.S. Treasury where money would be created by the government as money, not as private interest-bearing debt*; and would be spent into circulation to promote the general welfare and monitored to be *neither inflationary nor deflationary*.

Those resulting new monies would be spent *into circulation on infrastructure including education and healthcare necessary to support a growing society*.

But as Douglas anticipated, the private bankers prevailed. U.S. Senator Carter Glass, representing Banker interests, easily derailed the “*Chicago Plan*” in subsequent legislation.

In the interim, the country’s become subject to ongoing inflationary/deflationary crises, recessions, slow downs, booms and rapidly growing national and personal debt.

The Effects of Resulting Debt

Currently, the nation recoils from an unprecedented debt-based currency expansion in which the country’s publicly admitted debt approaches \$9 Trillion (http://brillig.com/debt_clock/), increases at more than \$1 Billion daily and admits to unfunded public liabilities nearing \$75 Trillion. At the same time, personal debt expands, bankruptcies soar and foreclosures abound.

In the midst of such volatility, sales and value of homes continue to deflate to an as yet unapproachable bottom;

“... U.S. home prices have fallen 3.9 percent since reaching a peak in mid-2006, when their value represented 3.4 times household income,” according to David Wyss, chief economist at Standard & Poor’s, who expects another rate cut of a quarter percentage point by the U.S. Federal Reserve by the end of January, 2008.



"Prices have come down and incomes have come up, but this is not done yet," Wyss said. "We are expecting by the time we're done, *we're going to see an 11 percent drop in home prices, bringing the price-to-income ratio back near its historical average of 260 percent.*"

Source: Bloomberg News, Worst of U.S. sub-prime troubles are ahead, S&P chief economist says By Patricia Kuo / Friday, October 12, 2007

As the debt-based housing bubble collapses, unprecedented inventories overwhelm traditional and newly expanding distribution channels.

The Primary Forces

The nature of the privately owned debt-based currency system defines opportunity.

Henry George penned the classic *Progress and Poverty* in 1879 to universal acknowledgement. Alfred Russell Wallace, the distinguished English scientist and writer, called George's work, "*the most remarkable and important book of the present century.*"

Bernard Shaw, in a letter to George's mother, years later wrote, "Your father found me a literary dilettante and militant rationalist in religion, and a barren rascal at that. *By turning my mind to economics he made a man of me....*"

In time, George became recognized as the third most famous man in America surpassed in public acclaim only by Thomas Edison and Mark Twain.

The basis of George's discovery? That a private unrevealed force controlled, administered and plundered economies for personal gain.

In time, George reasoned, that force would congeal into corporate structures sufficient to administer a global economy whose effect would create simultaneous world-wide Progress and Poverty.

Privately owned debt-based currency systems practice a simple methodology. Cause participation among companies and individuals in expanding currency supplies. Once secured, contract the same supplies of currency.

Currency supplies expanded at an unprecedented rate during the reign of Federal Reserve Chairman, Alan Greenspan.

By averaging annual growth in the currency supply of more than 13%, America became awash with capital. Primary among the lending vehicles by which currency expanded were the mortgage/home industries. As a consequence, housing values exploded upwards in gains that defied historical precedent.

Those expenses, in turn, caused the world to react in a predictable manner. Dependent upon the U.S. market for purchase of low cost goods and services, the world saw her most valuable customer begin to slip away. By increasing currency supplies, America caused increases in the costs of foreign goods and services.

The solution? Expand international supplies of privately owned debt-based currency. During the same period that America grew internal supplies of currency, the world did the same, expanding currency supplies at annual rates ranging from 13% to 44%.

The world, too, became awash in mountains of privately owned debt-based currency.

In efforts to maintain low costs, the international community continues to expand existing supplies of currency. The London Telegraph in a 10-15-07 article entitled **Hedge Funds Target Currency Pegs** by **Ambrose Evans-Pritchard** reported that;

... The global M3 money supply is growing at 10.6 percent as stimulus from America, Europe -- and Japan, through the carry trade -- leaks out to the vibrant parts of the world economy.

Money is expanding at 18 percent in Saudi Arabia, 19 percent in China, 24 percent in India, 36 percent in the United Arab Emirates, 41 percent in Russia, and 69 percent in Venezuela.

With the usual lag, inflation has at last hit. Prices are rising at 6.5 percent in China, 9 percent in Russia, 9 percent in Vietnam, 11 percent in the UAE, and 12 percent in Qatar -- to name a few.



Only nations with very rigorous monetary regimes seem able to resist this tide of liquidity. Most are floundering. *Investors profit from these unrestrained bubbles by piling into corresponding stock markets ... Inflation is now 11pc in Latvia, and 7 percent in Estonia and Lithuania.* Property prices in the capitals of all three are more expensive than Berlin. *Inflation is 12 percent in Bulgaria and 6 percent in Romania.*

Private owners of currency realize gain through interest and/or through accommodations that relieve payments of interest. As a result, expansions must be followed by contractions which represent those moments in time in which interest payments, because supplies of currency necessary to make principal and interest payments evaporate, can no longer be made and in which accommodations manifest.

In moments of accommodation, rights of sovereignty, ownership of natural resources, companies, and institutions become exchanged to relieve intolerable burdens of debt.

Assets become immediately due liabilities but always there is a tendency to push collections downwards to those least capable of payment.

America's supposed and current sub-prime environment represents the same.

Players in the Game

By bailing out creditors, the privately owned debt-based currency system forces payment further down the ladder. In time, downward pressure creates urgencies to distribute foreclosed property inventories in which investors seek to capitalize.

In the interim, asset managers, title companies, bank disposition departments, loss mitigation specialists and attorneys service existing inventories. Buyers composed of large institutions, wealthy private individuals, hedge funds, trust funds and investment clubs marshal financial resources and strategies to maximize opportunity.

In that midst, buyers connect with sellers through a variety of means including;

- Letters of Authorization (LOA)
- Letter of Interest (LOI)
- Letter of Intent (LOI2)
- Letter of Commitment (LOC)

- Proof of Funds (POF)
- Sanitized Proof of Funds (SPOF)
- Bank Direct Proof of Funds (BDPOF)
- Settlement Statements (SS)

Buyers, including the largest of Institutional Investors, venture into referral networks in attempts to find capable sellers.

At the same time, sellers commonly experience difficulty in finding qualified buyers and, in many instances, turn to referral networks as well.

Behind the scenes, wishful thinking manifests in myriad ways. Banks and disposition teams perceive they may receipt higher dollar purchases through sale via auction houses or by holding onto properties until markets rebound.

Concurrently, buyers continue to hope to experience decreases in purchase prices.

Getting Real

Though REO's overwhelm the liquidation system, we've only begun to see the tip of the iceberg.

The below table demonstrates the worth (in billions worth of ARMS) that are adjusting upwards (for the first time) on a monthly basis.

Studies demonstrate that foreclosures result with the first upward movement;

... "The truth of the matter is *that borrowers are going into default as soon as they hit their adjustments,*" said Rick Sharga, executive vice president of marketing RealtyTrac in a October 11, 2007 article entitled *Home Foreclosures Doubled in September*.

Source: <http://www.economicbriefing.com/>

ARM Readjustment (in Billions)	
January 2007	\$22
February	\$25
March	\$35
April	\$37
May	\$36
June	\$42
July	\$43
August	\$52
September	\$58
October	\$55
November	\$52

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December	\$58
January 2008	\$80
February	\$88
March	\$110
April	\$92
May	\$76
June	\$75
July	\$50
August	\$35
September	\$26
October	\$17
November	\$15
December	\$17

Table Source: Federal Reserve Board Z1 Report

A recent article in Forbes corroborated the above by recognizing the correlation between the decreases in adjustments in the second half of 2008 and market bottom;

*... Fannie Mae sees 'no bottom' to shrinking US home prices and continued problems with borrowers paying their mortgages **until the second half of 2008**, the mortgage giant's CEO Daniel Mudd said today.*

Source: Forbes, August 9, 2007, Fannie Mae CEO says housing woes will continue through next year

Summary

Seller's attempts to maximize portfolio values include;

- 1) Access to Auction Markets
- 2) Longer-term Holds until Markets Rebound
- 3) Sales to Foreign Investors

About Auction Markets in Brief

In 2006, the auction industry as a whole produced a total of \$16B in real estate sales. The industry is fragmented (composed of a handful of national, multiple regional and local firms) and presently incapable of serving a liquidation mandate that totals trillions of dollars.

In fact, national auction firms currently seek revolving lines of credit necessary to purchase REO properties in bulk for in-house profitable re-sale. For sellers to expect to liquidate volumes of REO properties through auction will become increasingly unrealistic.

Prognosis: In the best scenario, auction represents an extremely limited means to maximize the value of inventories

About Longer-term Holds in Brief

Because of rapid declines in purchasing power due to expansions of privately issued, debt-based supplies of currency, longer-term holds would require purchasers to pay substantially more in the future for existing inventories.

During the same period, expenses necessary to maintain the properties would increase while simultaneously, larger volumes of property will fill the inventory pipelines.

Prognosis: Only for the most stout hearted and dependent upon unlikely future dollar and credit stability. Probably the highest-risk strategy.

About Sales to Foreign Investors in Brief

As the U.S. dollar slides, American assets become increasingly attractive to foreign investors. Due to differences in currency valuations, foreign investors can, in effect, pay more for U.S. assets than domestic purchasers.

Sellers, by placing large portfolios of U.S. based assets into foreign pockets, should expect a hefty bill from their pr firms.

Prognosis: Limited or special use practice only

A Call to Action

To effectively move large volumes of REO properties from qualified sellers to qualified purchasers requires common points of interaction, the first of which must define the magnitude of the task.

Never before in history, have Americans experienced such a volume of foreclosures.



One of America's great icons, Thomas Jefferson wrote, nearly two centuries ago;

" ... If the American people ever allow private banks to control the issue of their currency, first by inflation then by deflation, the banks and the corporations will grow up around them, ***will deprive the people of all property until their children wake up homeless on the continent their fathers conquered ...*** "