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Sent: Monday, September 20, 2010 12:55 AM
To: !FHFA REG-COMMENTS
Subject: FW: The Next Bubble-HOAs

THE NEXT BUBBLE. HOA'S. RIPPING OF TAX PAYERS AND HOME OWNERS TO BRING IN THOSE ALPHA RETURNS.

If you go out into a rainstorm without an Umbrella you cant help but get wet. So too is using a legal government license to extort outlandish fees from hard working Americans with mortgage problems, you cant help but make money.

Alone in Nevada, they have extorted \$200 Million (That is \$200,000,000 USD) from homeowners, financial institutions and American Tax Payers. Talk about a return on Capital. I need call options on these guys. By Extrapolation they might have generated (fifty states) 50 x \$200,000,000. (\$10 Billion US Dollars, \$10,000,000,000). Now we are talking serious money.

Remember those Derivatives (Credit default Swaps) that Warren Buffet called Financial Weapons of mass destruction. George Soros explained the absurdity as such. Owning a CDS (Credit Default Swap) provides you the insurance against an entity going bankrupt. It is tantamount to a life insurance policy. Now imagine if the law allowed you to go out and buy life insurance on a third party (specifically those who are weak and unhealthy). It would be in your financial interest to make sure they died, so you can collect a jackpot from the insurance policies you purchased. The government not only allows you to do this but gives you the license to kill slowly.

How this game is played that makes the mafia look like amateurs? Here is HOA extortion 101. As hardworking American taxpayers fall behind on their mortgage payments many miss out on other obligations to what I call the Big Four: Property taxes, sewer, garbage, and HOA monthly assessments. The Big Four have what you would call a super priority lien which can be levied against a property and even survive a bank foreclosure. These super priority lien privileges are put in place to assure the Big Four get their money.

When the poor beaten out of favor banks seize and Federal government agencies take back property because an owner has defaulted they are left to pay off these liens 4 liens which are derived from past monthly assessments.

Three of the Big Four (The property taxes, sewer, garbage services) are stupidly playing by the rules, acting fair to the most ridiculous extent. The amount they charge is simply the past due amount owed with some modest premium and fees.

The forth Member of the Big Four, The HOA assessments, are leveraging their unfair advantage and smiling all the way to the bank. If you owed the HOA \$300 dollars, the lien they end up placing on the property will be thousands of dollars far and beyond the amount they are trying to collect: Often \$4000 - \$10,000). How is this possible? Let's break it down in the magic 10 steps.

1.) The poor struggling American tax payer starts to become delinquent on their mortgage and consequently also stops paying the small monthly HOA assessment fee.

2.) The HOA management company turns over the file to an HOA collection agencies (usually after the collection agency pay some type of

kickback/referral fee., sometimes called transfer fee. \$150- \$750 (see NAS attached liens).

3.) After the HOA collection agency receives this file the Magic starts! They start churning fees to process a non-judicial foreclosure.

- Charging up to \$400 to print out and send standard form documents. (Compare this with what an attorney will charge you. \$200-\$400 per hour to do real legal work whereas these collection agency pay a \$10/hour office worker to do these form documents).

- Intent to Lien Letter: They charge you \$150 to tell you they intend to lien your property while Republic services charges you \$0. Then they charge you double since they mail you the document via mail and another certified mail. You may only owe \$20 but they will start this process anyway running up the fees.

- Notice of Lien: \$350 to recording a public lien often done 2x racking in \$700

- Notice of Default: \$400 to tell you are in default and that your property will be taken to foreclosure

- Notice of Sale: \$400 to notify you that your property is going to foreclosure sale

- Transfer Fees: \$150 -\$750 they will charge banks because the title has been transferred

- Publishing Fees: up to \$1500 to publish a notice that your property is being sold

- Demand Fees: They charge you USD \$150 dollars each time, just for them to tell you how much you owe. They do this multiple times to rack up another USD \$450 dollars! You may only owe them \$50 and they will charge you \$150 to tell you that.

4.) Now after completing all this HARD work and the property is about to be foreclosed on, the collection agency goes back to the HOA board and says wait! Do not foreclose as this property has no equity in it and if the HOA forecloses it will be subject to the 1st mortgage. So the collection agency will wait until the bank forecloses then send the \$6000 to \$10,000 bill to the financial institutions to be paid off.

We Give them an Offer They Can't Refuse! Ooh the beauty and poetry of it. Capitalism at its best. You see, the poor bank has no choice but to pay this large fee otherwise they will not have a clear marketable title to sell the property and they will also face the risk of being foreclosed on. HOAs love to foreclose on a bank that has just taken title since the property now will have 100% equity.

There were over 30,000 foreclosures last year in Las Vegas alone and another estimated 70,000 within the next 2 years to be foreclosed on. Over 80% of the valleys homes are located in HOA communities. It is estimated that over \$200,000,000 will be illegally extorted from the community from erroneous collection charges by the end of 2010. Most of these losses will be eaten by the American tax payers via our Government sponsored agencies FHA, Fannie Mae,

Freddie Mac, FDIC etc. It might sound little, but \$200 Million in one state, \$200 Million in another state and pretty soon, we are talking serious money.

I used to ask myself what was the just cause in running up \$5000 in collection costs to collection only \$500? I used to think that there must be some common sense equitable balance between how much collection fees can be levied in relation to how much is actually being collected. If one files a lawsuit against another party in justice court the most the judge would award as attorney fees is 25% of the awarded amount.

Then I realized, America is just waking up from the binge of deregulation, where the wild wild west with no rules ruled the financial markets. As the HOA doesn't pay these costs, they have no economic interest or incentive to try to keep costs down by hiring a cheaper collection agency. It will be a while before any regulation hits this sector.

What gives me pause from leveraging ownership in these HOAs is what Goldman Sachs had to pay to settle out of court. Like Goldman Sachs these HOAs are completely violating their fiduciary obligations to the homeowner. Further they are opening their underlying HOAs to millions in liabilities. It is public knowledge that investors and banks intend to file litigation against the HOAs for the unethical wrongful acts of their collection agent. These parties have legal ground because NRS116.3116 states that the HOA super priority lien that can survive foreclosure is capped at 9 times the monthly assessment. Not 9 times the monthly assessments plus everything under the sun. Many of the collection agencies have publicly stated that they never intend to foreclose. You would wonder, why then file on these Notice of Defaults and Notice of Sales if you never intend to foreclose? It is because you want to stick the poor, crippled American taxpayers (via FHA, Fannie Mae, Freddie mac) with \$4000-\$10,000 of your erroneous collection costs?

The HOA collection agencies are going to send their lobbyists to tell you how the community needs their services because homeowners are neglecting the up keep of the properties. This is a bunch of BS but I love it! Ask yourself what real value does assessing \$5000 of additional collection fees to a property provide to the community? That money could have been used to employ construction workers to restore the property. Go ask 100 of your constituents that live in an HOA and expect 99 of them to tell you horror stories and how much they can't stand HOAs.

If you were a lender or a mortgage insurer, would you lend or insure a mortgage on properties in Las Vegas knowing that if you had to foreclose not only will you probably not recoup your investment but would probably owe an additional \$5000-\$10,000 for an HOA lien? Your upside is limited and low but your downside is almost unlimited.

There was local a bank recently that got hit with a \$200,000 lien on a lot in the Ridges because the HOA had severed penalties if the property owner didn't construct their home in a certain time frame. I am telling you these guys are good! My only problem is how to buy call options on HOA collection Agencies. With the wind on their back, and the money in their pockets, I see them successfully ripping poor Americans and the crippled banks. Go long HOA and their collection Agencies while Politicians still allow it to be the Wild Wild West.

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