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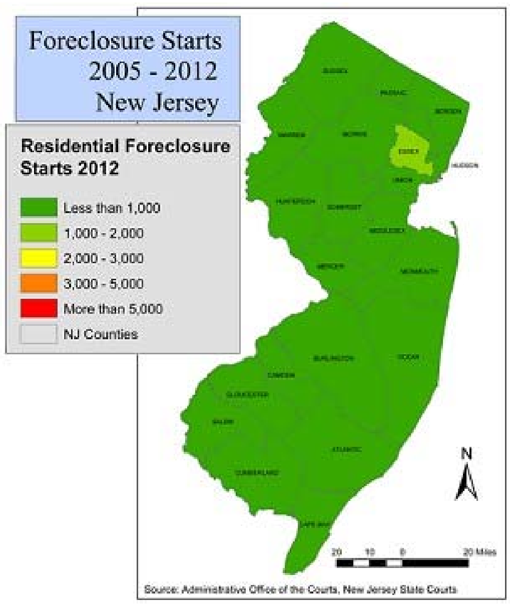
REGIONAL FINANCE NEWS

WINTER 2013

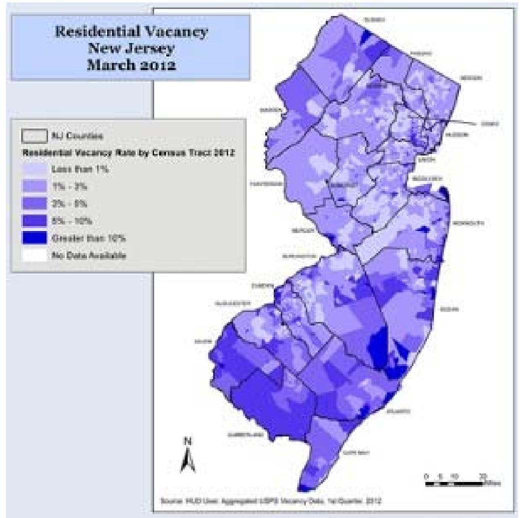
MORTGAGE FRAUD TRENDS IMPROVE



The Interthinx Mortgage Fraud Index tracks the risk of mortgage fraud throughout the United States. In its most recent Mortgage Fraud Risk Report2, the Fraud Index decreased 4.5% year-over-year and has actually reached the lowest level observed in the past two years.

Fraud Risk by Geography: The map above shows the distribution of current mortgage fraud risk in Metropolitan Statistical Areas ("MSAs") throughout the U.S. The number of "very high risk" MSAs has declined on a national level however, California's has remained flat at 19 and Florida has added one MSA to its list of "very high risk" metros, reaching a total of 17. These two states account for over half of the very high risk MSAs in the nation.

Mortgage Fraud Risk Index: The chart below shows the Mortgage Fraud Risk Index for all 50 states and the District of Columbia. Florida has taken over Nevada's place as the riskiest state. This is only the 4th time Nevada has been displaced as the riskiest state out of the 14 quarters the Index has been tracked, beginning in Q2 2009. Nevertheless, Nevada has hovered in the top two spots since the Index's inception, sharing the spot previously with California and Arizona, and now Florida for the first time. Currently, the national value of the Index is 137, with 19 states being above the national risk value. The five states with the lowest risk, shown in green, include Wyoming, Kansas, Iowa, South Dakota and West Virginia. The five states with the highest risk, shown in red, include Florida, Nevada, Arizona, **New Jersey** and California.



The Mortgage Fraud Index tracks four main type-specific risks: 1) Property Valuation Fraud Risk, 2) Identity Fraud Risk, 3) Occupancy Fraud Risk, and 4) Employment/Income Fraud Risk. Property Valuation Fraud is perpetrated by manipulating property value to create false equity which is then extracted from loan proceeds by various means. This type-specific risk has been on a downward trend since early 2010, and is down 23% over the past two years. A similar trend can be seen in Identity Fraud, which has declined by 24% in the past two years. Occupancy Fraud, while down 10% from a year ago, remains relatively flat compared to two years ago. Finally, Employment/Income Fraud has increased on a national level by 15% over the past two years.

It is expected that the states that exhibit the highest levels of mortgage fraud will also see greater declines in their property values. Since property-tax revenues generally trail changes in property values, declines in property values will translate to lower amounts of property taxes that can be levied by state governments. If properties in these MSAs continue to experience declines in value, more mortgages will go underwater, which negatively impacts the economic vitality and health of communities. This may lead more cities and counties attempting to seek drastic options such as using eminent domain to seize and rehabilitate underwater mortgages, which is currently being considered in several states. Whether such an option will be considered legally viable remains to be seen.

Source: DBRS Structured Finance Newsletter

FORECLOSURES PAINT BLEAK PICTURE OF GARDEN STATE

While the tide of foreclosure is slowly receding across many of the nation's housing markets, it is still rising across southern New Jersey. While other regions may have higher raw numbers, housing distress was becoming pervasive across the state's southern counties even before Superstorm Sandy, according to participants in New Jersey Future's 2013 redevelopment forum.

Even though big cities like Phoenix and Las Vegas grab foreclosure headlines, South Jersey communities top the list for a number of unfortunate housing market trends, according to Kathe Newman of Rutgers University. "When you combine mortgages that are delinquent by at least 90 days with properties already in foreclosure, Vineland-Millville-Bridgeton has the highest rate among the nation's 100 largest metropolitan statistical areas," said Newman. In this case, misery has close company. The Atlantic City-Hammonton MSA is second, and Trenton-Ewing comes in seventh.

Sadly, these are not the only parts of the state where homeowners are struggling.

Essex, Ocean, and Union counties have been leading in the numbers of foreclosure cases, according to Newman. RealtyTrac finds that the New York City/Northern New Jersey metropolitan area has a 97-month inventory of foreclosed properties – which is how long it would take them to be resold at the current pace, and is the biggest backlog in the nation. The Edison-New Brunswick area ranked 25th in the nation last year in completed foreclosures, according to data compiled by CoreLogic.

What is striking about South Jersey, though, including Ocean County, is the negative trend, with an increasing percentage of homeowners in trouble. "The volume of foreclosures remains strong in New Jersey's urban areas, but those are high-density, populous areas," Newman said. "The growth in [foreclosure] share is really in South Jersey." Newman has been tracking lending and foreclosure trends in the state for a decade, and much of her data can be viewed online.

New Jersey foreclosure filings were highest in 2009, at 66,717. Filings dropped from 58,445 in 2010 to 11, 057 in 2011 - but the latter figures were skewed during court reviews of foreclosure practices and paperwork, when many major lenders stopped filing or prosecuting cases until they received favorable rulings. Newman's latest numbers, combined with New Jersey's high unemployment, underscored what other conference participants called a sobering outlook for the state's housing market.

The effects of the recovery were lingering here even before Superstorm Sandy hit. Nationally, the Garden State has been running second to Florida in the rate of foreclosed homes compared to total residential mortgages, as tracked by CoreLogic. With its housing markets devastated by the Great Recession, Florida still suffered a 10% foreclosure inventory in January 2013, according to the company. The difference is that Florida's numbers are dropping sharply, albeit often by completed foreclosures or short sales. The report shows that New Jersey is one of only four states where the foreclosure percentage rose over the past year, to 7.2%.

Source: NJSpotlight.com

SMALL BUSINESS DRIVING JOB ACTIVITY

Small businesses are typically referred to as economic engines, but a new report by the advocacy office of the U.S. Small Business Administration shows just how crucial a role their growth and hiring practices played in New Jersey during the recovery years of 2009 and 2010. According to the SBA's latest analysis, New Jersey firms with less than five employees added a net total of 18,266 jobs in 2009 and 2010, while firms with headcounts between five and 499 employees shed a net total of 145,816 jobs during those years, and large companies eliminated a net total of 108,681 positions in that time period.

The state trend reflected the national data: U.S. companies with less than five employees added 993,579 jobs in 2009 and 2010, while firms with between five and 499 employees lost 4,734,598 jobs throughout that time period.

"From coast to coast, states all across the nation are depending on small businesses to lead them out of this economic downturn," said Winslow Sargeant, chief counsel for advocacy at the SBA. "Most of the country's small businesses continue to be very small, having fewer than 20 employees, but they paint a big picture of a recovering America."

Though the smallest businesses in New Jersey produced the largest employment growth in the state following the recession, their counterparts in neighboring states created a greater net total of jobs in 2009 and 2010. In Pennsylvania, companies with less than five employees created a net total of 33,556 new jobs in those two years, and in New York, business of that size added a net total of 87,601 new jobs in that time period.

Source: NJ Biz

REVEL CASINO FILES CHAPTER 11 BANKRUPTCY

Revel will follow a route that should allow the casino to avoid an expensive, drawn-out "bloodbath" with creditors as it seeks to restructure its enormous debt load in bankruptcy court, legal experts say. A "prepackaged" Chapter 11 filing, which Revel plans to do in March, means the $2.4 billion megaresort has already worked out an agreement with its major creditors on a debt restructuring, bankruptcy attorneys explained.

Barring any surprises, Revel should breeze through court without the huge legal expenses and uncertainty that typically accompany hostile bankruptcy proceedings. In some cases, prepackaged bankruptcies can shave months, if not years, off the entire process, bankruptcy attorney Rudy Cerone said. "In a prepack, everybody can see it coming, so it's no surprise. Negotiations occur before the filing," said Cerone. Cerone expects Revel to emerge from bankruptcy much stronger, noting that other casinos have gone through the same process to clean up their balance sheets. The financially troubled casino plans to erase about $1 billion of debt in a restructuring deal that will give creditors an ownership stake.

Last month, Revel announced that it has reached agreement with a majority of its lenders to restructure its nearly $1.5 billion in debt and pump new financing into the casino as it moves through bankruptcy. "The reduction of debt service expense this agreement facilitates will greatly improve Revel's cash flow to better support day-to-day operations," said Michael Garrity, the casino's chief investment officer.

Revel is hardly alone among Atlantic City casinos in seeking bankruptcy protection. The Trump casinos have been through the bankruptcy process three times since the early 1990s. Resorts Casino Hotel reorganized in bankruptcy twice, in 1990 and 1994. Tropicana Casino and Resort was sold to billionaire investor Carl Icahn in a 2009 bankruptcy auction, although he did not officially take ownership until 2010.

Revel says it hopes to wrap up its bankruptcy by early summer. According to bankruptcy attorney Edward Neiger, some prepackaged bankruptcies take as little as 45 days. Other prepackaged Atlantic City casino bankruptcy cases sailed through the courts in less than three months.

Source: Press of Atlantic City

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