

**1) Mortgage-gate:** If you haven't read it already, the attached investor letter from Iridium that is making the rounds today is a must-read; mostly because it agrees wholeheartedly with the month's worth of conclusions I have brought to you since I became extremely concerned about the scandal I dubbed "Mortgage-gate" on Oct 2nd.

**2) 2nd Lien Data...Bank-Servicer/2nd Lien Holder's Inherent Conflict of Interest Rendered:**

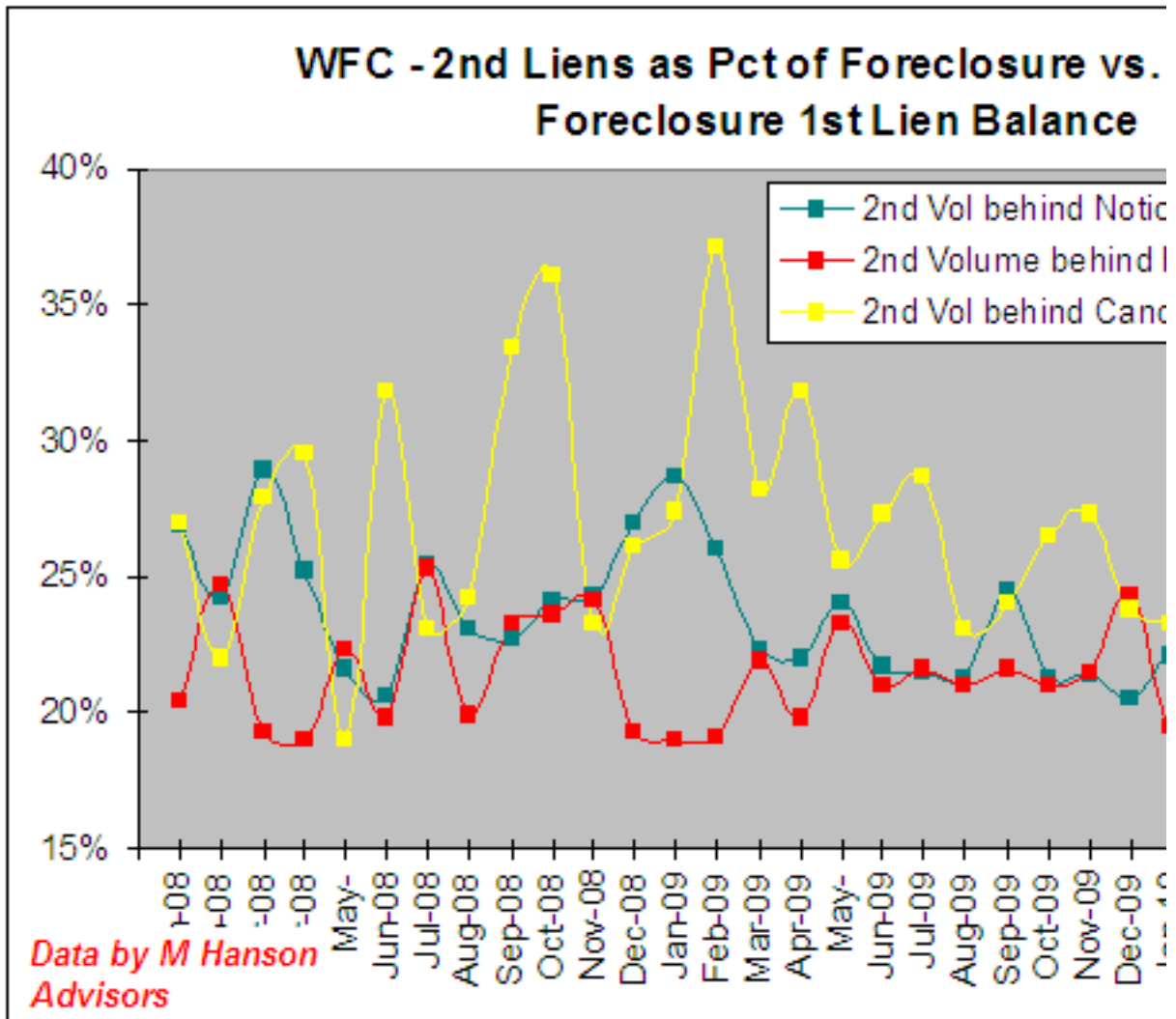
One of the topics into which Iridium dives -- in making their negative thesis on the big, bad-actor, mortgage-related banks -- is the "miraculously" low portfolio 2nd lien delinquency rates vs the delinquency rate of securitized 2nds. They go on to talk about the inherent conflict of interest in these same banks being responsible for either modifying or foreclosing on 1st mortgages when they have a 2nd lien that hangs in the balance.

On occasion, I pull out reports from my proprietary default and Foreclosure database highlighting this very thing. Here are the latest findings using WFC, a larger servicer and 2nd lien holder, as a proxy. These findings indicate that indeed WFC favors giving modifications to 1st mortgages, or at least cancelling the Foreclosure completion on them, if one of their 2nd liens is involved.

**Banks Foreclose Less on Properties on Which They Hold a 2nd Lien**

- The chart below quantifies the 2nd lien dollar volume as a percentage of 1st lien dollar volume at the Notice-of-Trustee Sale (NTS) stage and Foreclosure
- At the **NTS stage** (green - the **Foreclosure imminent** stage) Foreclosure comes within 3 to 8 weeks
- **Foreclosures** (red) should track NTS relatively closely, which they mostly do in this chart
- However, **Cancelled Foreclosures** (yellow), indicative of loan mods, had a wide divergence until q110, coincidentally when the Treasury started getting really tough on the servicers. They diverged again in October but more data is needed to determine whether it's just a one-off due to the volume volatility from Mortgage-Gate. .

**Bottom line:** Based upon the evidence presented in the attached Iridium letter and from my proprietary bank and servicer specific default and Foreclosure database, banks are much more liberal with 1st lien loan mods when one of their 2nd mortgages hangs in the balance.



3) On the CA elections we got the worst of all worlds...as I stated yesterday, "gridlock sucks for CA", which means a big problem over the mid-term. Below is a note from a fellow Californian, Coop, who always offers up colorful insights.

*"I think California tax rates and fees are going up. I see CA as being a bad place to live and within 1-2 years and believe CA will ask the Federal Government for a formal bailout. I would guess CA asks before Obama is voted out in 2012.*

*One might say: Hey CA is now controlled by the Dems and all it needs is 51% of vote to pass a budget so why would it need a bailout?? I think CA will need a bailout because a large number of muni's (i.e. cities and counties) that the State is ultimately is responsible for will simply throw its fiscal responsibilities onto the State or outright refuse to uphold its obligations forcing the State to step in at every missed obligation. **The muni's know they have a patsy in "Moonbeam".***

It is important to note that Prop 26, which requires a super-majority to increase taxes, business fees or levies also passed, which despite how "Democratic" the legislature is, will increase the risk

of a CA debt implosion sooner than later.

#### **4) On the builders - Staying Short**

Yesterday morning's call to liquidate all Mortgage-gate inspired long positions and immediately begin building a large short position on the LEN takeover rumor pop has paid quickly. But even after today's macro giddiness and builder sector pukiness, I was not tempted to cover. This is because during the past month the builders had every opportunity in the world to rally especially with the relentless flow of "foreclosure moratorium" and "defective title" headlines; Mortgage-gate will ultimately suck the bad-actor builders in along with the banks; and beginning with the Existing Home Sales on Nov 23rd, headline risk across the mortgage and housing sectors will become extreme.

Best Regards,

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