

Taking Stock: Any last rites for REIT are premature

by Malcolm_Berko

Dear Mr. Berko: Back in February you recommended Alesco Finance at \$11.45 and I bought 300 shares because it yielded 10.5 percent and it's now \$9.21. What happened? Should I sell my stock? I saw an advertisement in my paper by a company called Wholesale Mortgage Lending that is offering a 4.12 percent mortgage for five years on my home. I'd like to borrow \$100,000 because the man told me there's no closing cost and my payments would only be \$343 a month and that's cheap money which I could reinvest.

O.N.

Fort Lauderdale, Fla.

Dear O.N.: I recommended Alesco Financial Inc. (AFN-\$9.21) moons ago when the stock was trading at \$11.45 and the yield was 10.5 percent. And doggone-it, I wish I hadn't because four months later the stock crashed lower by \$2.24 a share and the yield is now an eye-popping 13.1 percent. Now I've gotta tell you that the consensus of some of the better suits on the Street suggests that AFN will earn a minimum of \$1.34 a share this year and should do a dime better in 2008, earning a minimum of \$1.44 a share. Don't sell the stock!

AFN, for those who haven't an inkling, is a real estate investment trust that owns real estate related securities. Its \$10 billion portfolio includes about \$4 billion in trust preferred securities (TruPS) about \$4 billion in mortgage-backed securities (no subprime loans), some \$2 billion in residential mortgages (no subprime loans) plus nearly \$300 million in leveraged assets. As of this writing, there isn't a negative rating on this stock: Bear Stearns rates Alesco as "outperform," Oppenheimer rates AFN as a solid "buy" and Zacks lists AFN as a "strong buy." And why not? Alesco Financial has an \$8 book value and trades at very low and attractive 1.2 times book.

There's a float of 54 million shares and 44 million of those shares are held by 118 institutional holders who believe the stock was traded down in sympathy with the avalanche of subprime selling in the market over the past four months. Most of these institutional investors believe AFN's earnings will continue to rise and that its very substantial dividend is modestly secure. And while I'm modestly weary of the 13.1 percent yield, I'd still toe the water with 200 shares providing you have brass plumbing in your stomach and can afford the potential risks.

I've never heard of Wholesale Mortgage Lending. I rang their number for information but the boiler room that answered couldn't transfer me to an information source. I left my name and number; they don't want to call me back. I visited several other sources, but WML is an enigma and I suspect that WML may be a gang of mortgage carpetbaggers who wisely wish to limit their visibility.

The mortgage industry is a wasp's nest of con artists and sweet-talking rogues who would withhold their own mother's heart pills so she'd be compelled to sign a mortgage on her home. Mortgage fraud is pandemic and I suspect that many title companies and lawyers are equally complicitous. Congress recently introduced legislation requiring lenders, bankers and brokers to act in the best interest of borrowers. It's headed for defeat (a second time) because an aggressive coalition of bankers, brokers and lenders will use millions of dollars to buy off congressional opposition.

Therefore, in my opinion, you gotta be dumber than Hobart's camel to do business with WML, whose misleading, half-truth advertising may cause you to loose your home, lock, stock and barrel. WML's full-page advertisement offering "45 percent off on a 30-year 6.375 percent mortgage for five years" and "zero closing costs" is almost criminally deceptive and crock-full of hidden charges for which you'll pay an arm and a leg as they put your head on a platter.

The deceitful WML "senior advisers" purport to charge you a 4.125 percent rate on a \$100,000 mortgage. That's a bald-faced lie because 4.12 percent mortgage rates don't exist in this country. WML's "senior advisers" ought to be hung by their tongues and WML's principals should be buried alive because that's what can happen to you five years hence if you follow their self-serving, deceptive advice.

If you need a mortgage, ask your accountant for help.

Please address your financial questions to Malcolm Berko, P.O. Box 1416, Boca Raton, FL 33429 or e-mail him at malber@adelphia.net.

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