

Local newspapers face another likely competitor for lucrative legal notices

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The Senate Ways and Means Committee is scheduled to decide this morning whether to recommend passage of a bill that would end the newspapers' monopoly on publication of legal notices.

But whatever the fate of this bill, the newspapers are facing another challenge in the form of a mainland competitor entering Hawaii's market with a vertically integrated business plan designed to capture a big share of the market on publication of foreclosure notices. If you've been paying attention, foreclosures have been a big chunk of the legal notices category for the past several years, a situation that seems likely continue for at least several more.

SB2233 survived a joint referral to three Senate committees, which approved an amended version. WAM is set to make a decision on the amended bill this morning.

From Senate Standing Committee Report SSCR2280:

The purpose and intent of this measure is to require government agencies to disseminate publications of notice electronically, while retaining the option of providing additional supplemental notice in a daily or weekly publication of statewide circulation or in a daily or weekly publication in the affected county, as appropriate...

...Your Committees find that under existing law, public notices are required to be published in daily or weekly publications, with publication on the State's interactive computer system as a supplemental option. As electronic posting of information has become an accepted and expected way to conduct business, your Committees agree that the State and counties should be authorized to publish public notices online. This will align with the State's strategic plan to leverage new technologies to increase government transparency and enhance citizen engagement and participation, while providing increased cost efficiencies for state government.

Hawaii newspaper publishers turned out to defend their existing monopoly on this source of government revenue. Despite protestations by some, it's an important bit of income for publishers struggling to cope with the changing fortunes of the news industry.

But there's another real threat to the newspaper's legal notice revenues on the horizon. Actually, it appears to be closer than the horizon.

A recent article in Crosscut.com, a Seattle news site, describes what it calls, "The strange case of Washington's newest newspaper publisher."

It's the tale of Washington attorney Stephen Routh, who is both a major player in the foreclosure-services business, and now the owner of Rim Publications, which has been buying up small newspapers. And, according to Crosscut, Routh openly aims at stacking those businesses to capture the lucrative legal notices that have previously gone to other publications.

He says he wants to add more newspapers to his collection, and that has gained the attention of regional publishers. Always wary of changes in their embattled ranks, they have perquisites to protect in the field of legal notices, a system dating to a time when newspapers were the dominant form of mass media. Routh makes no bones about his purpose in purchasing the small papers: to legally game a system that to him makes no sense in the Internet era.

For Routh, and for some small papers, the bad news of the housing crash and subsequent foreclosure boom has — financially — been good news. Routh is the go-to guy for lenders trying to unload foreclosures. His Northwest Trustee Services Inc. and associated firms created a vertically integrated model that processes foreclosures for lenders, providing legal and escrow services, process serving, property management, even auctioneers. In the last two years, Routh has begun closing the final link in the chain — the community newspapers that publish legally required notices of foreclosure.

So what does this have to do with Hawaii? It didn't take too much digging to peek behind the curtain.

According to Crosscut, Routh was a player in the push that changed Alaska's state law.

The Alaska law requires publication of foreclosure notices in both a newspaper and on the Internet. Newspapers can qualify for both print and online requirements if they allow free access to the notices. A Web site that is not a newspaper can qualify only through a narrow description that appears to match that of USA-Foreclosure.

USA-Foreclosure, of course, is owned by Routh.

Here's a quick check of Hawaii business registration records.

Routh's Foreclosure Initiators/Expeditors, LLC., a Washington company, filed to do business in Hawaii in 2008.

On November 11, 2011, RIM Publications LLC was registered to do business in Hawaii. RIM is the owner of Routh's growing string of newspapers. It's officers are listed as Routh and David Fennell, a senior attorney in Routh's law firm, a shareholder in Routh's Northwest Trustee Services, and a key partner in his businesses.

In December 2011, Real Estate Title Services LLC was registered to do business in Hawaii. The company brings together Routh and Fennell, on one side, and William S. Chee, president of Prudential Locations, and Dan Tabori, Prudential's executive VP for business operations. The company is registered at the address of Prudential Location's Kapahulu office.

Chee is the brother-in-law of Honolulu attorney Paul Alston, a prominent campaign backer of Gov. Neil Abercrombie, whose administration is backing the move to online publication.

December 2011 was also the startup date of RIM Publications' Island Sun Weekly.

The Island Sun Weekly is an independent community newspaper providing indispensable local news throughout the Aloha state. Distributed and circulated in Maui, Hawaii, Oahu and Kauai, the Island Sun offers unmatched news coverage and event calendars to all island communities.

If you were setting up a vertically integrated foreclosure processing machine that would get paid to prepare foreclosure notices and then get paid again to publish them, this would be the way to do it.