REO & Vacant Properties: Strategies for Neighborhood Stabilization, September 1, 2010
Panel One

Richard Walker:
Thank you, Joseph. I do just want to say to those who are viewing online that the publication is available online at both the Board's site and the Federal Reserve Bank of Boston's website and will be available at the other Federal Reserve Banks' websites shortly.

And with that, I will introduce our panel. To my left, immediate left, is Dan Immergluck at the Georgia Institute of Technology. Kai-yan Lee, who, as of tomorrow, will no longer be with the Federal Reserve Bank of Boston and will be with the World Economic Forum, and will be missed by me.

Next to him is Mike Schramm from Case Western Reserve. And Carolina Reid from the San Francisco Federal Reserve Bank. And we are going to start with Dan. Each of the presenters will have eight minutes in their initial remarks, and then I will ask each of them a question to follow and then open it up to the audience.

Dan Immergluck:
All right. Thanks, Richard. I want to thank Matt Preval, and Mary Helen. I especially want to thank Mary Helen for mediating between the artwork people in the publication and me when they wanted me to redo all my drawings and charts. I said no. Classes are about to start. By the way, it just looks fabulous, one of the nicer looking publications I've been in for a while.

I'm talking about Atlanta, technically Fulton County, which is the center-most county in the Atlanta metro. It's the biggest county in Georgia, a million people. That's about -- well, I'll say it's 25 percent of the real metropolitan Atlanta, maybe 20 percent of what the Census Bureau calls metropolitan Atlanta. I really think of the metropolitan area as about 10 or 15 counties, not 26.

But it's a long, skinny county that includes almost all of the central city of Atlanta, but also some very affluent northern suburbs, affluent parts of the city, working-class suburbs, and really some quasi-rural southern parts of the county. And I really looked at really what happens to REO properties from going back from properties entering REO in 2005 all the way to what happens to them through the first four months of 2009. Got this data from Fulton County. And the first thing that -- I'm going to make just a few points. The first thing is very consistent with some of the other research, including Mark Zandi's research, is a big spike in REO sales, kind of exiting REO in 2008-2009, and a lot of that was what I'll call low-value REO. Mike in his work has talked about distressed REO at $10,000 and below. In the Atlanta market, I really identified a $30,000 -- roughly $30,000 threshold where there was just a big uptick in REO sales. That's a very low value for Atlanta. And back in 2005-2006, there were very few REO sales at that level.

So big surge in REO sales. Basically consistent with, in late 2008-2009, a dumping of low-value REO. Just about the time when NSP was getting started, so by the time NSP dollars hit the grounds in Atlanta, mid-2009, a lot of the best low-value REO was already sold off to investors.

This is basically comparing the timing of the REO sales for low-value -- these low-value properties on the top to kind of middle-value, $100,000 to $250,000, and the years there are the years that the property entered REO. So what you see is there weren't that many properties in 2005-2006 entering REO that were eventually sold for $30,000. But you see a rapid decline -- this is timed -- a rapid decline in the length of time in REO, a median -- for properties entering in '07, it took about a year to go out of REO. By the time 2008 came by, it was about six months. And the properties entering at the beginning of 2009, it was about three months. So this rapid sell-off of low-value REO. This did not happen for the middle- and upper-value REO. In fact, if anything, it went the opposite way. Lenders were holding on to properties longer, probably because there was less demand for those properties, right? We went into a rapid real estate recession in Atlanta just like everywhere else. And interestingly, I don't have two of these, but you see this kind of saturation in 2008. A good chunk of properties staying in REO at these higher value amounts for a long period of time.

My next slide talks about who are the buyers. I've got stuff in the publication on who are the sellers. Those numbers up at the top were basically the largest buyer in the county for that period of time, and that peaked in 2006, actually, and out of 4,000 REO purchases, the biggest buyer only purchased 111 of them. So it's a very distributed market. And that number actually went down during the big selloff of properties in 2008. Why? Because lots more buyers came in. It became much more competitive, lots of small Ma and Pa buyers. And that black line shows that basically in 2008, the top 20 buyers only accounted for 8% of the REO sales. The red line is the top 10, only about 5%.

There's lots more stuff in the report, but this last slide shows, as expected -- breaks the REO sales into these different pricing categories again and shows that in the sub-$30,000 range, my very conservative estimate of the sales to investors -- I use a variety of techniques to basically identify highly likely investor buyers -- I got about 68 percent, and I think probably 80 percent is probably a fairer share of these low-value buyers being investors. But in these middle-value ranges, the 100 to 250, only about 10 percent were investors. None of this is probably a surprise to most of you, but it confirms a lot of the things in some of the other reports, particularly Mike's in Cleveland and some of Carolina's work for different types of neighborhoods.

That's it.

Richard Walker:
Thank you, Dan. We're going to go with Mike Schramm next.

Michael Schramm:
Good morning, everybody. I'm Mike Schramm. I am from Case Western Reserve University in Cleveland. I am also with the newly established Cuyahoga County Land Bank. What I am going to be talking about is looking at properties as they enter REO and leave REO in Cuyahoga County, Ohio, which is the county that Cleveland is in. So the data comes from a system we've developed over the last -- well, really, we've been working on the neo can-do project for 20 years, but we've been dealing with parcel data and foreclosure information for probably the last six or seven years, and we've basically glued together information on filings, share of sales,

utility shutoffs, vacancy from CDCs, auditor data, recorder data, treasurer data all in one what I call big pothole of data. Only some people laughed.

[Laughter]

Michael Schramm:
We -- just to establish a baseline of what foreclosure looked like in Cuyahoga County and Cleveland in 2000, we see that yes, we still had issues of foreclosure, but at the time, community development efforts could keep up with it. The market could keep up with it. And you know, things were as they always were.

If we advance, 2003 looks the same. We really see the explosion in 2005. 2006 we see movement into the suburbs as well as 7, 8, and 9, but we see this retraction that was talked about by the second speaker. And that trend in Cleveland of REO decline, properties entering REO, seems to follow national -- national statistics. And if we look at comparing the local lenders, the national lenders, and the GSEs, REO inventory -- that's sort of the area filled in under the graph -- with the two lines, the dotted line represents properties leaving REO, and the solid line represents properties entering REO. Once again, we see the leaving surpass the entering at about the first quarter of 2008. So that also follows the national presenter that was here.

But interestingly enough, in the -- this report, the data we used goes through -- for this chapter goes through the fourth quarter of 2009 -- we actually start to see entering surpass leaving. And I finally received June's data and May's data, so I can finally figure out is this trend continuing into 2010, but that was too late for this publication and for these purposes.

So if we start to compare prices coming out of REO, we broke the county up into different sort of geographies, so inner ring suburbs versus outer ring suburbs versus east side of Cleveland versus west side of Cleveland, and we compared the REO price to the assessed market value the auditor puts on the property. And we can see that as far back as 2004, in the county as a whole, around 70 percent -- or the properties were coming out of REO at 70 percent of the assessed market value.

In the county, it was down to almost 30 percent, so we see a huge decrease in property prices comparing it to the auditor's estimated market value. What's more important to look at is a lot of the neighborhoods that we work with, the community development corporations are working on the east side of Cleveland, and properties leaving REO on the east side of Cleveland are coming out at around 13 percent of the property's estimated market value. So huge declines in REO post-REO prices. We look at that as a function of what we call the distressed sale, the leaving REO for $10,000 or less. And on the east side of Cleveland, it's around 75 percent to 80 percent of properties coming out of REO on the east side of Cleveland are coming out for less than $10,000.

If we look closer at this grouping of properties leaving for $1 to $10,000, 49 percent of them had a vacancy factor. This is looking at a proprietary source of postal vacancy data, also the city of Cleveland does a vacancy survey every year, as well as combining it with CDC surveys of neighborhood organizations we work at. So we can see that of all the properties that have left

REO at less than $10,000, as of February or March of 2010, 50 percent of them had a vacancy indicator. 56 percent of them were tax delinquent, meaning they did not pay the 2009 second half taxes. And 9 percent have demolished. So this whole grouping of properties leaving REO at less than $10,000 really presents a challenge to neighborhood stabilization, really presents a challenge to everybody living on these streets, you know, the resident on the southeast side of Cleveland that Governor Duke spoke of, that is the reality for the market and the properties leaving REO in these neighborhoods.

So just some of the tools that we have developed in Cleveland is we've created a countywide land bank with -- based on the Genesee County model. We actually have a few pluses. We can take REO property. And we have, now, deals with Fannie Mae. I see PJ McCarthy is in the room. Thank you very much. And HUD to receive their low-value properties. Most of it is the backlog that needs to be torn down and reduce the number of units in these particular neighborhoods.

Also, we're working with neighborhood progress on the neighborhood stabilization team to target where rehab should be happening in targeted areas using data, where we're doing foreclosure prevention work and targeting counseling resources at the property level, which houses should be demolished, and that is really with a -- working with the CDCs, working with boots on the grounds, working with data and trying to coordinate things. So that's all I have until my structured question we'll be receiving later.

[Laughter]

Richard Walker:
Carolina.

Carolina Reid:
So good morning. I'm here to talk about California, Arizona, and Nevada. So I'm going to try and cover a much greater swath of real estate than any of my co-panelists, who have all focused on very narrow, specific areas. And one reason for that is that we have very little data, and it's very difficult to do the work that they did to really understand what's happening with REOs. So I'm not going to go nearly as deep, and rather, I'm going to try and give you a sense of what's happening across three very big states, three states that have, since the start of 2008, had over 2 million properties go into foreclosure and where, in the first half of this year, we have about 60,000 REO properties to deal with.

So we're talking about three states that really were a considerable part of the foreclosure crisis. In fact, California, Arizona, and Nevada on their own represent about 30 percent of all foreclosure filings in the United States. So like I said, this is going to be sort of a broad overview of what we're seeing.

Let me give you just a sense of the two markets that I'm going to be talking about. One of the things that has been very unique in places like California, Arizona, and Nevada is that foreclosures are been not only concentrated in sort of inner city urban neighborhoods, but also in the suburban, exurban areas. And we've been very concerned about this, because as Governor

Duke said earlier, these places may not have the same community development infrastructure as some of the inner city areas that have a much longer history of community development.

At the height of the boom, this three-bedroom, two-bath home in a suburb in California would sell for about $450,000. This house in Oakland, a two-bedroom, one-bath on a neighborhood street that is generally a neighborhood that is more targeted by crime, has a worse public school district, this house also sold for $450,000 at the height of the boom. And I think this goes a long way to explain why so many people moved out to these suburban neighborhoods and tried to buy these homes for their families. And what we really saw was it was families that were buying these homes. They were solidly middle-class families between $80,000 and $120,000 sort of median income and a huge diversity of families. Every single race and ethnicity was represented in the buyers who are buying in those neighborhoods.

So what's been happening there? We were worried about these communities, what happens after all these fore closures and all these REOs. And the same story is playing out in Arizona and Nevada.

So what I did was split up the cities in three different categories; as Boomburbs, these type of newly-built subdivisions; sort of steady growth cities, which saw -- had a little bit of this new construction and then a little bit more sort of standard older neighborhoods; and then sort of established growth cities, cities that didn't grow very much or didn't boom very much during this time period.

Now, these categories are hugely overstylized. There's huge diversity in each one. But it helps us to point to a little bit about what's happening in REOs. What I'm going to talk about right now is if you think about this as the Boomburb type of neighborhood and the older city neighborhood, those are the two types of neighborhoods I'm going to characterize in terms of REOs.

So the first point I want you all to take away is that in all of our markets, REOs are selling, and they're selling quite quickly. So we are seeing inventory clearing. And in fact, so far in our data, we haven't seen what Mark Zandi showed earlier about a regrowth in REO inventory. We see continued declines in REO inventory.

Although the inventory in Boomburb cities is incredibly high, it has been clearing more quickly than in these established inner city neighborhoods. We've seen properties selling faster. They stay in REO a shorter period of time, on average three weeks shorter in these Boomburb cities.

They are selling in some neighborhoods, actually selling to families, especially driven by the home-buyer tax credit, especially in the neighborhoods that are now seeing those homes around $150,000, like Elk Grove, California. We see a lot of first-time home buyers trying to move into those neighborhoods and buying those homes. They seem to be priced a little too high for investors, so we see a lot of home buyer activity, which is a positive story.

But it's not all positive. I think what I want to argue today is that in our states, the problem might not be REOs but what these communities look like after this crisis is over. And let me just point to some trends that I think are extremely troubling.

One is that the percent of short sales is much higher in these boomburb areas than in the sort of inner city areas. We see an increasing number of short sales. That means an increasing number of properties are never making it to an REO. Right? And that's good because it means we don't have an REO problem, but it also means we still have a significant foreclosure problem and a significant number of families who are losing their homes and being forced to move out of these communities.

The second thing we are seeing is that we're seeing much greater price discounts in boomburb markets than in those inner city markets. Properties are selling for significantly less than before. And what that means is that the neighborhood values are going down more quickly, which leaves more borrowers in that neighborhood, more homeowners in that neighborhood in negative equity, which also has implications for the sustainability of that neighborhood going forward.

The third thing that we're seeing is in both the older neighborhood and in the cheaper suburban neighborhoods is huge numbers of investor purchases. And if we look at different kinds of borrowers, what we find is that low-income and minority borrowers are unable to get credit, so people who are running NSP programs are unable to find borrowers who can purchase the NSP loans, particularly when those homes come with a rehab loan attached. Lenders are very unwilling to make a loan to a borrower when there's also a rehab loan, and many of these properties -- and this is where there's a big difference between the inner city neighborhoods and the boomburbs. The inner city neighborhoods have about $80,000 worth of rehab costs associated with every single property. They also have about $80,000 worth of liens associated with each of these properties for health and safety violations. And neither the lenders nor the cities are budging on these liens or willing to allow those liens to be forgiven.

The -- let's see. The final thing we're seeing -- and I think this is an interesting thing. We'll get to policy implications maybe later in the discussion. But we're seeing a real shift. When we started in California, Arizona, and Nevada, we had almost no Fannie or Freddie properties. Now we see a real growth in the Fannie and Freddie properties. That was also indicated on Mark Zandi's slide, so that made me happy to see that's actually a national trend. But to me that suggests there's a real opportunity there to move NSP in a way that makes cities and nonprofits not to have to compete with the investors to try and get these properties because NSP administrators are having a really hard time with the all-cash investor properties.

And I'll get back to some of my other points in the discussion.

Richard Walker:
Thank you, Carolina. Kai-yan.

Kai-Yan Lee:
Good morning, and sorry to be standing between you and your lunch and also standing between you and Secretary of HUD. So my presentation will be focused on two major topics. One is the REO sales trends in Massachusetts. The other main topic is about the sales discount factors associated with REO sales in Massachusetts.

So here we see two -- you see the sales volume of REO sales, which is the blue part, and also you see the sales volume of REO sales in Massachusetts, which is the green part. You do see a very classic seasonal fluctuation of sales volumes for normal sales, which peak during summer. But in contrast for REO sales, you don't really see that kind of seasonal fluctuation throughout the year between 2007 and 2009. So here when I say normal sales, I mean nondistressed sales. I also exclude all of the interfamily transfers.

So if we overlay the median home sales price between normal sales and REO sales, the pattern is very similar. You do see seasonal fluctuation for normal sales, which also peaks in summertime, and in contrast, again, REO sales, they don't really see that much seasonal fluctuation throughout 2007 to 2009. So the differences between REO sales and normal sales is not just about volume and price. When it comes to neighborhood characteristics and property characteristics, they are quite different as well.

So REO sales, again, is the blue bars. They tend to be located in communities with high concentration of racial minorities. And also, REO sales are more likely to be located in neighborhoods that have suffered greater price discounts for home sales between 2006 and 2009.

And again, REO sales are more likely to be located in areas with high concentration of high-cost, high-leverage loans. Those tend to be considered subprime loans. And if we actually looked at REO properties, REO sales are more likely to be associated with properties that are on smaller lots. But interestingly, at least in Massachusetts, a lot of the REO sales are associated with particular living areas. So the apparent contradiction for that is because a lot of the REO sales in Massachusetts are involved with small multifamilies, two to four units, triple deckers in New England area. And also, REO sales are more likely to be involving properties that are older. So as you see, in terms of volume, price, neighborhood, and property characteristics, REO sales and normal sales are quite different. It kind of begs the question of whether the conventional appraisal mechanism which relies on comparable sales is really appropriate when it comes to evaluating the price for distressed properties.

So previous research does show that the comparable sales approach a lot of times is actually not very reliable, even for more experienced appraisers. So my study takes a slightly different approach. I use an approach that's more like repeat sales mechanism. So I track the same REO properties and compare the price -- the two different types of prices. One, I look at the REO -- sorry -- the foreclosure auction sales price of these properties, and then later on look at the REO sales price of the same properties and see the price change between the two. So that's what I mean when I talk about price discounts. So again, I just want to clarify I say price discount, but about 10 percent of the REO sales in Massachusetts are actually sold at a higher price when it's sold as REO properties.

So next I'm going to move on to sales price discounts. I am going to talk about three different buckets of factors. First I'm going to talk about neighborhood buckets for the factors associated with REO sales price. So here you see two lines. The solid line is for REO sales in low-income neighborhoods, and the dashed line is for REO sales in higher-income neighborhoods. So to the left of the chart is a greater price discount. So as you can see, the solid line is actually to the left, more to the left on the chart, which means REO sales in lower-income neighborhoods tend to suffer greater price discounts. So if you actually overlay other sets of neighborhood characteristics, they behave quite similarly. So REO sales in neighborhoods with lower neighborhood income, higher concentration of REO sales or higher concentration of racial minorities, those REO sales tend to suffer from a greater price discount.

So the policy implication is that a lot of the times, these neighborhoods, REO problems are only one of the problems. What we really need to do to stabilize those communities is actually to take a more comprehensive approach to also address other problems. For instance, fair access to safer mortgage products, better financial education for home purchase, efforts like code enforcement, all those are complementary efforts in addition to REO strategies.

The second bucket of characteristics we talk about is specifically property characteristics for REO sales. I will only highlight one here. So here the chart is very similar to the last one. To the left of the chart means greater price discount. The orange bars are for small multifamilies, the two to four units, triple-deckers in Massachusetts, and the blue bars are associated for the REO sales of single-family homes.

As you can see, the orange bars are more to the left of the chart, which means that small multifamily units tend to sell at a higher price discount compared to the single-family REO sales. So even controlling for all of the characteristics in terms of property, neighborhood, and sales characteristics, small multifamilies do suffer on average a 4.6 percentage point price discount when everything else is being equal.

So what this means in terms of policy implication is that we do need to try to find special policies -- give special policy consideration to more multifamily REOs and, to some extent, small investors. This is especially important for Massachusetts because about one-quarter of the housing stock in Massachusetts are small multifamilies, and about one-third of the REO stock in Massachusetts are actually small multifamily units.

So lastly, I'm going to talk about the bucket of sales characteristics of REO sales. Again, I am going to just highlight one here, which is the time on market for REO sales. As you can see here, there's a negative downward sloping association. So which means the longer an REO is on the market, the greater price discount is associated with that property. So on average, if we control for all of the other neighborhood property and sales characteristics, on average, an REO property on the market for one additional month is associated with 2 percentage points greater price discount.

So in terms of policy implications, we also need to focus on policies that will help expedite REO sales.

So I am going to talk about other findings later. Thank you.

Richard Walker:
Thank you, Kai. I think a number of our panelists already highlighted some of the regional implications and differences in their work, but I would like each of you to contrast your market with the nation and/or the other markets that you -- our other panelists spoke about, and then talk

about some of the policy implications that might follow from your research as well as what additional knowledge or information do we need to formulate good policy, particularly on a national level. And whoever wants to chime in, please do.

Dan Immergluck:
Well, I'll take a stab. It is certainly hard to compare regional differences when people are looking at slightly different questions. But I certainly -- when I read these papers, I saw -- and again, when they were presented -- definitely some commonalities. The most obvious ones, I think, are between the work Mike and Case Western has done and the work I've done in terms of the low-value distressed properties being sold quite quickly to a diverse set of buyers.

But I also think even in Carolina's work, I definitely have a theme in my paper that it's not just about REO. It's about what happens after REO, the investor competition for the properties. We need to kind of rethink that -- what that means.

I do think there are some differences in terms -- in Carolina's work in particular -- in terms of what happens to the middle-value properties, from what I sense from her, from reading her paper once. Whereas, I actually saw kind of a slowing and a holding on of properties, the REO market in the middle -- kind of middle value in the west seems to be much brisker, which kind of makes sense given where Atlanta's market is.

I would -- a shameless plug. I have a paper out in a periodic journal called -- academic journal called Urban Affairs Review that breaks metros into different types and looks at the trends within those types, and Carolina's metros are what I call the kind of formerly hot kind of three metros, boom/bust metros, and I find very similar trends in those metros. But what I don't find is that the location, the kind of exurban location, was an independent driver of things, but it was the fact that there was tons of subprime lending in those areas and the nature of that lending drove the foreclosure and the buildup. It may be a second thing, that the absorption is tougher in those places.

On policy fronts, I just point anecdotally to my experience working with a group in Atlanta, that really, most successful REO reclamation effort in Atlanta is successful because it had money other than NSP money and was able to move quickly and buy not only bank-owned properties quickly, but also properties from investors. And I know as distasteful as that may seem in terms of investors buying REO and then reselling them, the profits that these investors were making was very modest, yet this entity was able to claim strategic properties. The folks who have done just NSP have lost all the strategic properties, basically.

Carolina Reid:
Maybe I can --

Richard Walker:
Carolina?

Carolina Reid:
Yeah. So again, I see a lot of parallels between my research and Dan's. It does seem that in

these suburban locations with newer housing stock -- and I think this is largely contingent about -- on economic growth in those areas and employment, so this is sort of a tentative positive note. We are seeing families moving in, and we are seeing properties clearing. Now, the inventory is still huge. If our data's a little bit older than Mark Zandi's, we might see that inventory rise and that might change the whole equation, but it does look like it's largely driven by first time home buyers. Or if it's by investors, those investors are then turning around the property and selling it to home buyers. Because properties are now in line with people's incomes in the bay area or greater bay area, greater California, Nevada, Arizona area.

Where we really see the REOs languishing is in those inner city minority neighborhoods, sort of like Kai's presentation. And so I -- my policy implications are twofold. One, I'm very concerned about the makeup of the suburban communities. They were a promise of homeownership for racially diverse middle class. And the new buyers that are able to qualify homes and buy those homes are not nearly as racially diverse and not nearly as sort of low-, middle-class families. They are higher income, have stronger credit scores. So we are seeing a very different pattern of who is going to be living in those communities and what that means for access to opportunity going forward.

In the older neighborhoods and in the inner city neighborhoods, I'm very concerned by the large-scale purchase of investor property, investors. They are coming in, buying 80 to a hundred properties on 15 neighborhood blocks. They are not doing any rehab. These are the same properties that had many deferred maintenance issues. And they're just renting them. And the question is will that stabilize the neighborhood? I don't think so. And I think my policy implication is that we need to think about NSP not only as a strategy to try and protect -- or try and revive the private housing market and clear REOs, but really see it as a foundation for long-term community development work and really investing in sort of doing long-term reinvestment into these neighborhoods so that all those investor properties don't just lead to more disinvestment in these neighborhoods

Michael Schramm:
You know, I'd like to follow up with the whole low-income neighborhood and foreclosure blighting effects because that's sort of where we've done most of our work. And there are, you know -- when we looked at the different names of properties coming out of REO, you know, as Dan found in Atlanta, there were over a thousand different names, but at the same time, there were a few that were buying, you know, 80, 100, as was found in Atlanta.

What's happening is the ones that are going to the group of investors -- we sort of call them the dirty 30 or something like that because, you know, they are at the people we're tracking on a regular basis -- and I'm sure you'll hear more about that tomorrow with the panel with Frank Ford and Judge Pianka of the Cleveland Housing Court -- but a lot of those same names in other presentations I've shown in places like Detroit or St. Louis or Buffalo, a lot of those same investors are operating nationally, so that is one of the things we're finding.

And what we're also finding is the investor-owned properties are actually a lot of times in worse shape than the REOs. So it stems back to ramping up code enforcement ramping up policies that get the investor out of the equation in these type of neighborhoods, and you know, that's why in

Cuyahoga County we have created a land bank. However, as a representative of the land bank, we can't be just a -- you know, everybody's trash receptacle for these particular properties. There really needs to be policies that make it not as easy to own vacant property and trade these as if they were a piece of paper rather than a neighborhood and someone's house. Or next to someone's house.

Kai-Yan Lee: So despite the fact that we really looked into different regions, different regional housing markets, and also I took a slightly different approach to look at REO sales, I think the investor problem is always a very consistent topic that keeps coming up.

So at least for the New England region, investors are actually a quite interesting topic, especially because of small multifamily structures. So not all the investors are the same, especially for New England. When you have about a quarter of the housing stock as small multifamily units and a third of the REO stock are actually small multiunits, then you really need to think about the investor's perspective for people who are actually try to go buy small multiunits.

A lot of times policies may not necessarily be in place to help those homeowners trying to buy or trying to stay in small multifamilies. For instance, a lot of times maybe just giving them a loan may not help, but also helping them to think about property management, making sure that they will actually be able to keep the tenant so that they can keep the income stream to pay the mortgage. Stuff like that is very important, in addition to thinking about REO strategies. So that's one policy implication to think about the investor perspective, especially thinking that not all investors are the same. They are not all trying to flip properties.

And also, different panelists also mentioned a comprehensive strategy. That's very important. As I mentioned earlier, a lot of the hardest-hit neighborhoods, REO problem is really just one of the wide array of problems that they are trying to face -- trying to combat. So thinking about REO strategies in conjunction with a broader perspective, thinking about different approaches to stabilize communities are very important. For instance, some of the CDCs, community development corporations, in Rhode Island, they are also very active in working on school reforms because their experience is that once they fix the REO properties and try to sell it to private homeowners, homeowners are not very interested because the school district is so bad. So now they are also working with school districts to try to improve education quality in conjunction to trying to stabilize REO properties.

So just really think about comprehensive approach for stable -- for neighborhood stabilization strategies.

Richard Walker:
Now we want to open it up to the audience. Are there any questions out there? I'm sure there must be. We have one over here. Can somebody get him the mic?

Henry Hacker:
Thank you. Henry Hacker, research -- (Inaudible) -- last night's business report indicated that 829 banks out of a total of 7,800 may or will fail this year, and I wonder if you think you are painting a rosy glow over the crisis? Is the crisis really past us, or is this sort of a minor problem

that we're encountering at this point of the year?

Richard Walker:
Any of our panelists want to take that one?

[Laughter]

Carolina Reid:
I think Mark Zandi's presentation did a wonderful job of setting out the risks and the positive story, and certainly bank failures is probably part of what he's considering as he's thinking about both the housing and the economic sort of overall outlook.

I think all of our concern is that even if we do see overall market conditions stabilize, the low-income communities that we care about are likely to suffer for a much longer time. And if -- and this is speculation, but if those bank failures are some of the banks that are in the communities that are actually working to either provide loans to low-income borrowers or the ones that you're negotiating with around REO properties, that could create a problem, and just in terms of NSP implementation. But I'm not sure to what extent that piece of data would directly affect the communities that we work in.

Dan Immergluck:
I have an idea how it would. In Atlanta, the most important bank failure from a neighborhood development perspective was a small bank called Omnibank. It owned on the order of 200 single-family mortgages in low-income neighborhoods on the south side of the city. Most of those were in foreclosure. When FDIC seized Omnibank -- was it about a year ago, Frank? -- they took the assets. They did not go to the community, to neighborhood groups. There were very, I think, quite successful early effort in the Pittsburgh neighborhood in Atlanta, spearheaded by the Casey Foundation, found out later that FDIC had sold most of that portfolio to investors. This is at a time when NSP was kind of hitting the ground. It made no sense.

So I'm happy to hear about Fannie's efforts and the first looks and all that, but one actor that I'm not clear on that's really got fully onboard -- and I may be wrong. There are probably people in the room that know I'm wrong -- is the FDIC. You know, is the FDIC. We've got -- in Atlanta, it's mostly a suburban problem. This was an inner city problem. But we've got lots of problems that AFDIC either controls or is going to control, and what happens with those parcels? There can be some federal policy that makes a difference.

Richard Walker:
Other questions? There's one here. Anybody else? Because we have a couple of mics. If there's somebody on this side of the room that wants to ask a question, raise your hand so that the mic lady can get to you.

Mike Mitchell:
My name is Mike Mitchell. I work for Habitat for Humanity Chesapeake, a Habitat for Humanity in Baltimore, Maryland, and in Annapolis, Maryland. I have a comment and a question.

The first is a comment about REO properties. Our experience early on, we received NSP 1 and NSP 2 funds was that a lot of the REOs just went to investors, and we couldn't even find out about them. And it just happened. So you ended up with a lot of property dumping to investors without the opportunity for homeownership, and that was really disturbing, and I think it still happens to some extent, so we couldn't even get call-backs from a lot of the REO entities.

The comment is I wonder if any of you have done any research on the implications for crime in the neighborhoods where a lot of the REOs are. Because we've seen large investors -- I think, Kai-yan, you said something about blocks of housing being sold, like a hundred homes, and these investors don't have any investment really in the neighborhood. So huge numbers of properties are turning over. And anecdotally, there's an impact on crime that we've seen. I wonder if any of you have any research on that.

Carolina Reid:
Dan's the expert.

[Laughter]

Kai-Yan Lee:
Tag. You're it.

Dan Immergluck:
I did do a paper based on data from the first subprime crisis in the late '90s showing strong variations between foreclosures -- not REO, but foreclosures and crime. There's been some folks -- I am trying to think -- I think from the FDIC did a paper recently from not at the neighborhood level, at the state level, showing some correlations. So it's a -- and I know a lot of graduate students who are working on this right now. So I think there's a lot more work that will be coming out on this.

Carolina Reid:
I think -- go ahead.

Kai-Yan Lee:
So one issue about crime and REO properties is a lot of times we are actually not sure which direction it goes, whether it's because of higher crime in a neighborhood that leads to higher foreclosure rates or it's the other way around, because higher foreclosure and more vacant properties, then you see more vandalism in communities and then lead to higher crime. So I'm hoping that I'm putting Preval on the spot. I am hoping at Boston Federal we will have the opportunity to do further research on the crime issue related to vacant properties and maybe REO properties.

Dan Immergluck:
The FDIC study does, my study doesn't get at the -- the FDIC study does have time data. I think this is the next area that people will be pursuing.

Carolina Reid:
I just wanted to say that your comment also raises a bigger point about the lack of transparency in the private market and what the lenders and servicers are doing with REO properties, not unlike what was happening with loan modifications. It's very hard for nonprofits and city governments to know how the -- what properties do -- does the lender have. The Trust has been really helpful in sort of the first look. But for a large swath of properties, they could be dumping them to investors without any knowledge on the ground about what's happening and who they are going to and what those -- who those investors are.

So I think I'm try to go figure out a way to increase the transparency of the REO process and the people who are holding the properties and how they're selling them, could do a lot to improve the ability of nonprofits and local governments to purchase properties for their NSP money.

Richard Walker:
Yes, please.

Shawna Smith:
When you are looking at the vandalism and crime issue, I think it would be important to actually view the properties. One of the things that we, in the fair housing movement, have seen is that the asset managers maintain the properties in predominantly white neighborhoods and higher income white neighborhoods much better. And if you are in a minority community, you'll see bank-owned, REO property, auction kinds of signs that indicate to people that the properties are vacant and overgrown grass, lack of maintenance. And with the group of investors who buy -- you were all kind of implying -- and I think it's true -- that they don't have roots in the community, so they don't maintain those properties. So I think it's very important, if you're going to look at this crime and vandalism issue, to look at how the properties were maintained by the REO lenders, the asset managers on there. Because we're finding a huge disparity in the quality of maintenance by the same servicers and asset managers depending on the racial composition of the neighborhood.

Shawna Smith with the National Fair Housing Alliance.

Michael Schramm:
I think just to add on to that, if you have a large inventory of properties owned by people from out of town or people not from the neighborhood, are they going to actually be calling the police when the copper is stolen? Are they going to be calling the police when the door kicks in? The only time that those individual crimes will be reported at those houses are, A, if it becomes a meth house; B, if it burns down; or C, if there's a body found in there.

Richard Walker:
Yes, sir.

Rob Grossinger:
Rob Grossinger with Enterprise Community Partners and recently with Bank of America. Dan, you mentioned some of the papers you wrote in the late '90s, and I think about one I still have that I've taken with me in the four jobs I've had since you wrote the paper about the subprime

lending was going to destroy our neighborhoods. I'm paraphrasing the title, but it was something like that. And you and a number of housing advocates came to Washington repeatedly talking about that in the late '90s, early 2000s. Everybody shook their head and said yes, we're concerned. Yes, this is a problem. But actually did almost nothing.

So I guess maybe as a challenge for these two days -- I'm on a panel this afternoon. This is the umpteenth panel I've been on, either as a representative of Bank of America or today -- actually, I think I was invite today this one as a representative of bank of America, but now with Enterprise. And I am just wondering with all of the great studies that were done -- and they really are -- there's some great stuff in what was done for this summit or this -- yeah, summit -- are we going to come out of this with anything? Or is this going to be my holding on to these papers for 12 years or 13 years, like I have with Dan's, wondering why didn't anybody listen when Dan talked in 1998? And so maybe that's a challenge for us, those of us that are on upteen panels and do attend these. I don't want to be here 12 years from now with these papers saying gee, I really wish we had pulled together and done something.

Eileen Fitzgerald:
Eileen Fitzgerald, Neighborhoods America. So as you all were talking, and in Mark Zandi's presentation, we talked a lot about, obviously, property values falling and the disparate decline particularly in low-income and minority neighborhoods. At the same time, we're talking about the importance of whether it's crime prevention or other community stabilization strategies that can't just happen by CDC but have to have a role of the local government.

So that brought to me -- and I don't know if there's any research on the property tax base and how much that revenue has fallen, but obviously, if assessments have fallen significant (mic went off) -- so I was just wondering if any of you can talk about that and how we can expect municipalities in these hardest-hit communities to actually step up and do their job or what analysis is out there.

Carolina Reid:
I mean, Vallejo went bankrupt; right? I think that's your answer. And what we've been hearing a lot from our nonprofits is the real struggle has been because city governments are so strapped and they're under staffed, they are also very unwilling to negotiate on the liens. Right? They see that as the only possible revenue that might be coming from these properties. So nobody's bidding on these properties. So they are actually contributing to more vacant and abandoned REOs in these neighborhoods. So I think it's a huge challenge.

Kai-Yan Lee:
A lot of times it also becomes a negative feedback loop because you do see cities with a lot of foreclosed properties, REO properties, the tax base is being impacted. But at the same time, ideally, they would actually ramp up their effort in code enforcement and have more police on the street making sure that the crime is low. But because of the impact on the tax base, a lot of times they may not -- the cities may not necessarily be able to do that. So it becomes a negative feedback loop sometimes. The neighborhoods with high foreclosures, high REO concentration, they will not have the resources to have more police on the street. They cannot do code enforcement. So the negative feedback loop goes on.

So it does suggest some potential problem there.

Dan Immergluck:
In Georgia, actually, here's a place where Georgia's been, I think, ahead of the country in some ways. An advocacy group in Atlanta, the Atlanta Neighborhood Development Partnership, and I talked early on during the crisis about gee, these neighborhoods hit hard by foreclosures also during the boom had some very inflated property values, and they were being overtaxed because there were values in some of that's neighborhoods that were really twice the market, the assessed values. And then the foreclosures hit harder, and the REO sales came, and they were still using the old sales. The real values were even lower. So some of these places, I mean, people were -- houses that were worth $30,000, $40,000, $50,000 were being assessed at $200,000 and above.

There were some problems with this, but this group got a state law passed -- there were some big problems with it -- requiring the assessors in the state to take into account REO transactions because in the past, they had dismissed them in establishing values because they had left out the REO transactions. They were only counting, quote unquote, arm's length non-REO transactions. Well, a lot of those were actually fraudulent or based on appraisal fraud, and the real values were probably closer to the REO sales. So this group got a state law passed. The problem with it is it didn't really say what they're supposed to do, and each assessor is doing it differently. But it was a very regressive treatment of property taxes, so people in low-income, foreclosure-hit neighborhoods were being assessed at much higher values compared to the true market value than people in middle- and upper-income neighborhoods.

Since then, though, everybody's value is going down, so it becomes really hard, of course -- what really needs to happen is the tax rate needs to be raised on everyone with the assessed value going down on folks in high foreclosure neighborhoods, but the counties have a hard time raising tax rates right now, so the result is lots of fiscal stress, layoffs, and the results of that. Tough issue.

Michael Schramm:
The way they dealt with property assessments in Ohio, we reassess every three years, so '09 was our reassessment year for our county. And the auditor just decided to do decreases in values based on the community, so one community, everybody's values got dropped by 8%. In some it was 12%. In some it was 3%. And I don't know if there was actually decision making, you know, what this was based on, if it was just based on gut feeling, but the property taxes and the values were just, like I said, lowered depending on which community you lived in.

And then we do have a high volume of people going through our Board of Revision process, which is where you can challenge the value of your property to try to get it lower, or it's the Board of Education trying to challenge higher-end properties to get them higher. So it is a two-way street, but their volume is way up, and unfortunately, the Board of Revision is receiving a lot of negative press in Cleveland and Cuyahoga County, so I won't say more about that.

Carolina Reid:
The other thing that we're starting to do research on is the impact of foreclosures in previous

subprime lending on small businesses and small business lending. And what we are finding preliminarily, anyway, is that there's a huge relationship with neighborhoods that have been hard hit by foreclosures and the closure of small businesses and the constriction of credit for those small businesses in those areas. So that's another area where you're going to see even more tax declines from -- and revenues generated from small businesses in those neighborhoods.

Richard Walker:
Other questions? Well, I have -- I want to go back to the issue of investors. As we all can attest, this is a huge problem, and there is not enough public money that is available, federal, state, or local level, to deal with the issue. So it would seem to me that we are going to have to have private investment in order to turn this around.

And I guess the question from me is, then, how do we ensure -- or what kind of policies do we need to include in our strategies to ensure that this private sector investment fits in with our desire to have stabilized and safe neighborhoods?

Carolina, you mentioned the need for more transparency. What are the -- what kinds of things that we need -- what kind of information do we need around that in order to be able to help us formulate strategy?

Carolina Reid:
Yeah, so I think transparency -- I think, you know, the first-look programs, every NSP administrator in our district says the only way that they can actually get properties is through the Trust. Right? So I think that that's part of it, sort of this first look, this ability to know what's happening with properties, knowing when properties are going to come on the market, and then also knowing, you know, there might be a potential to work with some of these investors and really try and make it a true public-private partnership rather than just the public sector trying to intervene in the private market.

The other thing that I think would help a lot is really figuring out how we can help home buyers qualify for responsible credit. There's just not enough credit available to borrowers who could actually afford these homes. I mean, a lot of these borrowers could have afforded the homes that I showed you at $150,000; right? They shouldn't have bought them for $450,000. But at $150,000, they are affordable. But at the moment, they can't qualify for a loan at all. I think that would do a lot. Because then, once there's borrowers, I am assuming those investors would want to sell those properties to actually homeowners; right? They want to make money on that deal. They don't want to sit on that property forever. So I think that would do a lot as well.

Dan Immergluck:
I think the answer to this question is very kind of state and local contextual, and the reason I say that is Carolina made the comment that the local governments won't release their liens. I think in Georgia -- and Frank, you should correct me -- I think the liens go away pretty easily, the municipal liens. That's what I've heard from the city with transactions. And in fact, one of the complaints is that their liens aren't strong enough.

And I think in Georgia -- and this may be the case in Cleveland too -- we need a higher barrier to entry for investors, meaning we need investors who can make -- you know, can definitely pay the property taxes and can maintain the property. And to me, the way to do that is to have really enforceable and implementable tax foreclosure law that can basically say if you don't pay your taxes, that tax lien moves up to, like, the mortgage, and the local government will take that property, can take that property, and will maintain it.

And obviously, that's a lot of state law and lots of folks, like Frank, are working on that. But I think without that, it's the wild west, and the only other response is -- is, I think, to compete with those investors, and to me, that means lots of -- lots of patient money, and that's not going to be private sector -- just private sector money. That's going to be foundation money or social responsible investing, something else, that's going to do like what Casey is doing in Atlanta, and even there they are talking 80 properties. In one neighborhood, that's a lot, but it's a lot of money. It's very expensive. So I do think that we're in a tough spot without much more flexible forms of capital.

Kai-Yan Lee:
So I definitely agree with Dan. A lot of times it's really contextual. For instance, in New England, as I mentioned a couple times, more investors are very different in New England. A lot of times they are triple decker owners. They live in a unit and then they rent out the other two or three units in the structure. So dealing with small investors is a very different animal than dealing with, you know, flippers, that kind of investors.

So a lot of times, being able to actually, at the local level, helping those small investors would be helpful, at least in the New England area. Thinking about if you foreclose one small -- a small multifamily unit, about two or three families -- three families will be impacted and displaced. So that's why a lot of times maybe in a lot of the policies, it should be quite contextual.

And also, I definitely agree with Carolina about making the transparency of the REO sales process. As I mentioned earlier, on average, everything else being equal, one additional month of an REO property on the market, they tend to suffer on average a 2 percentage point higher, greater price discount. So that means a lot of times for private investors, trying to make the process more friendly to private investors would be helpful. As simple as making the paperwork standardized among different lenders, that would really help a lot because if an investor is trying to navigate through the very complicated, very long process of obtaining REO properties, that itself becomes a big hurdle for small investors to actually engage in these kind of activities.

Michael Schramm:
One of our challenges, I think, with investors or just rehabilitation of our housing stock is how much can you put in to responsibly rehab the house to bring it up to a certain level of standards? What are those standards? And can an investor actually make money? I mean, we're talking neighborhoods where, you know, houses with good bones are selling for $40,000, $50,000 that aren't -- that don't have issues. And you know, how can an investor move into a neighborhood like that, invest money into it to actually bring it up to code and make money? That's one of the biggest challenges of, I think, what's going on in a lot of our neighborhoods in Cleveland is -- is the prices are so far down that what you put into it, you can't get out of it, if you do it responsibly.

Dan Immergluck:
Is Allan Mallach here? Good, so now I can criticize his paper. No, I try never to disagree with Allan. But there is one -- I circled one sentence that he said long-term investors are good, who are short-term kind of speculative investors are bad. What I'm seeing -- and it's somewhat anecdotal -- is a lot of these investors that are buying very low-value property are not reselling them. Some of them are. But some of them are not. And they're also not renting them out. He basically implied they'd rent them out if they're long-term investors. No. Because of what Mike just side. It doesn't work.

Basically, you're talking $400 a month just to manage a detached single-family home, and there's not enough rent -- I mean, people don't have the rents, they can't compete with subsidized housing, maybe, or even nonsubsidized, and then you're talking profit on top of the 400 bucks a month.

So in the short run, at least, the rental for detached single-family has to be, I think, subsidized to make it go. And you know, we need to find a way to do that, at least in -- that's, again, not in the northeast, but in the weaker markets.

Richard Walker:
Question back there.

Audience:
Actually, I think the conversation turned to this, but I was going to ask about what communities are doing to encourage responsible renting because offer the dichotomy's set up of, there's the homeowners and there's the speculators. In fact, obviously, a lot of communities need rental or, in fact, should have rental. So I was interested in sort of the panelists' sort of experiences, if there are any communities that they've seen where people have tried to change tax rates or do other things to sort of encourage the mom-and-pop investors to be able to invest and responsibly be landlords.

Dan Immergluck:
One of the ironies -- and I don't want to speak to all the policy issues here. I will in my housing policy class. But one of the ironies is the Atlanta Housing Authority, in conjunction with HUD but it's pretty much local policy, is to not put any new housing vouchers in most of the neighborhoods where most of these investors are buying property because they're distressed neighborhoods. And decentralization of poverty rhetoric says we won't put folks there.

So the biggest source of subsidy is not available to some of the folks trying to rent out these homes. There's pluses and minuses, obviously.

Kai-Yan Lee:
And also, sometimes dealing with investors, a lot of times in addition to thinking about contextual approach, also thinking about, you know, think outside the box. Using strategies that may not be typical. For instance, in Massachusetts, for Chelsea and Worcester, they have been very successful in using receivership as a model to try to, if you will, create a thread for investors

to really become responsible to maintain those properties. So a lot of times being contextual and also thinking outside the box could be important when dealing with investors.

Richard Walker:
Yes, please.

Gladys Marguerite Diaz:
Hi. My name is Gladys Marguerite Diaz, and I am from Miami, Florida. My company named is SASS, which stands for Special Asset Support Services. I am a private sector investor. I am a private sector businesswoman. I have been in business in affordable housing in Dade County for 20 years. I am an NSP vendor. That means that I'm charged with rehabilitating NSP properties.

I would like to underscore the viewpoint of helping small businesses participate in the public-private partnership. You have no idea the difference that it can make to be able to work in conjunction with financing. There is no money to do anything, to do any building. I'm an architect, and I rehabilitate properties; so therefore, there's no money to rehabilitate anything. There is no credit. So therefore, the only funding in town is federal funding or state and local funding. And if you structure policy that will work with small business owners, then you will have a greater participation of job-creating entities that are, from what I heard this morning, is a key factor in terms of developing stability for these neighborhoods.

So rather than focusing on just the lending side, let's look at the employment side and how the private sector markets can participate. And I understand that the word "investor" is actually a dirty word, but having been one for many, many years and having worked in affordable housing for many years, there are people out there that want to do this. And I'm going to reiterate the small investor. And it's not the large multinational, you know, the large equity fund. Those guys are going to come in, they want to make the maximum bang for their buck. It's people who are invested in the communities, who are part of the business community. And I want to leave you with that thought, and I'd like to get more information from all of you.

Richard Walker:
That's why I brought up the question of investors because there was some sense I was hearing that investors are bad, and you know, there are differences, and we need to be able to highlight those. Answers?

Kai-Yan Lee:
I just want to reiterate the importance of public-private partnerships. Again, in Boston, we have an organization there called Boston Community Capital. So they have been very active. They are a private investor. They have been very active in trying to stabilize communities. And then they already work with the tenants and the homeowners currently occupying those units.

So I am not going to speak to the funding because they are going to talk about that later in the conference, but they do have a model to keep foreclosed property owners to stay in the unit, but at the same time trying to acquire those units then we structure those units. So I am sure you will hear more from that. But definitely private investors, private organizations, are key stakeholders in this effort.

Michael Schramm:
Just a quick sample of -- this is an anecdote. Private investor bought a house across the street from me. He lives there, and his sweat equity rehabbed it. It's a beautiful house now. He's trying to sell it or rent it, and nobody can pass his credit standards as far as being a renter when he does credit applications. I am in an inner-ring suburb, so you actually can rehab and may squeak by and make a couple thousand dollars, but in a lot of neighborhoods we work, I don't think that model would necessarily work.

Richard Walker:
Carolina, I was reading somewhere recently the private sector investment in Arizona, where they're buying up a large number of properties and then renting them out as single-families. What's going on?

[Laughter]

Carolina Reid:
I mean, I think that's right. I think in -- in many of the communities, investors think that house prices are going to go back up in California, Arizona, and Nevada. I mean, the housing demand -- unmet housing demand there is likely greater than someplace like Cleveland. And so they're renting in the meanwhile. And in some cases -- this is where I'd like more data. Right? I don't know what investors are doing with these properties. I don't know what they're renting them for. I don't know, are they providing -- they might be providing affordable rental housing, which would be a great contribution to these communities. But we just don't know.

And I think if their intent is to rent them responsibly and then maybe sell them when the housing market returns, there's absolutely no problem with that. The problem that we're seeing is in those inner city, sort of more minority neighborhoods where they’re deferring maintenance even further.

Richard Walker:
Well, I think our time is up. I want to thank all our panelists.