



# **Recovery, Renewal, Rebuilding**

## *A Federal Reserve System Foreclosure Series*

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# Recovery, Renewal, Rebuilding

*A Federal Reserve System Foreclosure Series*

- Throughout the summer, forums held in **four cities** across the U.S., and supported by **nine different Reserve Banks**
- Ranged from invitation-only gatherings, to large open conferences, to research seminar
- Covered diverse parts of the country, with each focused on different facets of the issue, all aimed at **confronting the neighborhood impacts of foreclosure**
- All materials and presentations can be found at <http://stlouisfed.org/RRRseries>



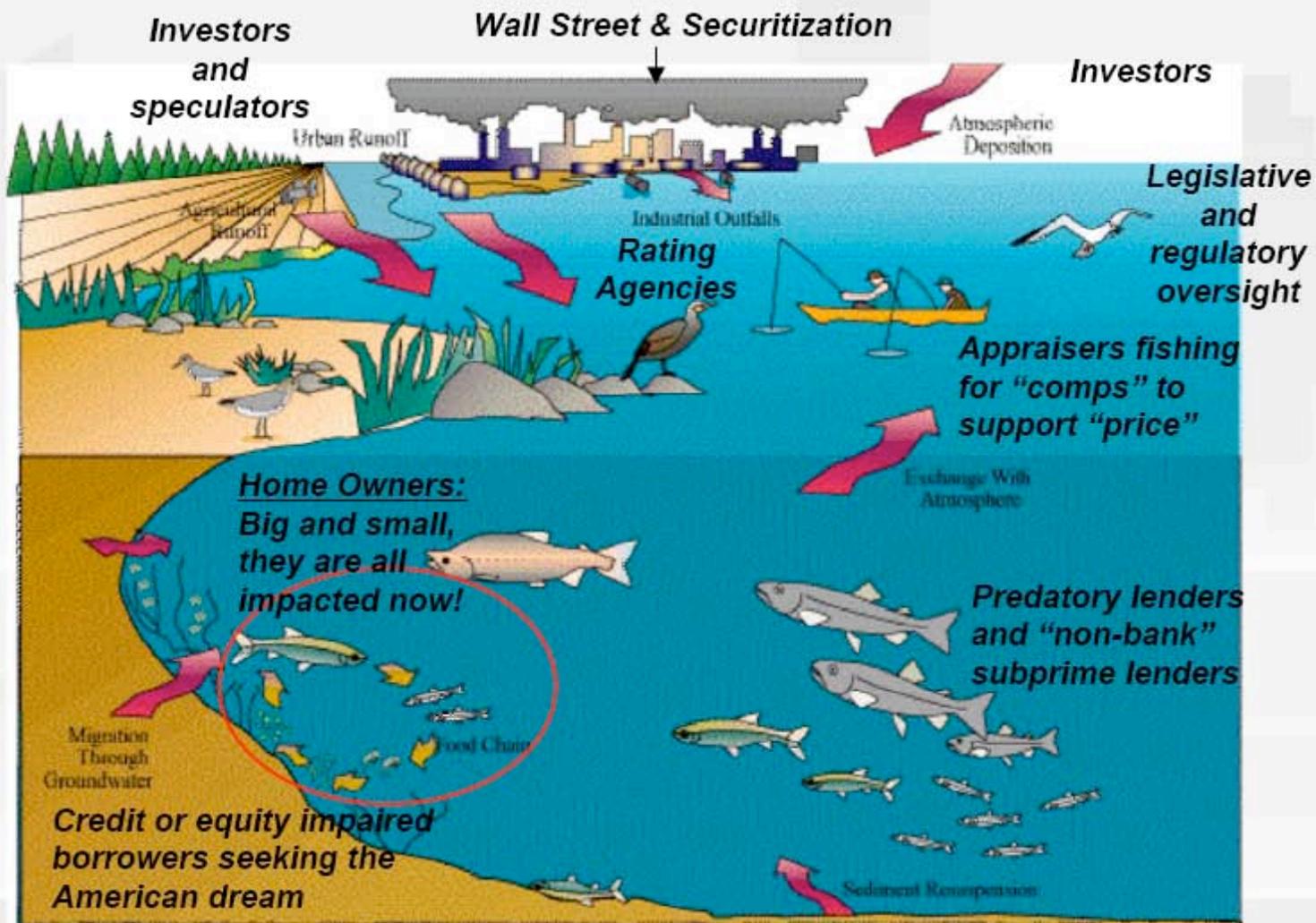
# 1. Re-engineering the Real Estate Market

*Atlanta, GA – FRBs Atlanta and Richmond*

June 26-27

- Two-day, invitation-only event, with attendees from mid-atlantic and southeast
- Highlighted how high rates of foreclosures have **impacted the functioning of the real estate market**; and
- **Presented effective strategies** to guide local governments and communities to feasible solutions

*The sources of pollution that contaminated the US housing market are many. Policy or legislation to “clean-up” the contamination needs to address all sources.*





# 1. Re-engineering the Real Estate Market

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- Sessions featured:
  - Discussion with mortgage industry experts on **voluntary measures** to address foreclosures;
  - Insights on the **recovery** of foreclosed properties, the **renewal** of weakened communities, and **assistance** to affected consumers
  - Presentations on practical policy changes to **prevent** foreclosures, **rebuild** communities, and **return** the real estate market to health



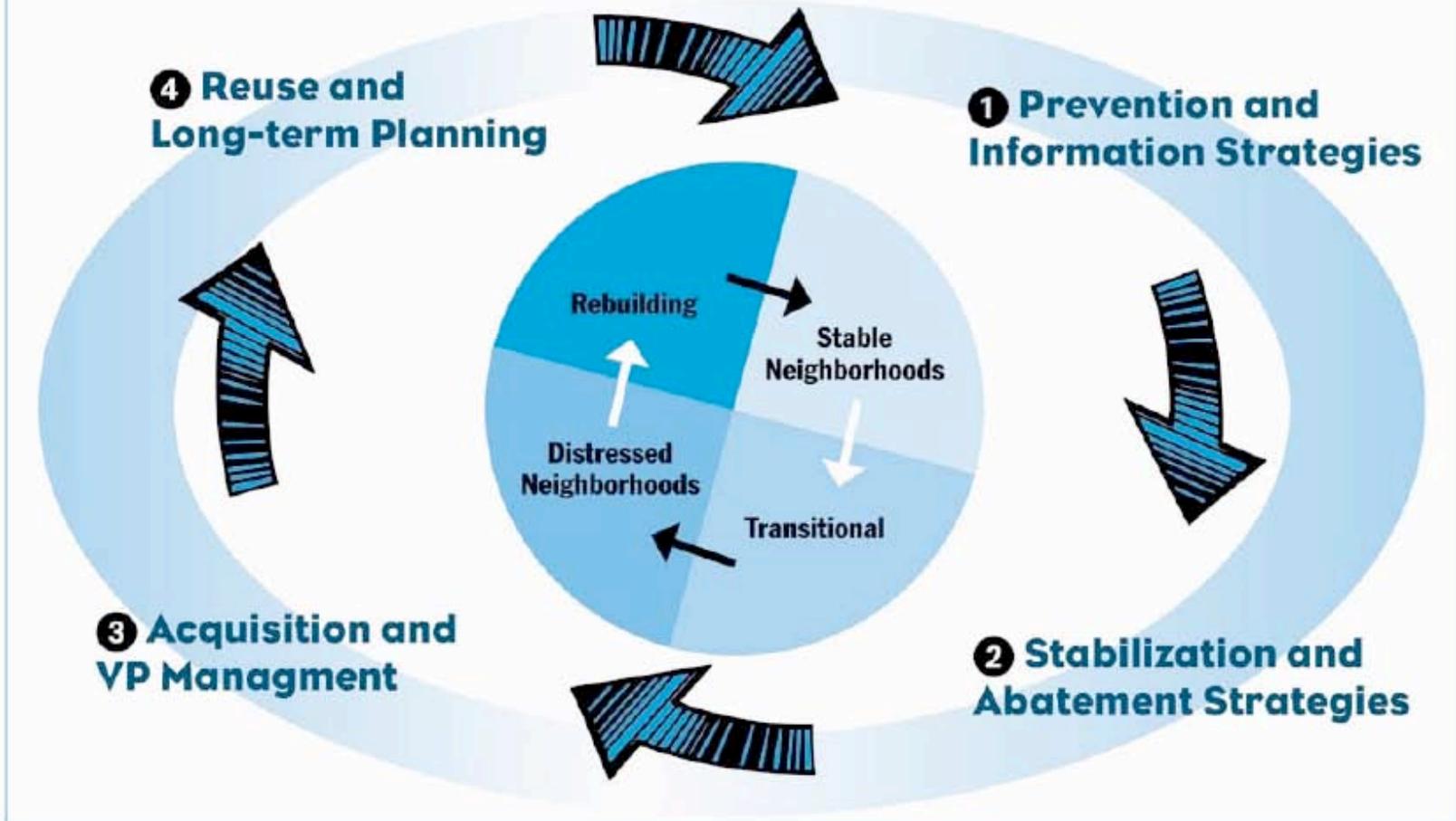
# 1. Re-engineering the Real Estate Market

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- **Challenges and barriers** identified:
  - Unwillingness of lenders to work with borrowers
  - Need for housing counseling
  - Need for reforms in the foreclosure process
  - Variations in REO valuations
  - Lack of nonprofit capacity
  - Need for comprehensive approach to vacant properties

## Vacant Properties Revitalization Cycle





# 1. Re-engineering the Real Estate Market

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- **Strategies to address** these challenges include:

- Development of training programs and other tools to build nonprofit capacity
- Creation of a clearinghouse for lenders to register properties
- Creation of a housing trust fund to coordinate acquisition and disposition of REO properties



## 2. Stabilizing Communities: Addressing the Negative Impacts of Foreclosures

*Los Angeles, CA – FRB San Francisco*

July 15 -16

- Two-day open conference with attendees primarily from the west; co-sponsored with OCC and FDIC
- Highlighted existing and emerging programs for **stabilizing** communities and **converting** REO properties to affordable use
- Specific focus on **high-cost** real estate markets
- Aimed at giving nonprofits and local governments **specific tools and strategies** for mitigating the negative impacts of foreclosures



## 2. Stabilizing Communities: Addressing the Negative Impacts of Foreclosures

*Los Angeles, CA – FRB San Francisco*

July 15 -16

- The primary **challenges** for **stronger market** communities were identified as:
  - Rapid house **price depreciation**
  - Difficulty in determining appropriate **valuations**
  - Responding to foreclosures in **newly-built** suburban neighborhoods
  - Institutional barriers within the **servicing** industry

# Frank Alexander: Transforming Foreclosed Properties

## REO Conversions to Community Assets

Foreclosure  
End of Redemption



Community Assets

### Challenges:

Finding Identity of REO holder or agent

Inventory Triage

Negotiating short term leases and management agreements

Negotiating acquisitions by Gov. agencies & NGOs

### Opportunities:

Seek to have all MEs identify REO agent with management and disposition authority

Segregate by condition; availability for occupancy; geographic concentration

Immediate goal of occupancy; cash flow only to cover management, utilities, taxes, ins.

Create acquisition program (HR 5818/3221) at > 70% current FMV, adjusted for public liens; place into NGO/CDC rental management or resale program.



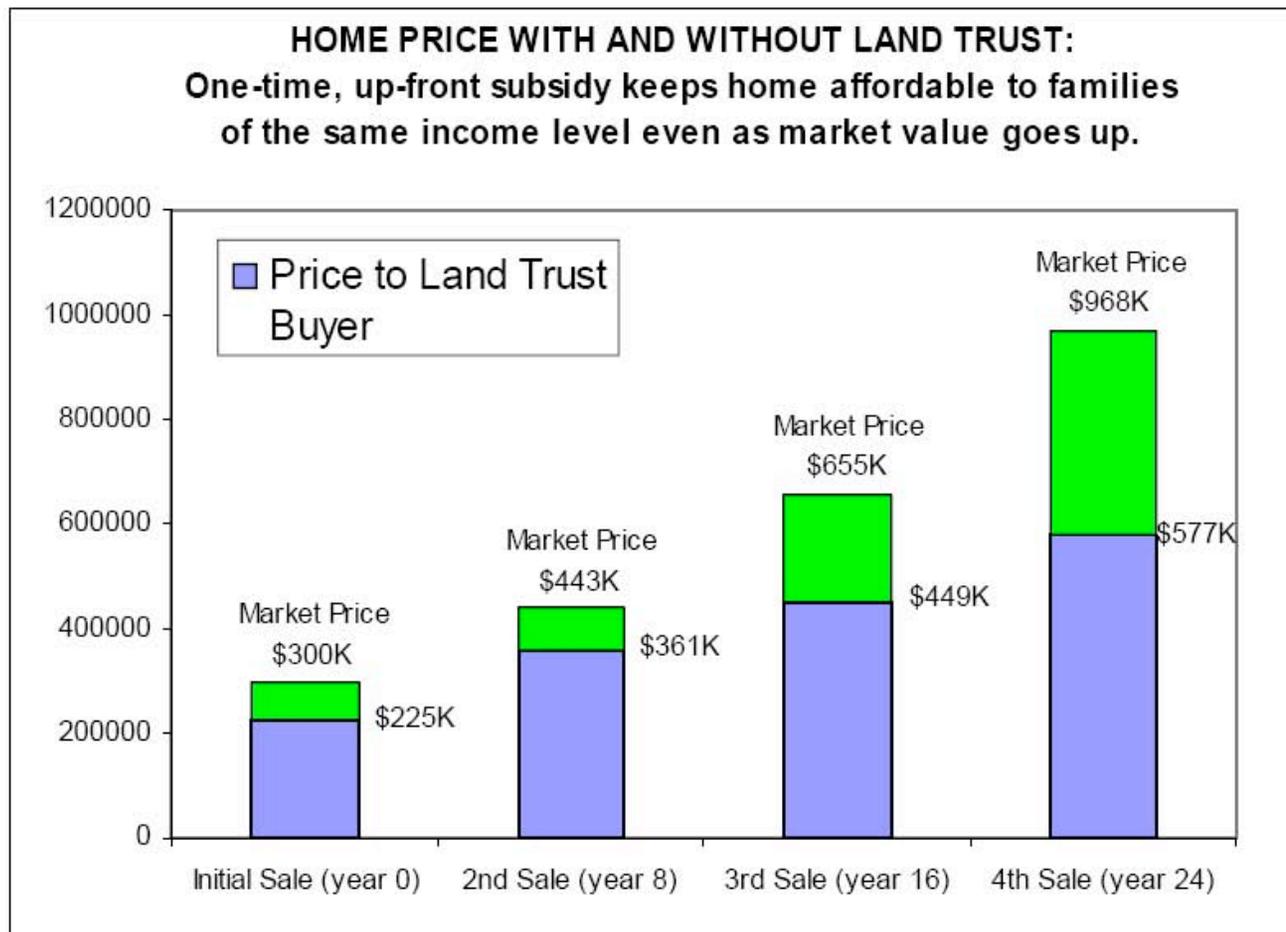
## 2. Stabilizing Communities: Addressing the Negative Impacts of Foreclosures

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- Strategies for **converting REO** properties into affordable housing:
  - Incorporating **data and research** to target resources
  - Gaining insights into the servicing industry
  - **Rehabbing** marketable properties
  - Employing **lease purchase** models
  - Utilizing **creative financing** models, such as HFA loan programs, shared equity and NMTC

# Using NMTC to Create Land Trust in DC: Subsidy Grows Over Time





## 2. Stabilizing Communities: Addressing the Negative Impacts of Foreclosures

*Los Angeles, CA – FRB San Francisco*

July 15 -16

- Strategies for **stabilizing** communities:
  - Quickly **finding occupants** for vacant property
  - **Maintaining properties** by identifying owners and enforcing local ordinances
  - Facilitating **conversion** of properties through community partnerships and coalitions
  - Utilizing **land banks**



### 3. Moving Toward Solutions: Research and Policy on Vacancy and Abandonment

*Columbus, OH – FRBs Cleveland, New York and Philadelphia*  
August 27

- One-day, invitation-only research seminar, with a focus on the northeast
- Highlighted the **contribution of recent research** to the **policy discussion** about the causes and impacts of foreclosure and vacancy
- Emphasis on **weak market cities** – those with declining populations, high unemployment and persistent poverty



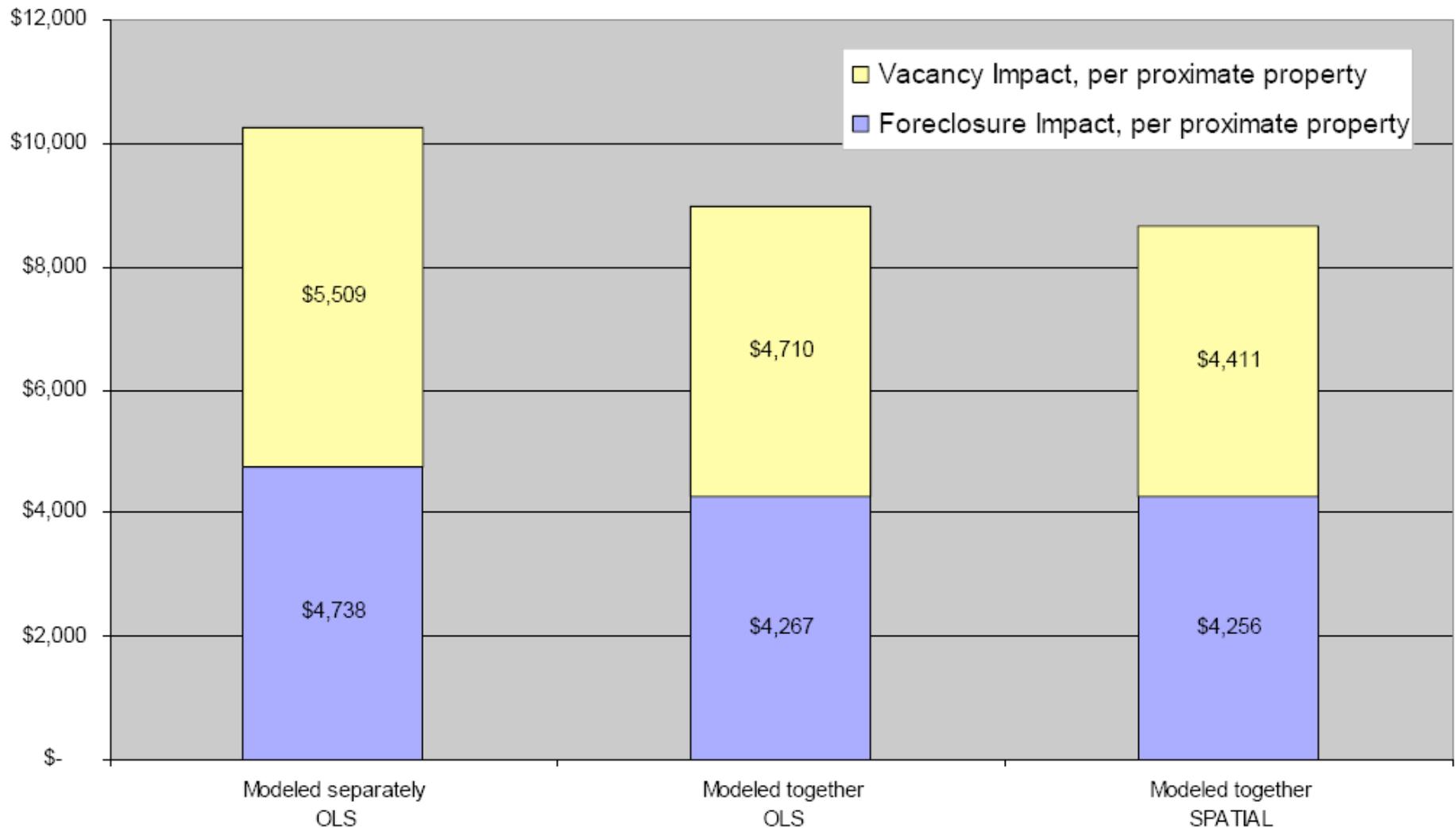
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- Research presented in three categories:
  - Research tied to **market diagnosis**, explaining patterns in loan performance
  - Research providing **directly actionable information** such as identifying specific properties/where to direct financial support
  - **Impact studies** that analyze degree to which foreclosures can affect other properties and neighborhood development

# Average Impact: Proximate Properties

33% of sales were near a vacant property (within 500')  
72% of sales were near a foreclosed property (within 1000')



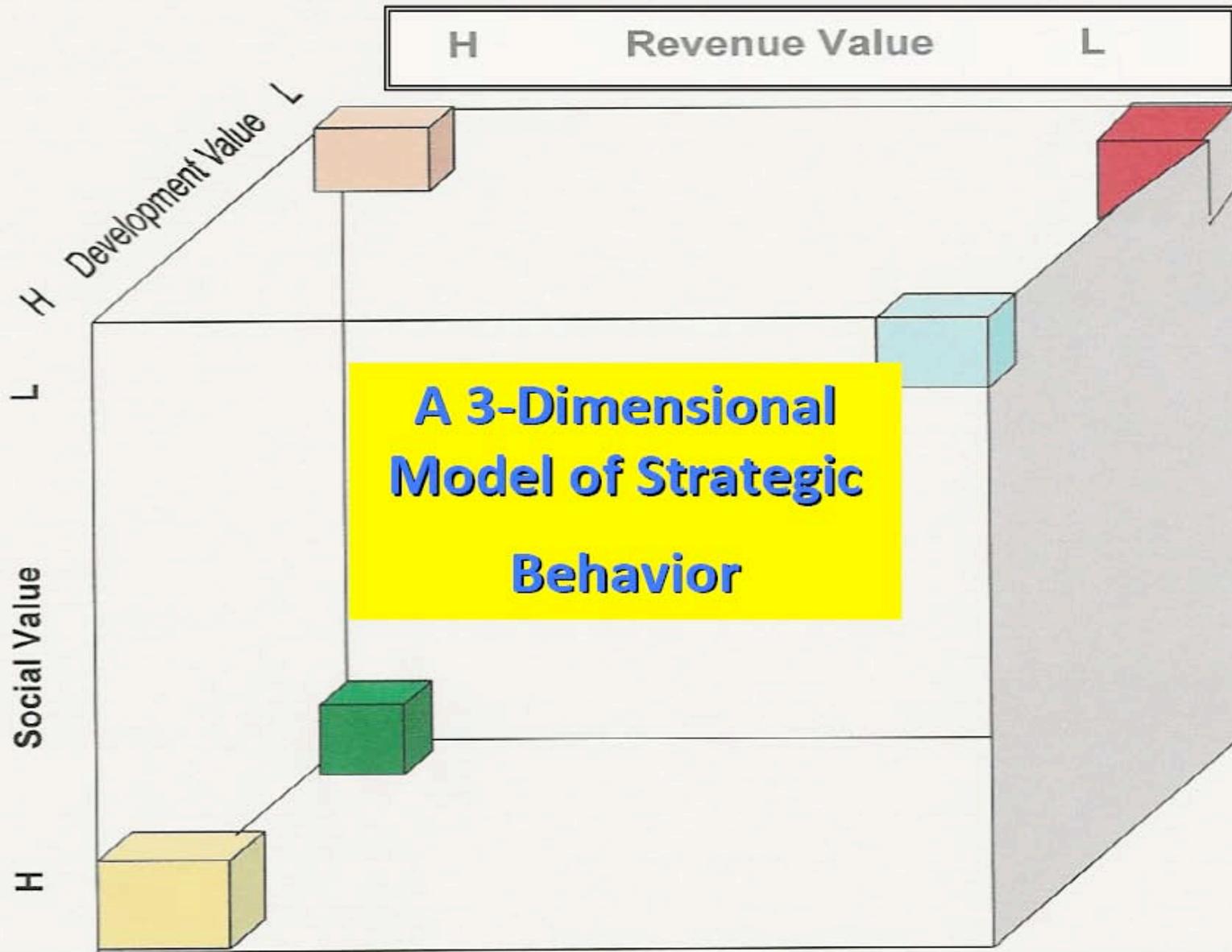


### 3. Moving Toward Solutions: Research and Policy on Vacancy and Abandonment

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- A moderated discussion explored how to better leverage research into public policy:
  - **Lack of uniformity** among governmental records systems stymies research efforts
  - More sources of **existing data** need to be **made available**, especially for resource-strapped small cities
  - **Clearer definitions** of vacancy and abandonment are needed

**Figure 1: The Revenue-Generating, Social Value, and Development Value Importance of Vacant Land in Three-Dimensional Space**





## 4. Strengthening Neighborhoods in Weak Markets

*St. Louis, Mo – FRBs Chicago, Minneapolis and St. Louis*  
September 24-25

- Two-day, open symposium, with a focus on the midwest
- Focus on the **fallout** from widespread foreclosures:
  - vacant buildings
  - diminished tax revenue
  - displaced residents
- Emphasis on **low-cost** real estate markets

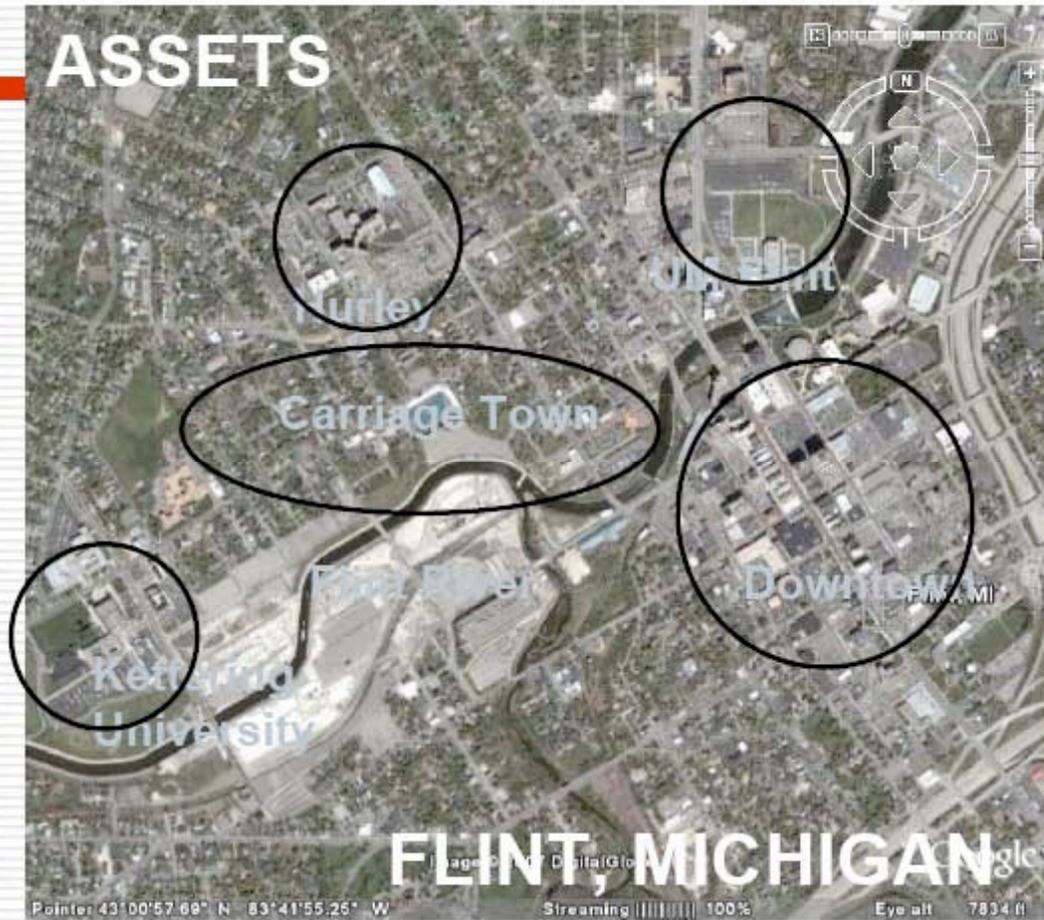


## 4. Strengthening Neighborhoods in Weak Markets

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September 24-25

- National experts focused on:
  - How nonprofits and local governments can address the **negative spillover** effects
  - The **economic implications** for municipalities
  - **Municipal governance solutions** such as ordinances, land banks and housing courts
  - **Funding and financing solutions** such as targeted neighborhood investment solutions

# ASSETS

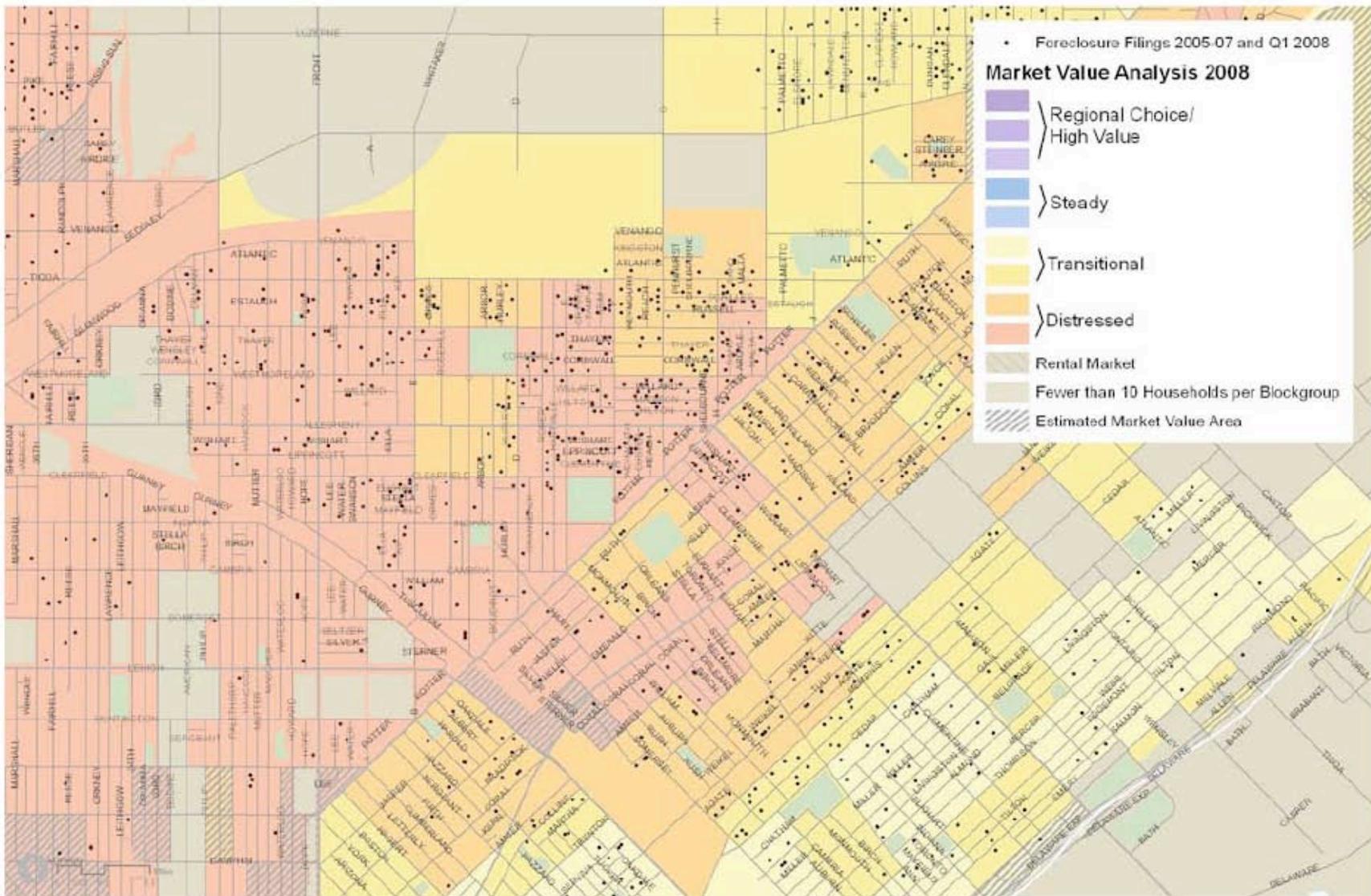




## 4. Strengthening Neighborhoods in Weak Markets

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- Strategies offered included:
  - Creating models for positive disposition of properties
  - Finding ways to **realign** existing resources
  - **Building capacity** in local housing and neighborhood organizations
  - Building **integrated** community data information **systems**





# Common Themes

- Effectively leveraging **national resources** to address abandonment
- Navigating **ownership and control** of vacant properties
- Appropriately pricing and **valuing** vacant properties
- Employing appropriate **models for property disposition**