Neighborhood Housing Services of Chicago

Confronting the Neighborhood Impacts of Foreclosure

Navigating Ownership and Control of Vacant Properties

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Board of Governors of the Federal Reserve System
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NHS of Chicago

- 9 target communities
- Community building and neighborhood reinvestment strategies
- Block and institutional organizing
- Home ownership training and counseling
  - Pre-purchase
  - Post-purchase
- Foreclosure prevention
Direct real estate ownership and development
- Tool for neighborhood reinvestment
- Fix problem vacant properties
- Create visible investment to set standards for improvement
- Provide affordable housing opportunities

Multi-family rental rehab and new construction (tax credits, etc.)

New home construction to encourage homeownership on vacant lots

NeighborHomes: purchase, rehab and resale of vacant 1-4 unit properties for sale to owner occupants
NHS – HUD ACA Experience

- **Results**
  - 100 properties purchased in two neighborhoods (Back of the Yards – 27 Chicago Lawn/Gage Park – 73)
  - 2 years duration

- **Impact**
  - Stabilizing blocks by transforming vacant buildings into community assets
  - Providing affordable homeownership opportunities for families
  - Ensuring buyers are well-prepared to be successful homeowners
  - Leveraging other investment to create impact – the Green Bungalow block at 6400 South Fairfield
ACA Model Block
Green Bungalow Homes
Before
ACA Model Block
Green Bungalow Homes
After
Ingredients of Success

- Negotiating acquisition price (re-appraisal)
- Subsidy available for appraisal gap
- Get all buildings in the focus area in timely and planned manner
- Geographic focus created impact
- Market was appreciating, but homes were still affordable
Home Ownership Preservation Initiative: Goal & Results

- **Goal**
  - To address rising foreclosures in Chicago’s low- and moderate-income neighborhoods in order to preserve sustainable homeownership for Chicago residents and to reclaim foreclosed homes as neighborhood assets

- **Results**
  - 1,776 foreclosures prevented
  - 9,300 families counseled
  - 348 properties reclaimed
Vacant Properties Purchased at a Discount From Servicer REO Over Three Years 2003 - 2006

- Lender A - 6
- Lender B - 5
- Lender C - 2
- Lender D - 2
- Lender E - 2
- 5 others – 1 each

-Very difficult to negotiate doable price
PAST REALITY

- Servicer’s were engaged in discussion
  - **BUT**

- **Difficult to negotiate individual transactions**
  - Prices to high
  - Standard REO disposition process didn’t allow negotiation process
  - High market demand for REO by investor
    - Investors / speculators willing to pay more
Recurring Issues

- Appraisals – acquisition cost
- Market value – after rehab
- Rehab standards & costs
- Subsidy sources – appraisal gap
- Feasibility
- Affordability & revitalization – neighborhood specific strategies
- Property location & selection
- Marketing & sales
HSBC REO Pilot Program
YourHome Counts - 2007

- Donated 4 properties to NHSRC for rehab and resale to owner-occupants at or below 80% AMI
- NHSRC accepted property as-is and assumed responsibility
- NHSRC earns developer’s fee which is defined as 15%
- Financial gain over and beyond the total costs utilized for future affordable housing initiatives
- Lender received credit for as-is appraised value of property as contribution
- Why? Beginning of visible crisis
  Strong relationship of HSBC and NHSRC in past
NEW REALITY

- 97% of properties that go to foreclosure auction end up in REO inventories.
  - Investor interest has been dramatically reduced had declined from 30% of foreclosures purchased at auction
- Large inventories of bank owned REO property are putting tremendous downward pressure on local real estate markets.
- Servicers are actively pursuing opportunities to move REO.
  - Increased interest negotiating transactions
  - “Make us an Offer”
### Neighborhood Perspective

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Number of Units Sold</th>
<th>Average Sales Price</th>
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<tbody>
<tr>
<td>2005</td>
<td>408</td>
<td>$115,226</td>
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<tr>
<td>2006</td>
<td>384</td>
<td>$126,099</td>
</tr>
<tr>
<td>2007</td>
<td>323</td>
<td>$109,183</td>
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<tr>
<td>2008</td>
<td>235</td>
<td>$73,691</td>
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**Area Market Survey Criteria Status:** Closed  
**Property Type:** Detached Single, Attached Single  
**Area:** Roseland  
**Closed Date:** 01/01/2005 – 10/15/08  
**Data Source:** connectMLS
**Neighborhood Perspective**

- Currently there are 358 single family active listings in Roseland.
- 279 listings are priced less than $149,999
- 47 are listed for less than $30,000 with an average time on market of 167 days.
  - In ‘05 & ’06 no properties under $30,000
- 10 are listed for less than $15,000 with an average market time of 105 days.
Servicer Web Sites

Neighborhood Perspective

- **Servicer A** 18 properties $15,000 – 69,900
  - 11 under $30,000

- **Servicer B** no listings

- **Servicer C** 27 properties $9,900 – 169,000
  - 10 under $30,000

- **Servicer D** Listing for total state only

- **Servicer E** 1 property at $19,000

- **Servicer F** 1 Property at $20,000
Time to Jump In

- Acquisition prices have fallen but are they favorable for development.
- Original list price: $54,900
- Current list price: $24,900
- 211 days on market

Bank Owned REO located at 331 West 110th Street. Photograph taken from MLS listing # 06834796
Market Capacity vs Price

- REO property most likely will have substantial deferred maintenance
- Cost to rehabilitate properties has not decreased
- Soft resale and rental market makes rehabilitation challenging without significant subsidy.
- Single family rental demand still an unknown in hardest hit communities.

Bank Owned REO located at 331 West 110th Street. Photograph taken from MLS listing # 06834796
Data Overload

- An abundance of websites exists as it relates to REO.
- Validity and value of resources hit or miss
  - Some sites are extremely informative
  - Others have no data at all
  - An abundance of websites exists as it relates to validity and value of resources hit or miss
- Finding the owner of vacant buildings can be challenging
  - Lender “walk away”s
  - Delays in recording judicial deeds
Making Connections

- Relationships at the servicer level at critical.
  - The Community Relations department is a great place to build the relationships.
  - They will get you to the right people and can also be strong advocates.

- Relationships with local REO Brokers are invaluable.
  - Pay attention to the for sale signs in the neighborhoods.
  - REO Brokerage is niche market. A handful of broker’s will be getting 85% of the listings.
Web of Influence

  - National Mortgage Servicer Web Links
    [http://www.occ.treas.gov/cdd/ServicerContactInformation.pdf](http://www.occ.treas.gov/cdd/ServicerContactInformation.pdf)
    - Good data available from most servicers
    - Effectiveness of contacts an unknown
    - Data integrity – a challenge

- The Federal Reserve System and NeighborWorks America’s Web site
  Stablecommunities.org

Data gaps regarding REO ownership should be expected due to mechanics of foreclosure process.
- Statutory redemption period
- Judicial Deed recordings
Other Strategies – REO Alternatives
Servicers willing to try?

- **Shared risk models**
  - Servicer sharing the risk liability through LLC partnerships
  - Creation of asset buying entities to put buildings back in service through for sale, lease to purchase and rental strategies.

- **Bulk acquisition strategies**
  - Focused geography based – how flexible?
  - Pick what makes sense for development strategy?
  - Minimum # that get benefit of bulk?
The Unknown Market

What will the most effective disposition strategy be?

- Direct sale
  - Tightening credit
  - Larger down payment requirements
  - Shaky consumer confidence
  - Market transition
The Unknown Market

- Rental
  - Is there a demand for it?
  - Will rents effectively cover debt service?
  - Lease to purchase possibilities?
Extreme Negative Impact on Neighborhoods

- Defined geographies will have greatest impact and also leverage prior efforts.
- Any program will need to be subsidized to levels that would offer a substantial safety net to the developer.
- The reality of demolition as a tool in this effort looms larger as the economics of rehabilitation of dilapidated property in soft markets even when subsidized don’t work.