Recovery, Renewal, Rebuilding
A Federal Reserve System Foreclosure Series

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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](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
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. Prevention and Information Strategies
2. Stabilization and Abatement Strategies
3. Acquisition and VP Management
4. Reuse and Long-term Planning

- Rebuilding
- Stable Neighborhoods
- Transitional
- Distressed Neighborhoods
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

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
Los Angeles, CA – FRB San Francisco
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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

HOME PRICE WITH AND WITHOUT LAND TRUST:
One-time, up-front subsidy keeps home affordable to families of the same income level even as market value goes up.

- Initial Sale (year 0): Market Price $300K, Buyer $225K
- 2nd Sale (year 8): Market Price $443K, Buyer $361K
- 3rd Sale (year 16): Market Price $655K, Buyer $449K
- 4th Sale (year 24): Market Price $968K, Buyer $577K
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
3. Moving Toward Solutions: Research and Policy on Vacancy and Abandonment
Columbus, OH – FRBs Cleveland, New York and Philadelphia
August 27

- 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’)

![Chart showing the impact of proximity to vacant and foreclosed properties on sales prices.](chart.png)
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

H Revenue Value L

A 3-Dimensional Model of Strategic Behavior
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
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
4. Strengthening Neighborhoods in Weak Markets

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

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**