Real Estate Owned (REO) Disposition Risks & CRA Opportunities

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Purpose

• Provide information to financial institutions on potential risks resulting from inadequate REO management practices and controls

• Assess the impact of various REO disposition strategies on communities and neighborhood stabilization efforts

• Topic areas will include:
  1) Property preservation and maintenance
  2) Sales
  3) Promising community stabilization initiatives or alternative disposition strategies.
Current REO Market Observations

- REO properties are negatively affecting owner-occupied neighborhoods.
- Foreclosure volumes are expected to increase as lenders continue to work through high portfolio delinquency rates.
- Rental rates have increased in some markets, intensifying competition between investor and owner-occupant home buyers.
- Low-value properties present unique challenges and may require alternative disposition strategies.
- Opportunities available to REO holders to ensure that they are minimizing the adverse community problems associated with vacant and foreclosed properties.

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Property Preservation and Maintenance

• The maintenance and preservation of REO properties plays a central role in stabilizing neighborhoods, attracting owner-occupant buyers and maintaining neighborhood property values

• Risks to lenders resulting from inadequate property preservation, maintenance, and controls
  – Fines, penalties and sanctions resulting from the violation of local ordinances
  – Reputational and liability costs resulting from criminal activity or arson in vacant REOs
  – Reputational and liability costs resulting from vendor violations of property preservation guidelines
  – Litigation exposure resulting from inadequate vendor and/or broker oversight
Property Preservation and Maintenance
(continued)

• Promising practices associated with property preservation and maintenance
  – Direct engagement with local municipalities to ensure proper maintenance of REOs
  – Vendor oversight programs that include third-party quality control and audits
  – Close communication with major property servicing companies that maintain properties in service area
  – Partnerships with municipalities and not-for-profits to comply with building and housing codes and local ordinances for properties held in portfolio
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REO Sales

• REO sales practices and programs directly affect servicer performance and broadly impact the communities in which REOs are being sold

• Risks to lenders resulting from inadequate REO sales practices and controls
  – Potential reputational risk from a lack of understanding of the unique challenges posed by the different channels for selling REO (in bulk to investors, auction, online, Realtors)
  – Adverse financial consequences from insufficient oversight of broker networks
  – Legal issues when evicting tenants
REO Sales  (continued)

• Promising practices employed by successful REO sellers
  – “First Look” programs that enable owner-occupants, public entities, and nonprofits windows of time to bid on available properties
  – Donation of low-value REO to land banks or housing organizations with capacity to rehab or demolish
  – Strong oversight of repair and maintenance of listed REO properties
  – Screening and monitoring of bulk sale investors to assess their capacity for responsible maintenance and disposition after acquiring properties
Additional Resources


• “Problems in the Mortgage Servicing Area,” a speech by Governor Sarah Bloom Raskin, Federal Reserve Board of Governors, November 12, 2010: http://www.federalreserve.gov/newsevents/speech/raskin20101112a.htm


• Community Development and REO Resources at the Federal Reserve Bank of Cleveland: http://www.clevelandfed.org/community_development/index.cfm?DCS.nav=Main
Questions

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