

REO Stabilization Opportunity Score: An Analytical Tool for More Effective Community Stabilization Efforts

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Presentation Outline

- I. The Big Picture:
 - Stabilization tool continuum
 - Southern New England context

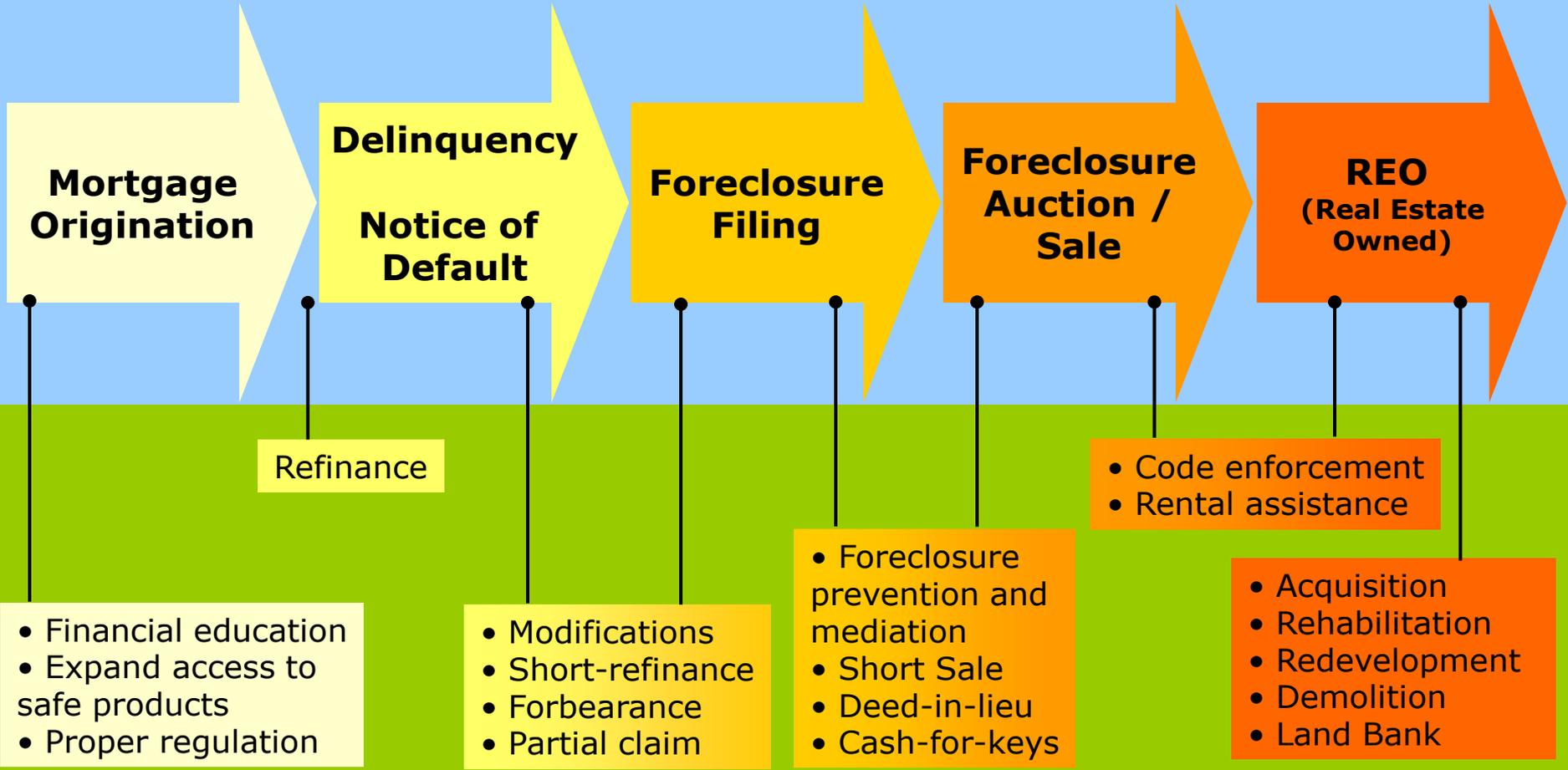
- II. REO Stabilization Opportunity Score (SOS)
 - Background
 - Variables considered
 - Detailed analysis
 - Cuyahoga County, OH

- III. Other factors to consider when drafting REO strategies

- IV. Limitations and takeaways

I. The Big Picture: Various Stabilization Tools

Mortgage and Foreclosure Process

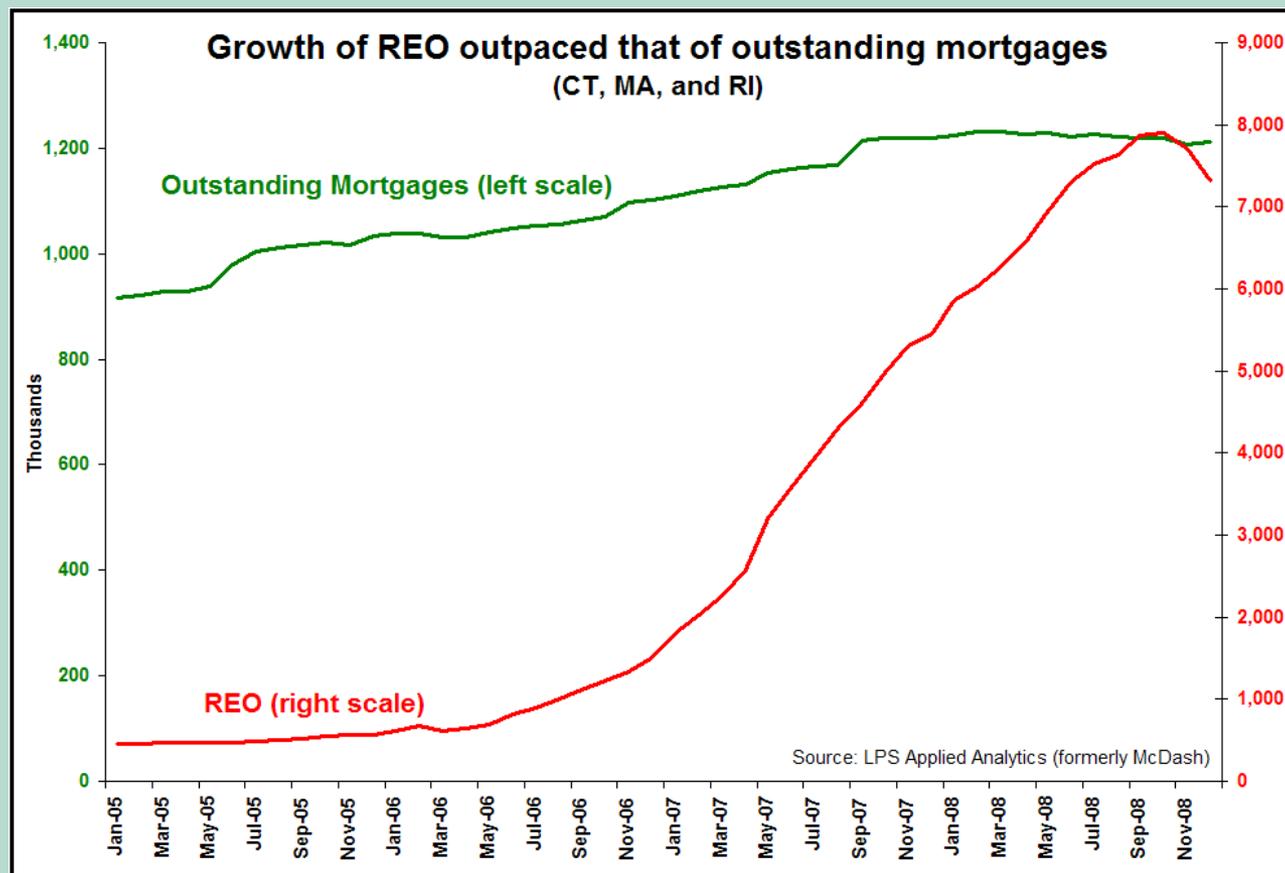


Preventive (less costly, quicker)

(often costly, lengthy) Reactive

Stabilization Tools Continuum

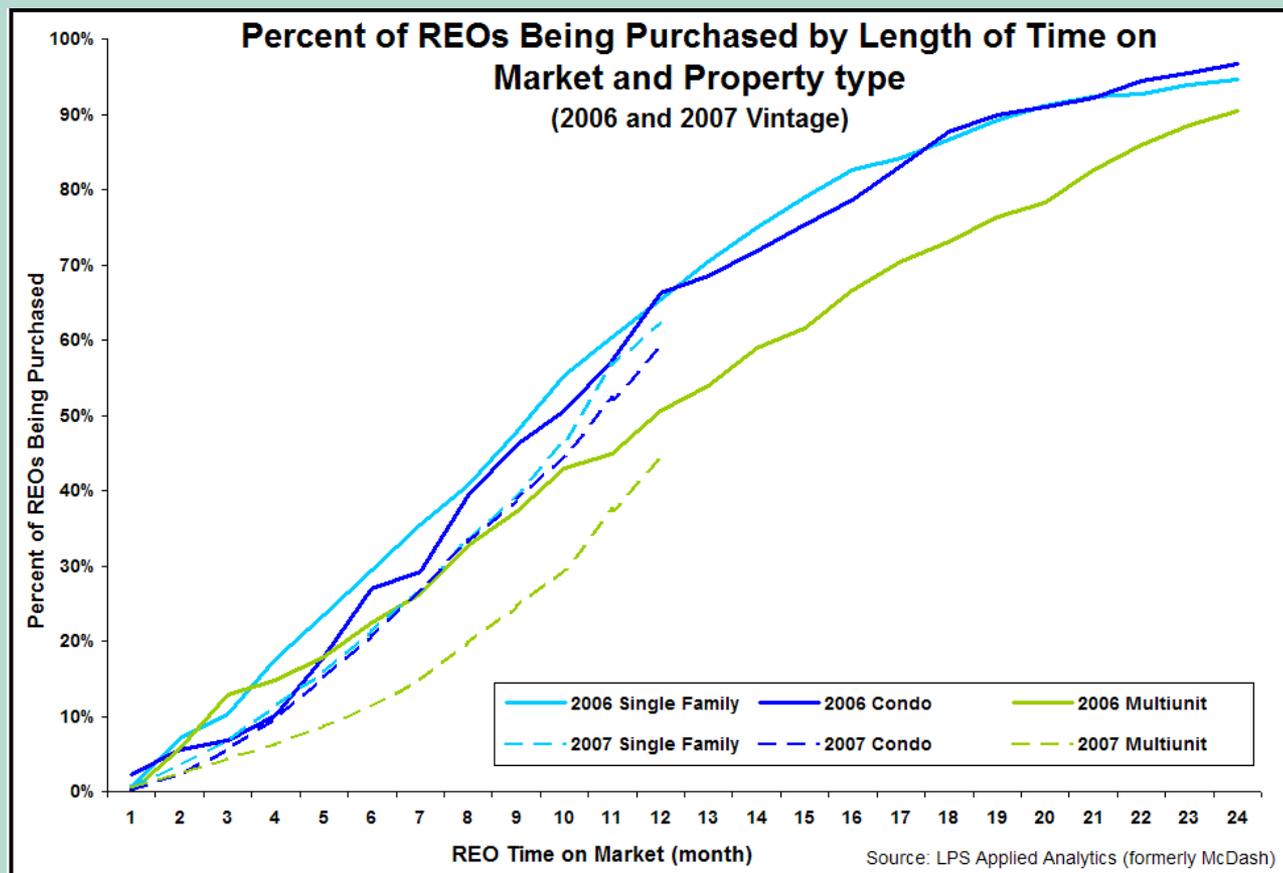
I. The Big Picture: REOs in Southern New England



- Effective REO strategies target **increasing outflow**, and should be coupled with strategies **decreasing inflow**.
- **Rapid growth** of REOs in the region since early 2007. REO rate grew 12 fold from Jan 06 to Dec 08

• REOs are highly **concentrated**, this intensifies REOs' destabilizing impact on communities

I. The Big Picture: REOs in Southern New England



- **Multiunit REOs'** share in all REOs is increasing, intensifying REOs' overall impact.
- It generally takes **longer** for **multi-unit** REOs to be re-purchased.
- It takes **longer** for 2007 REOs to be repurchased than 2006 REOs across **all property types**.

- How to target resources to address REO problems most effectively?

II. Analysis of REO Opportunities – REO SOS

- **REO Stabilization Opportunities Score (SOS):**
Identifies areas of opportunities for REO acquisition, rehabilitation, and redevelopment
- **Different approaches** to address REO issues, for instance:
 - *Heavily impacted areas:* code enforcement, rehabilitation, conversion to rental units, demolition, land bank, etc.
 - *Moderately impacted areas:* rehabilitation, acquisition, infill, foreclosure prevention, etc.
- REO strategies need to **integrate with other stabilization tools** in order to improve neighborhoods more effectively.

II. Components in Calculating SOS

- **REO availability**

- As of Dec. 2008, includes REOs from both prime and subprime loans
- Considers both the absolute number and concentration of REOs

- **90-day plus delinquency**

- Suggestive of future REO trends
- As of Dec. 2008, considers both the absolute number and concentration of serious delinquencies

- **Median time of REOs on the market**

- Measures REO market activeness
- Includes properties that became REOs since 2005, both currently still on the market and already been purchased

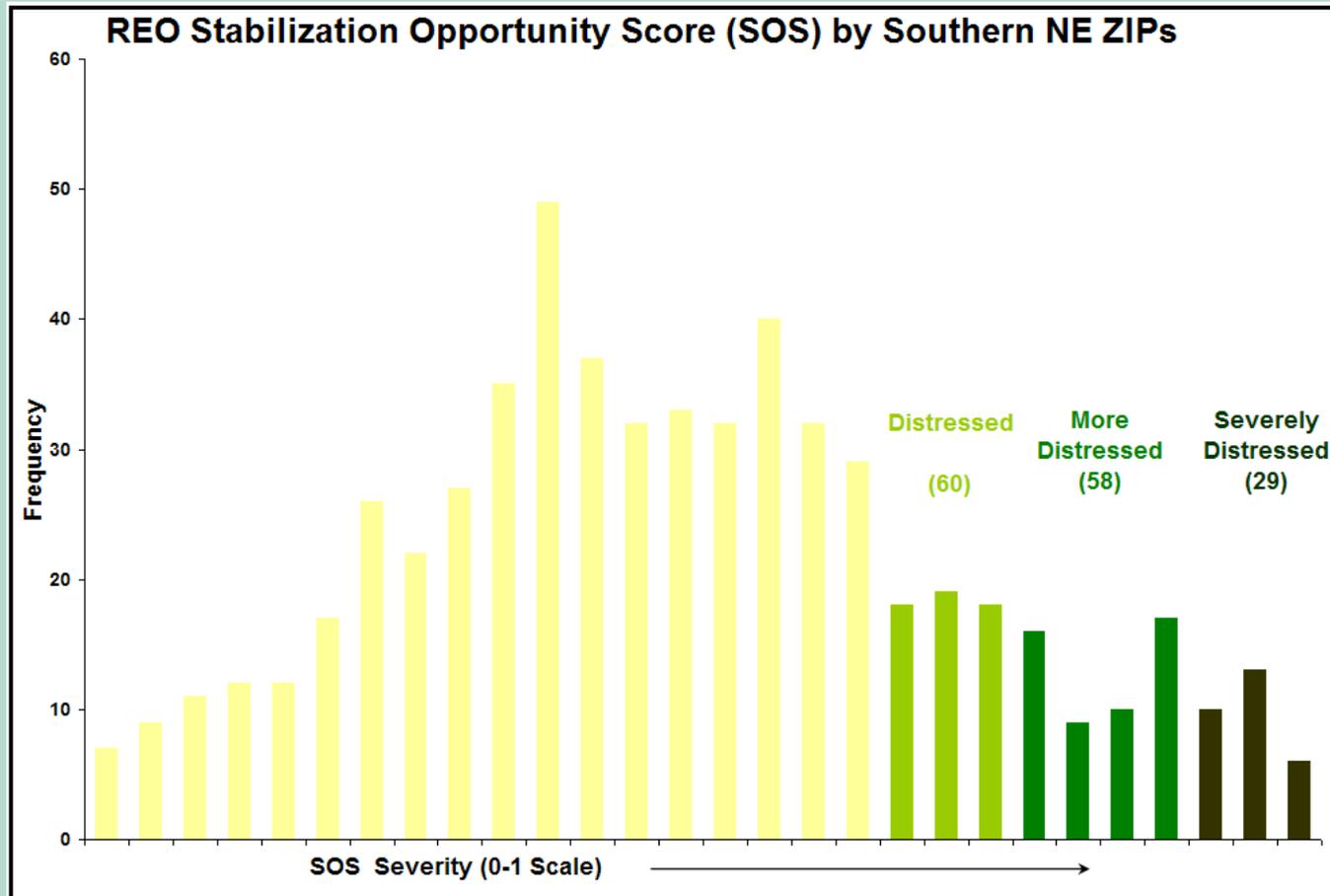
- **Median home sales price decline**

- Measures local residential market strength
- Median sales price reduction between 2005 and 2008

Current,
Future
REO
Avail-
ability

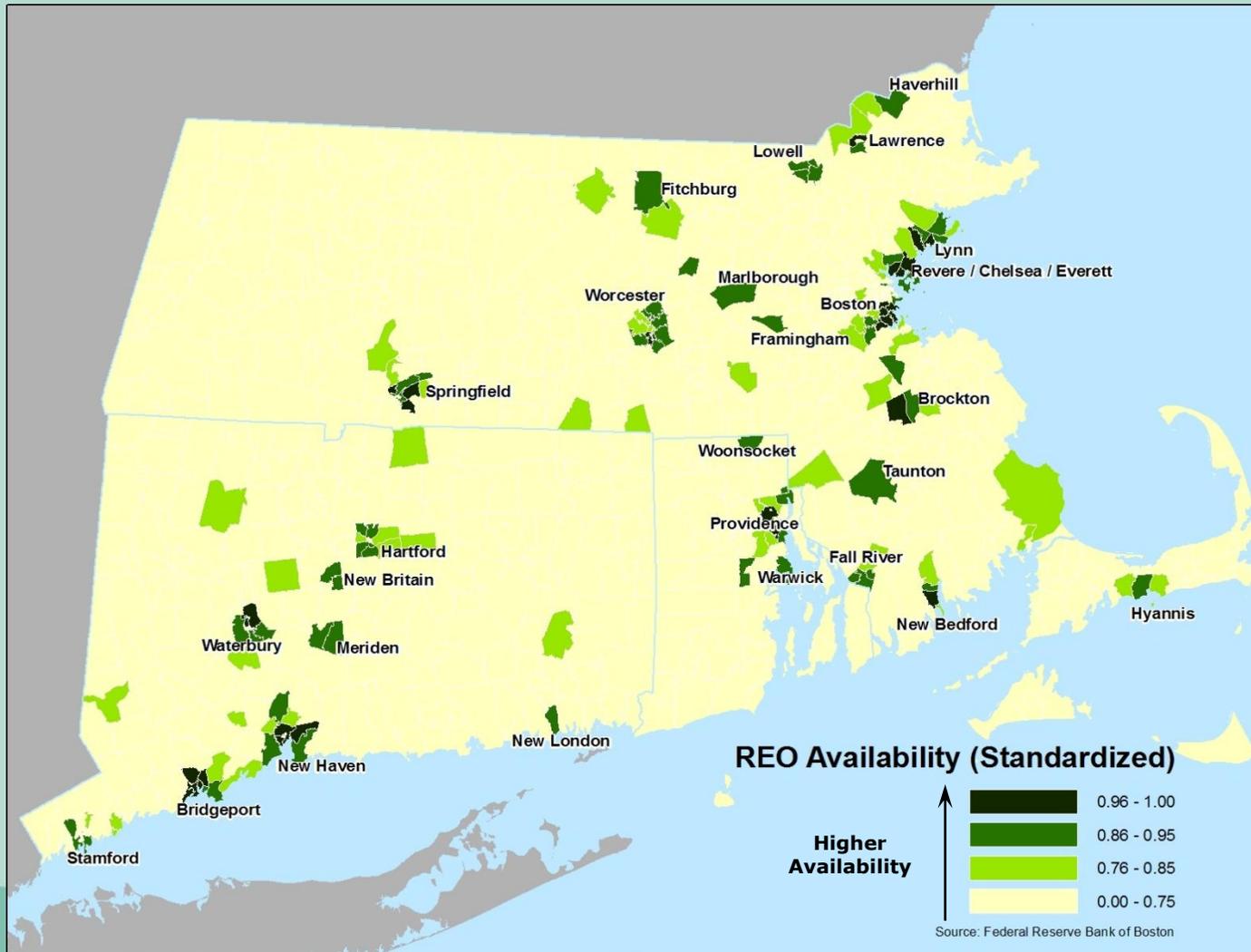
REO/
Real
Estate
Market
Health

II. SOS is a Composite Standardized Index



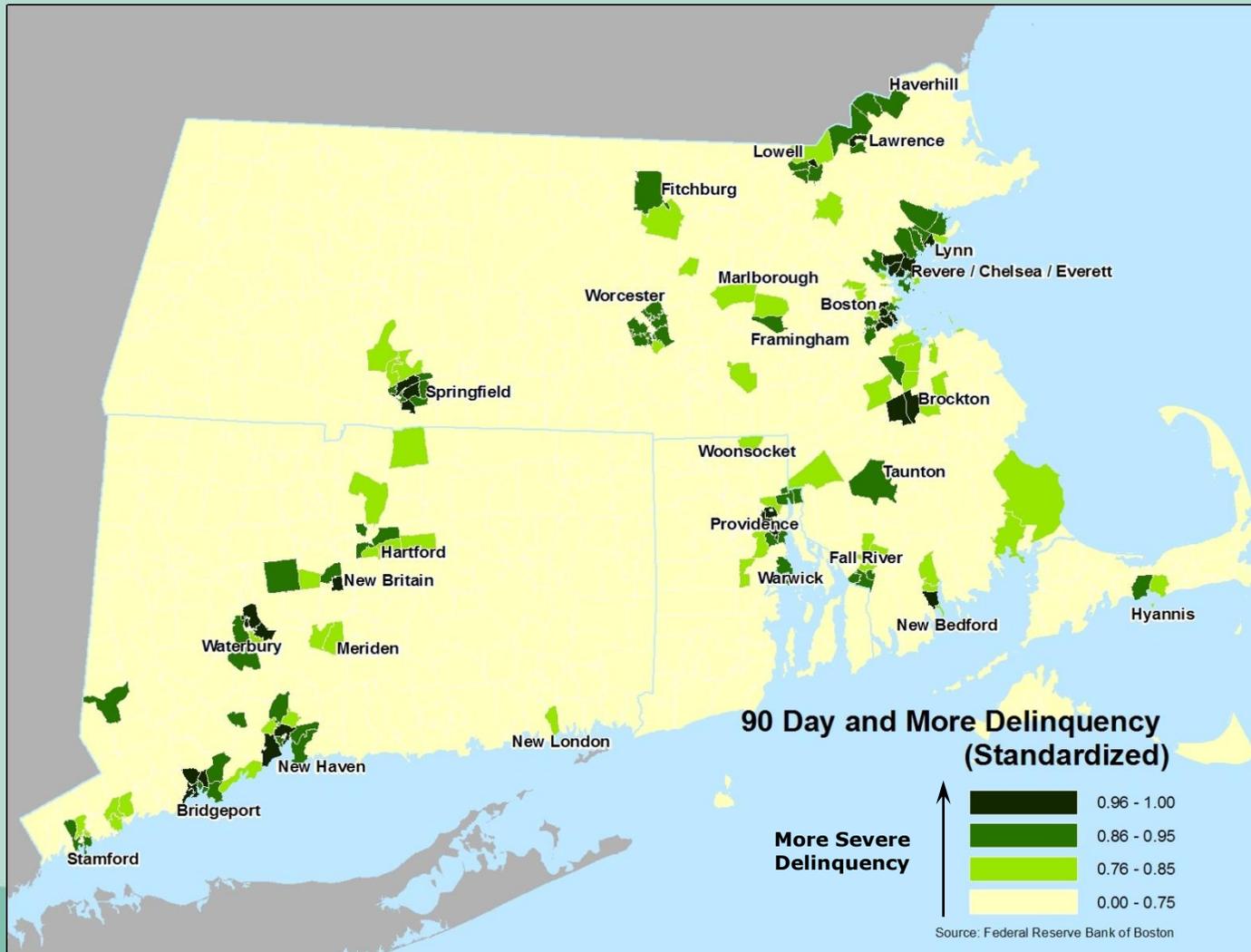
- ZIP code level, standardized within each state
- Percentile (scale 0 - 1), higher score suggests higher distressed level
 - Severely Distressed: Top 5 percentile ZIP codes
 - More Distressed: Next 10 percentile ZIP codes
 - Distressed: Next 10 percentile ZIP codes

II. REO SOS Analysis: REO availability



- Population centers
- Areas with weak local economy / relatively lower income
- Racial/ethnic minority neighborhoods
- Others areas

II. REO SOS Analysis: 90-day+ delinquency



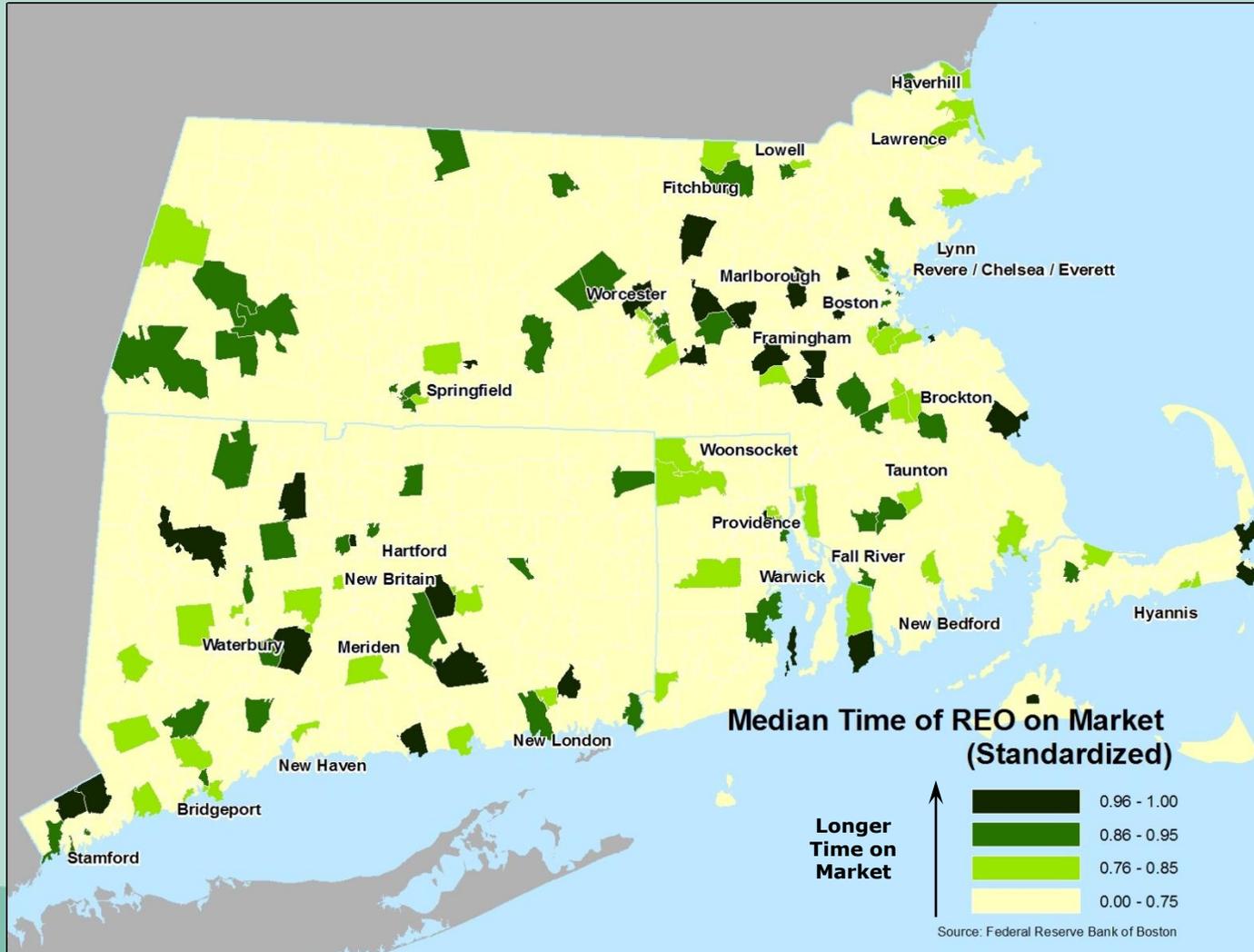
- Tend to coincide with high REO availability areas, but a bit more concentrated.

- This means that REO problems in Massachusetts:

- **Not likely to widely spill over** to other towns

- Areas with existing REO problems may continue to see **increased REO challenges**

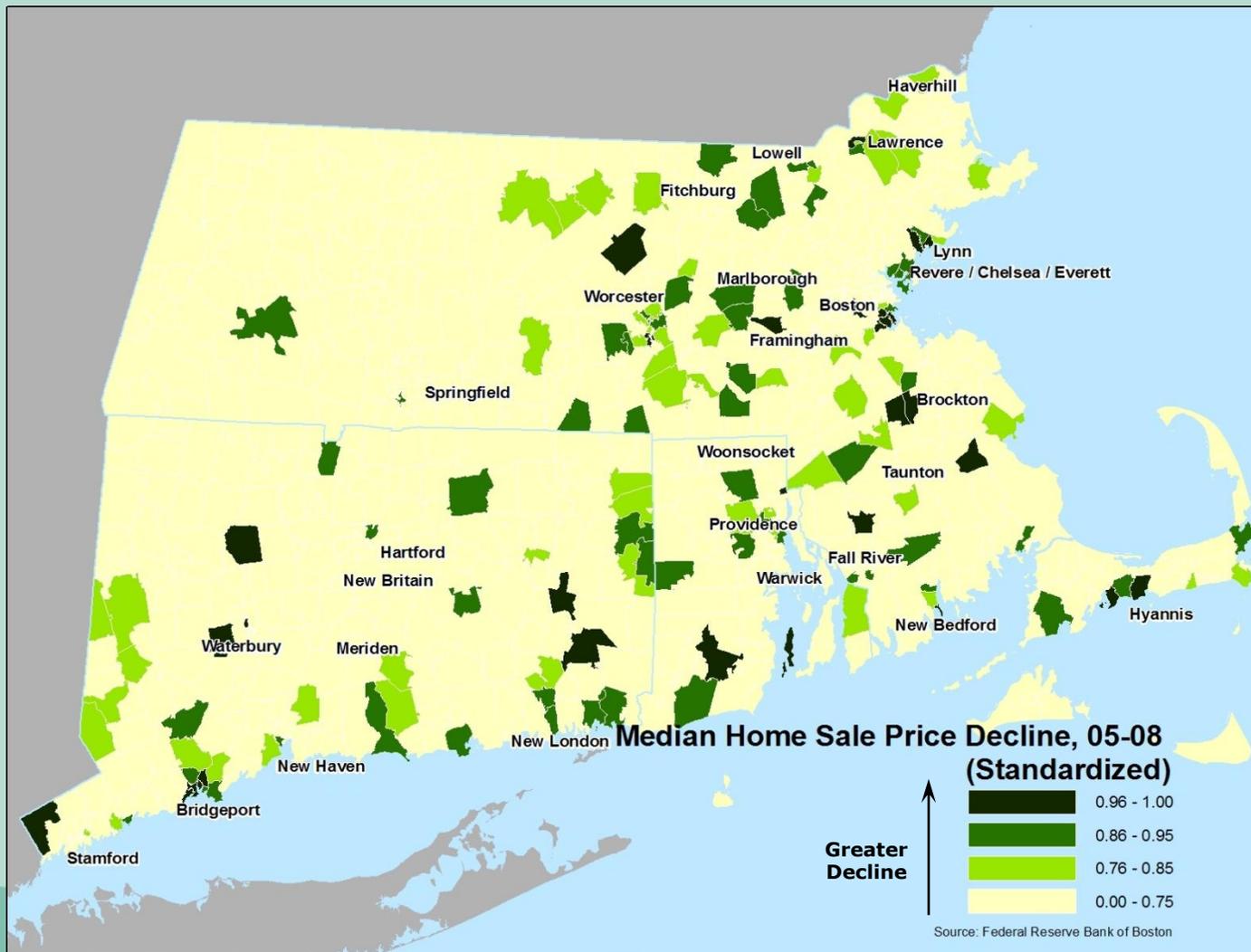
II. REO SOS Analysis: REO median time on market



- Stagnant REO markets tend to be in **outer suburbs** and **rural areas**.

- Median REO time on the market is usually not too long in areas with high REO availability... but with a few exceptions, such as Springfield, Fall River, Brockton, Lowell, Hartford, Bridgeport, Providence. It suggests that **private markets** in these areas may be **insufficient** to handle the REOs in the areas.

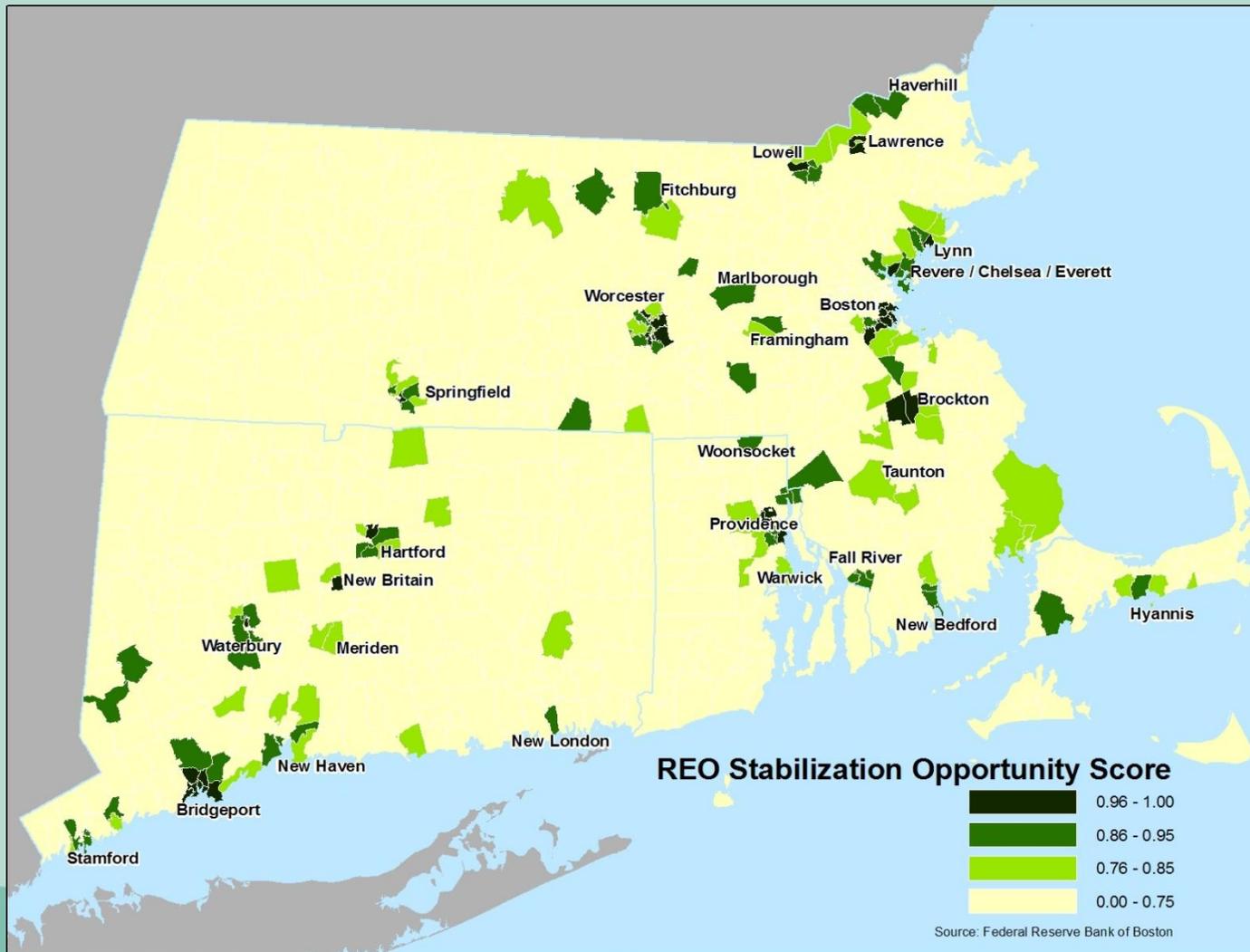
II. REO SOS Analysis: median home sale price decline



- Areas with greatest declines coincide with some areas of high REO availability: south Boston, Lynn, Lawrence, Brockton, Hyannis, Bridgeport, core of Hartford, New London Providence.

- Not all areas with higher REO availability experienced large price declines: Springfield, Taunton, New Haven, Woonsocket.

II. REO SOS Analysis: Composite Score



Severely Distressed (29 ZIP)

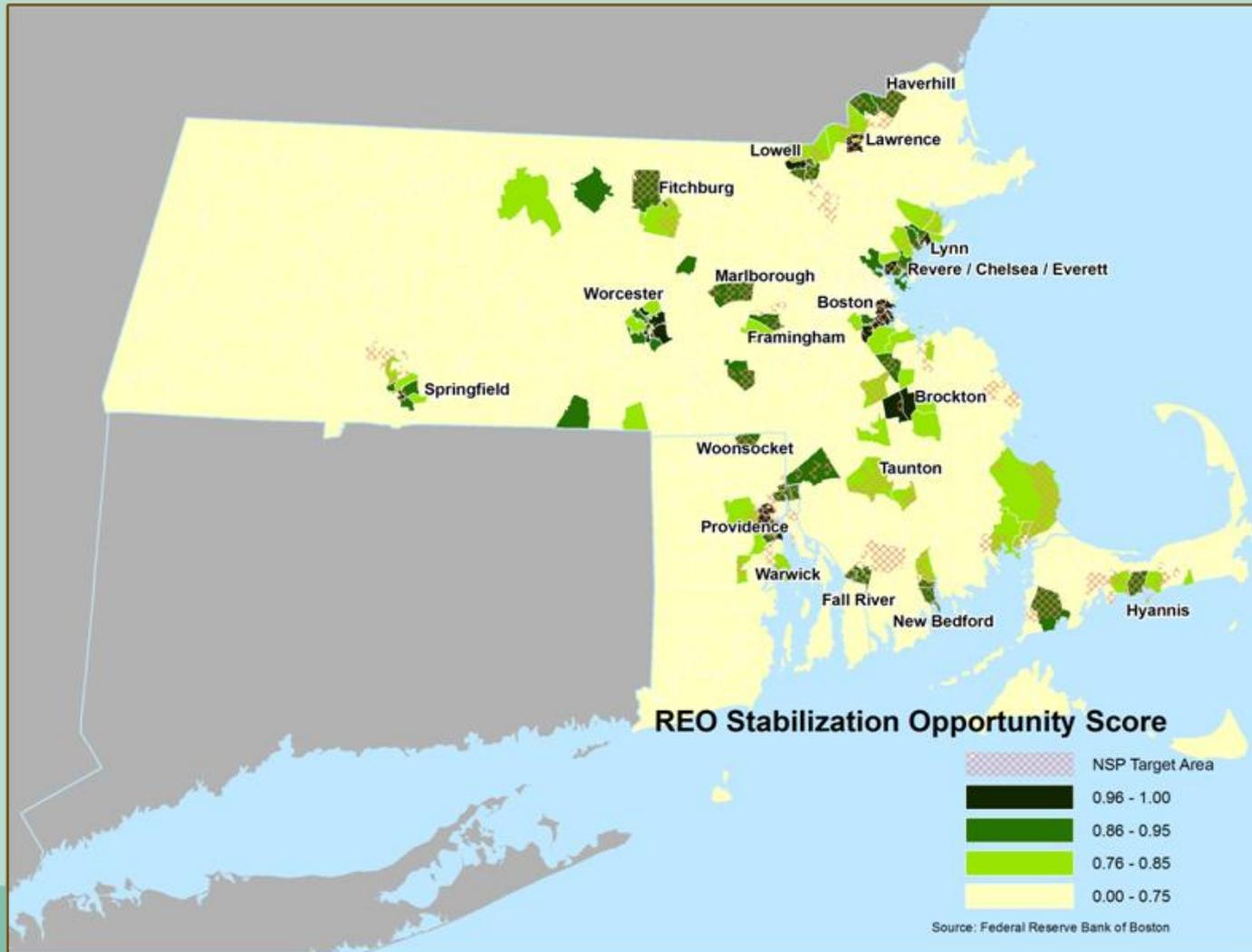
TOWN	# of ZIPS
BOSTON	6
BRIDGEPORT	6
WORCESTER	3
PROVIDENCE	3
BROCKTON	2
LAWRENCE	2
etc.	

More Distressed (58 ZIPS)

TOWN	# of ZIPS
FALL RIVER	3
LOWELL	3
NEW BEDFORD	3
SPRINGFIELD	3
WORCESTER	3
HARTFORD	3
WATERBURY	3
BOSTON	2
HAVERHILL	2
LYNN	2
NEW HAVEN	2
STAMFORD	2
PAWTUCKET	2
etc.	

Distressed (60 ZIPS)

II. REO SOS Analysis vs. NSP Target Areas



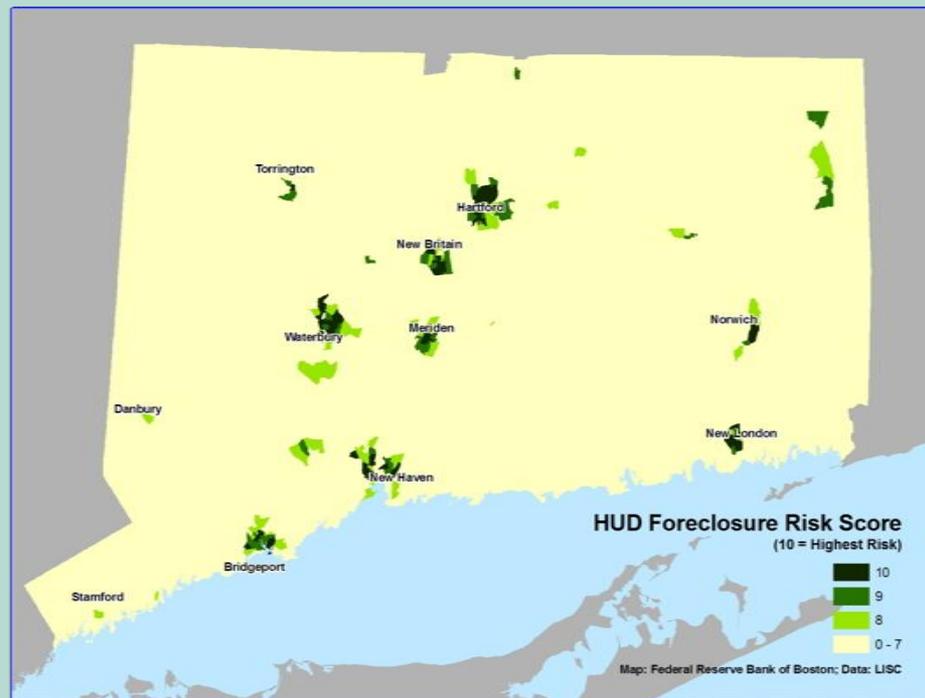
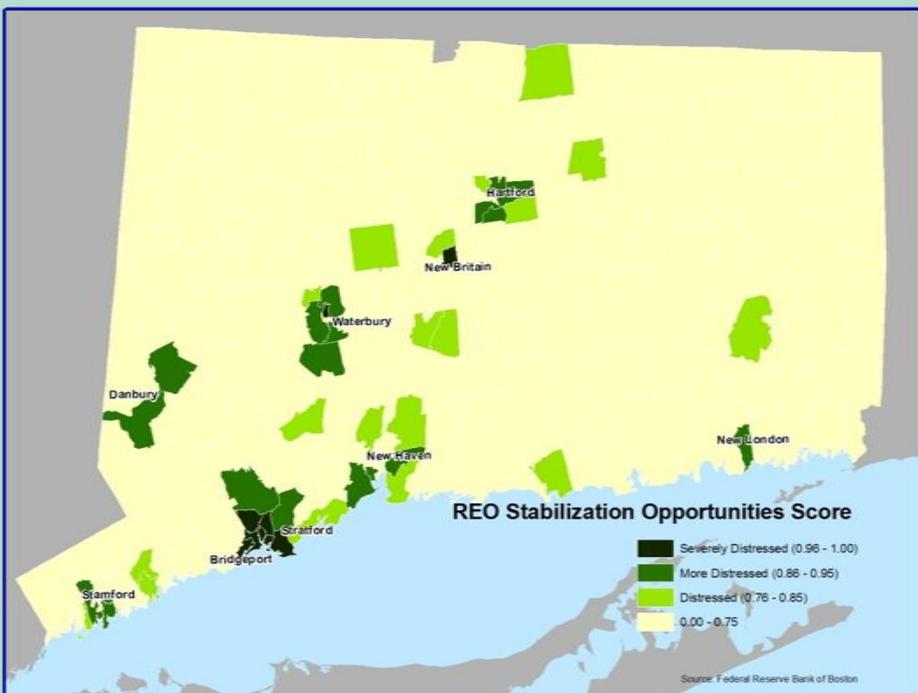
• **“False Positive”**: Areas identified as NSP Target Areas, but may not be significantly impacted by REOs.

• **“False Negative”**: Areas not identified as NSP Target Areas, but will likely be impacted by REOs

- Gardner
- Clinton
- Southbridge
- Athol, etc.

• **“Not quite there yet”**: NSP Target Areas that are too narrowly defined.

II. Comparing SOS to HUD Score



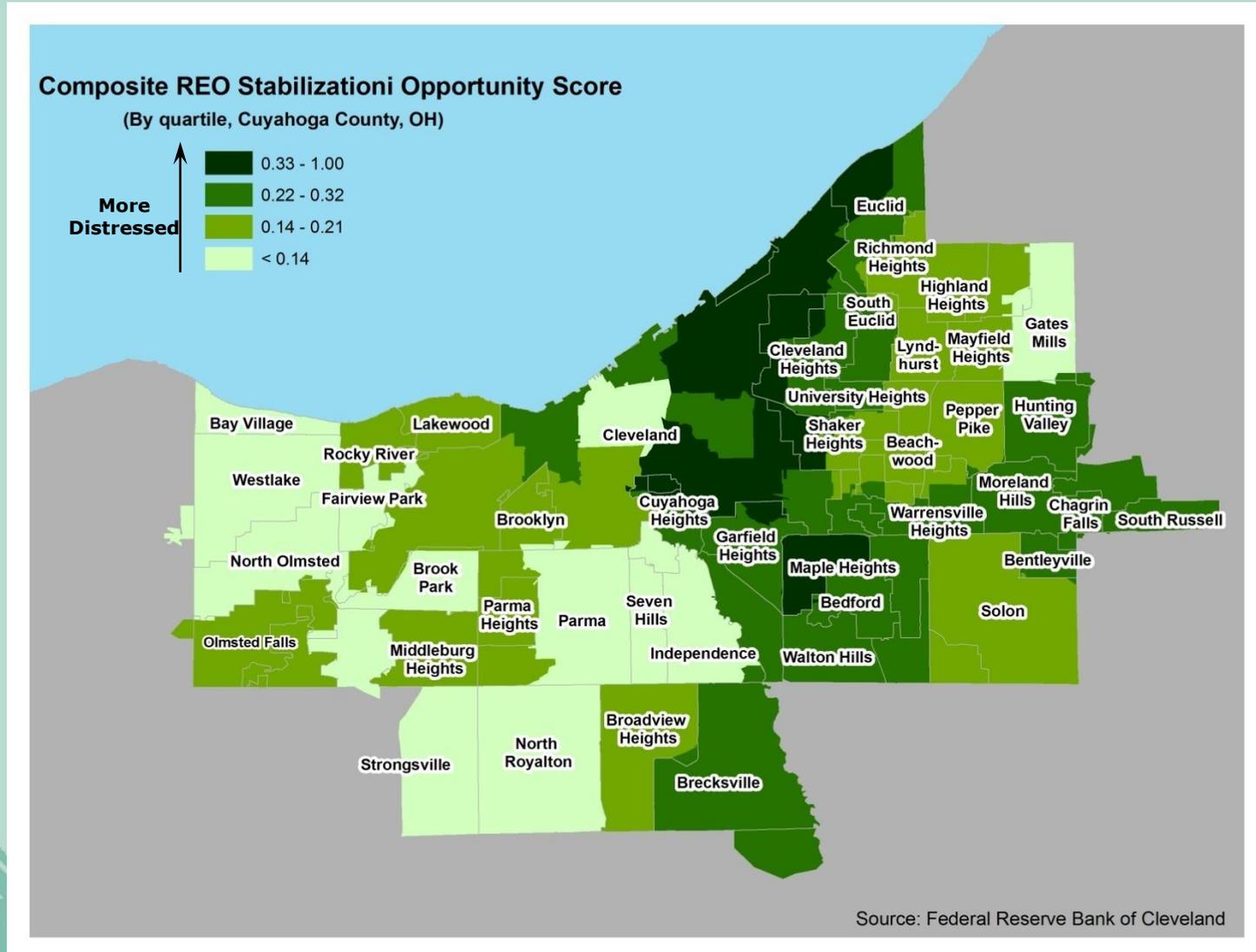
REO Stabilization Opportunity Score

- Focus on **REO**:
 - current and future REO availability
 - REO / real estate market health
- More updated data (12/08)
- ZIP code level

HUD Foreclosure Risk Score

- Focus on **foreclosure risk**: high-cost loan ratio, price decline, unemployment, vacancy
- However, foreclosures do not always lead to REOs, and the market itself may take care some of the REOs.
- REO intervention is more direct and timely.
- Older data (06/08 and earlier)
- Block Group level

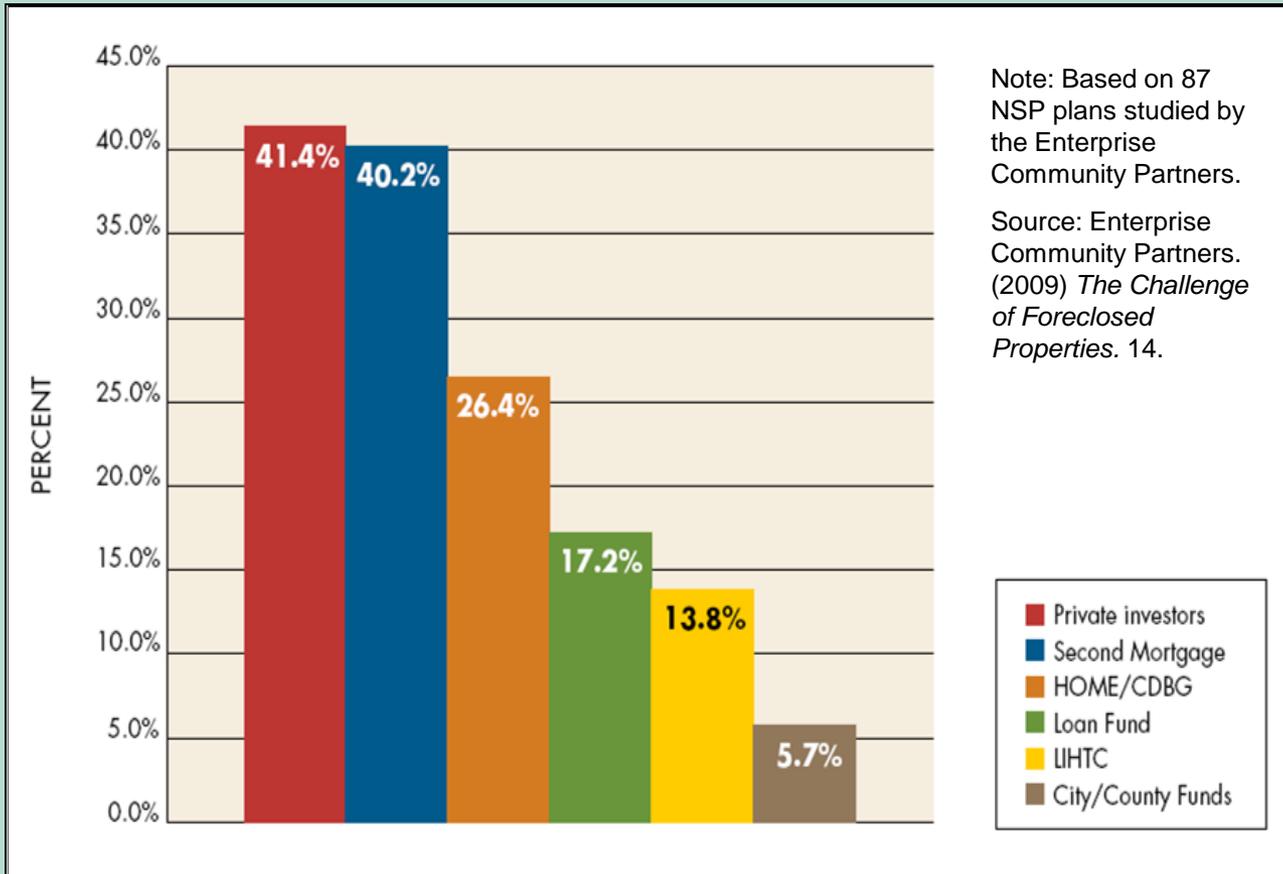
II. Cuyahoga County, OH



Special thanks to Francisca Richter, Lisa Nelson, Carl Cooley, and Matt Klesta of Cleveland Fed

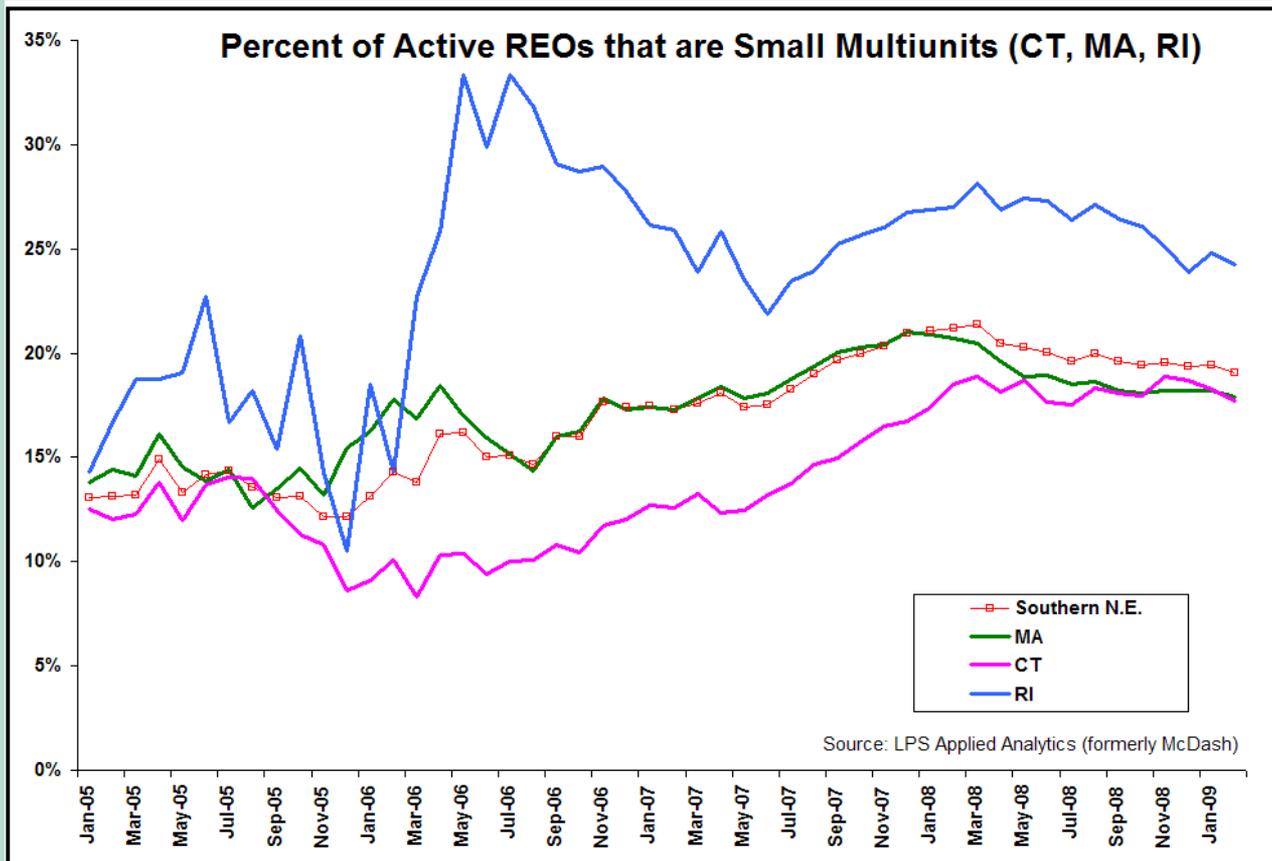


III. Other Considerations for REO Strategies



- Understand the likely **causes** of local REO problems in addition to the REO distressed level. This can often help inform REO strategies.
- Do proposed NSP **activities** target the **causes** of local REO challenges?
- **Leverage** other funding sources for greater impact

III. Other Considerations for REO Strategies



Can REO strategies also help narrow **affordability gaps**?

- Choice of neighborhoods
- Rental vs. ownership
- Small multi-units vs. single-family houses

III. Other Considerations for REO Strategies

- Would the conditions of **local infrastructures** impact the success of REO rehabs and redevelopment?
 - Access to quality schools
 - Access to job opportunities
 - Access to public transportation
 - Access to social services
- What is the local **institutional capacity** to handle REO issues?
 - The capacity of the agency that is acquiring REOs
 - Partnership opportunities
 - Public-Private joint venture
 - Long-term vs. Short-term

IV. Limitations and Takeaways

- **Data limitations**
 - Limited coverage → overall underestimate
 - Variance in coverage at smaller geography level
 - Arbitrary geographic boundaries and lack of uniformity within ZIP codes
- **Methodological limitations**
 - Complexity of causes → choices of variables
 - Weights among different variables
- **Improvements of the Score**
 - Updating and tracking trends
 - Improving data coverage
 - Refining geographic boundaries
 - Enhancing weight allocations

IV. Limitations and Takeaways

- REOs **destabilize** communities and Southern New England is experiencing a **rapid growth** in REO stocks.
- Community stabilization needs **comprehensive** strategies (refer to stabilization tools continuum) and **early** intervention is often more cost-effective.
- Even if REOs are the main stabilization targets, different neighborhoods demand **different REO strategies** (e.g. marginally distressed vs. severely distressed).
- The **REO Stabilization Opportunity Score** helps identify areas with REO rehab, acquisition, and redevelopment opportunities. It mainly focuses on (current and future) **REO availability** and **local REO market health**.
- When drafting REO strategies, also **consider broader issues** like narrowing affordability gap, infrastructure availability, and institutional capacity.



Questions and Comments

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Complete REO Stabilization Scores for CT, MA, and RI can be located:
<http://www.bos.frb.org/commdev/foreclosures/index.htm>
Once on the web site, click on the **"Data and Analysis"** Tab