

REOs, the Shadow Inventory, and Costs



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Quote of the Day

“If we had to bring these properties
up to code, our business model
wouldn't work”.

-Jeff Ball, CEO of Econohomes, meeting with a group of Clevelanders
on September 15, 2008

Observations From a Community Perspective

- The filing of a foreclosure action is often the precipitating event triggering vacancy, abandonment, blight, demolition, and tax delinquency.
- Banks seek to avoid liability for code violations by either “walking away” before Sheriff Sale, or selling the property quickly and cheaply after taking title.

Selling Quickly & Cheaply, i.e. “Dumping”

- As noted by Fitzpatrick and Ergungor in their earlier presentations, small investors of 1-3 properties tend to be more responsible.
- And, as noted by Fitzpatrick, Ergungor and Mike Schramm, the activity of larger investors buying from Banks tend to cause more damage resulting from code violations, blight, and lost tax revenue.
- The frequency with which these investors find themselves in Cleveland Housing Court speaks to their willingness to comply with local housing codes.

The REO Race

- The competitors:
 - banks and investors unwilling to comply with laws
 - municipal code enforcement officials
 - community groups
 - county property tax collectors.
- The “Finish Line” for banks and their investors:
transfer title before:
 - the city condemns and demolishes
 - a community group sues them for public nuisance
 - the County files a tax foreclosure.

Mortgage Servicer: Key Participant in the Race

- Most of the top foreclosing banks play two roles.
- Role 1 typically includes acting as plaintiff - filing the foreclosure and becoming owner of record after Sheriff Sale.
- In Role 2 a division of the bank functions as a “mortgage servicer” for other banks.
- Bank A may own a property, and hire Bank B for servicing. Meanwhile Bank B may own other property and hire Bank C for servicing, and so on.
- Although mortgage servicers don't have title to a property, they typically control the decisions that affect abandonment, repair, and the type of buyer sold to.

Accurate Information is a Foundation For Dialogue and Collaboration

- Mortgage Servicers are not presently required to disclose their role with respect to a specific property and decisions they make concerning that property:
 - Modify a loan, or file a foreclosure action?
 - Comply with municipal housing codes?
 - Walk away, not take to Sheriff Sale?
 - Sale of the property.

Shadow Defined

“obscurity...representing vaguely or mysteriously”

- “Shadow Inventory” has come to mean an unknown quantity of distressed loans not yet foreclosed on.
- Alternatively, it could mean an inventory of foreclosed and blighted property banks have walked away from and left titled to a prior owner – who thinks they no longer own the property.
- “Shadow *Party*” - although Mortgage Servicers make the key decisions, they do not have title, and their name does not appear in any public records associated with the home.

To Complete the Picture We Need:

- Data that shows how the cost of foreclosure and abandonment has been shifted to Cleveland and Cuyahoga County taxpayers.
- Data that sheds light on the shadow role of banks in mortgage servicing.

City of Cleveland Demo Costs 2004 – 2010 (June)

REO Acquired at Sheriff Sale by Top 15 REO Holders

Owner	Count	Cost of Demo's BEFORE REO	Cost of Demo's DURING REO	Cost of Demo's AFTER	Demo \$ spent anytime after foreclosure filed	Current Delinquent Taxes
DEUTSCHE BANK	129	38,040.00	258,779.00	673,887.00	970,706.00	516,848.91
WELLS FARGO	131	51,635.00	175,403.00	656,995.00	884,051.00	448,368.58
HUD	107	28,479.00	55,915.00	739,839.00	824,233.00	15,193.28
CHASE	68	19,800.00	120,548.00	391,979.00	532,327.00	334,955.23
US BANK	69	4,900.00	165,580.00	324,681.00	495,161.00	271,937.93
FANNIE MAE	65	85,723.00	156,685.00	223,103.00	465,511.00	189,605.77
LASALLE BANK	54	24,902.00	111,345.00	257,609.50	393,856.50	241,459.98
BANK OF NEW YORK	45	28,013.00	71,549.00	200,515.00	300,077.00	130,008.27
ALLY BANK	34	5,240.00	62,154.00	188,209.00	255,603.00	246,775.20
HSBC BANK	21	13,500.00	62,267.00	51,308.00	127,075.00	29,828.85
BANKERS TRUST	12	0.00	12,240.00	92,875.00	105,115.00	52,566.89
AMERIQUEST FUNDING	12	0.00	31,604.00	55,136.00	86,740.00	40,781.96
BANK OF AMERICA	12	11,163.00	26,430.00	30,770.00	76,662.00	64,680.20
CITIFINANCIAL	8	0.00	6,200.00	66,472.00	72,672.00	64,680.20
WM SPECIALITY MORT.	9	7,419.00	6,999.00	40,630.00	55,048.00	64,680.20
	776	\$318,814.00	\$1,323,698.00	\$3,994,008.50	\$5,644,837.50	\$2,583,011.05

This analysis was based on data extracted from NEO CANDO at Case Western Reserve University on 4-5-11.

Notes on Cleveland Demo Data

- Includes properties owned by known subsidiaries.
- Does not include bank walk-aways.
- Does not tell us who the servicers were.
- The City of Cleveland estimates there are 6-8,000 vacant homes that may yet require demo; $8,000 \times \$7,000 = \$56,000,000$ in additional cost for taxpayers to absorb.

Snapshot - Top 15 Present REO Holders

City of Cleveland as of February 15, 2011

	No.	Postal Vacancy	City Demo	Demo Costs	Condemned	Del. Tax	Code Violation
Fannie Mae	336	85	4	\$31,602	10	\$21,883	20
US Bank	187	56	5	\$31,872	6	\$20,105	11
HUD	151	58	2	\$6,557	3	\$76,728	8
Deutsche	140	67	9	\$60,602	10	\$107,542	7
Freddie Mac	93	22				\$17	6
Wells Fargo	80	31	9	\$66,828	7	\$22,098	3
Third Fed	67	16	2	\$14,890		\$4,440	2
Bank of America	61	17				\$12,303	4
Bank of NY	53	21	6	\$41,358	3	\$23,432	2
HSBC	46	10			2	\$4,674	5
Chase	38	22	5	\$40,284	8	\$39,453	1
Citi	24	6	1	\$6,200	1	\$17,545	1
PNC	22	5				\$0	2
VA	20	6				\$673	2
Postulate Investments	15	9	1	\$5,488		\$0	1
Grand Total	1,333	431	44	\$305,681	50	\$350,894	75

Top 10 Residential Mortgage Servicers in the United States

(Dollars are in Millions)

Rank	Company	2010 Q4	2009 Q4	Change	Market Share
1	Bank of America	\$2,069,241	\$2,159,616	-4%	25.03%
2	Wells Fargo	\$1,808,327	\$1,796,117	1%	21.87%
3	Chase	\$1,254,846	\$1,396,339	-10%	15.18%
4	CitiMortgage	\$601,684	\$718,927	-16%	7.28%
5	Ally	\$384,967	\$404,454	-5%	4.66%
6	US Bank	\$216,096	\$187,048	16%	2.61%
7	PHH Mortgage	\$166,075	\$151,481	10%	2.01%
8	Sun Trust	\$165,514	\$176,890	-6%	2.00%
9	PNC	\$138,529	\$158,142	-12%	1.68%
10	Met Life	\$115,916	\$103,417	12%	1.40%
Source: MortgageStats.com, April 7, 2011					

Additional Comments on Research Presented Today

Continued....

Lost Equity and Property Tax Revenue

Condemned Wells Fargo house on left.
New home built & sold by a CDC in 2004 for \$141,000.
Now appraised at \$127,000. Net loss of value \$14,000.



Addendum

- YouTube Videos documenting irresponsible REO ownership, selling and flipping.

Wells Fargo house, 5/8/09

– <http://www.youtube.com/watch?v=Tf0iFTCbPJQ>

Deutsche Bank row house, 3/9/10

– <http://www.youtube.com/watch?v=u-Ytiv0I0P0>

Deutsche Bank house, 2/10/11

– <http://www.youtube.com/watch?v=mhE7fmMNHIQ>