Letter from Presidents Rosengren and Pianalto and Governor Duke

Foreclosures are the hard reality of the housing crisis. In 2009 alone, roughly 2.5 million homes received a notice of foreclosure, according to the Mortgage Bankers Association. That represents a nearly 25 percent increase from already-elevated 2008 levels and is far higher than previous years. Given the magnitude of these numbers, the question then becomes how best to help communities, particularly low- and moderate-income communities, where foreclosed properties are concentrated.

The purpose of this volume is to shed light on the problem of vacant and abandoned properties in the hands of lenders who have foreclosed but continue to hold them as real-estate-owned (REO) on their books. We have asked a variety of experts to address such questions as

- What are the key challenges faced by communities as the REO inventory grows?
- What do the data tell us about REO markets?
- What incentives influence buyer and seller decision-making?
- What strategies guide community, municipal, and nonprofit responses?

This collection of work examines field-tested solutions for neighborhood stabilization, such as code enforcement, maintaining occupancy through tenants, and land banking. It reports on ongoing programs such as the federal Neighborhood Stabilization Program and a national "first look" program for community-minded buyers. The volume also examines unintended consequences and proposes new solutions.

We are pleased to present this volume as a joint effort of the Federal Reserve Banks of Boston and Cleveland and the Board of Governors that is part of a broader Federal Reserve initiative to address the impacts of foreclosures on individuals and neighborhoods. We hope you find the publication useful and pass on its lessons.

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