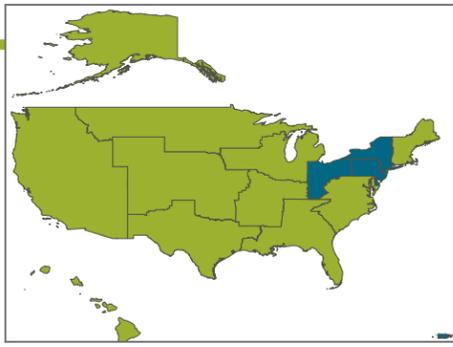


To address the foreclosure crisis, the Federal Reserve System developed the Homeownership and Mortgage Initiative, a comprehensive strategy to provide information and outreach to stem unnecessary foreclosures and to stabilize communities and prevent negative spillovers at the neighborhood level. Under the guidance and direction of the Federal Reserve Board of Governors and Conference of Presidents, the Federal Reserve System convened the Recovery/Renewal/Rebuilding series of conferences and seminars throughout the summer and fall of 2008. Events hosted by the Federal Reserve Banks of Atlanta, San Francisco, Cleveland, and St. Louis were designed both to investigate ways to address the negative spillover effects of foreclosures and to help the Federal Reserve gather insights into the many complex factors around foreclosure issues.

For more information or to download presentations from any of the events in the series, go to <http://stlouisfed.org/RRRseries>. In addition, each Federal Reserve Bank's website hosts a Foreclosure Resource Center for borrowers and community development practitioners.



OVERVIEW



Moving Toward Solutions: Research and Policy on Vacancy and Abandonment

Columbus, Ohio, August 27, 2008

Hosted by the Federal Reserve Banks of Cleveland, New York, and Philadelphia

This one-day research seminar, attended by an invitation-only audience of close to 100 researchers and policymakers, highlighted recent research and its contributions to policy discussions about the causes and impacts of foreclosure and vacancy, with an emphasis on implications and solutions for weak-market cities. Weak-market cities, such as Cleveland, Pittsburgh and Buffalo, are those with declining populations, high unemployment, and persistent poverty.

Papers that were presented during the forum incorporated analysis of

- Mortgage loan data to determine predictors of foreclosure
- Impacts of vacancy and foreclosure on communities and on the valuation of surrounding properties
- Regional differences in foreclosure trends and vacant property disposition
- Abandonment as opportunity for redevelopment

During a moderated discussion, presenters, discussants, and audience participants explored ways to leverage research into public policy. Major points included that

- Future research should acknowledge that the issue of vacant and abandoned property relates to the credit crisis.

- Research provides policymakers with useful perspectives, contexts, and tools for developing foreclosure prevention strategies and addressing vacant property acquisition and disposition.
- Many small cities lack resources, including access to academic institutions, to engage in or use available research.
- The lack of uniformity among records systems of local and state governments stymies research efforts.
- Interdisciplinary research and intergovernmental collaboration are needed to effectively tackle problem properties.
- Additional existing sources of data should be made more accessible to researchers for analysis.
- There is a need for clearer and more consistent definitions of vacancy and abandonment.
- Resources are needed for: standardizing data collection; evaluating and developing strategies and incentives for property and land reutilization, particularly models of quality affordable housing; examining effects of institutions and procedures on the process of foreclosure and abandonment; and evaluating the utility of financial education options for low- and moderate-income populations.

Summary

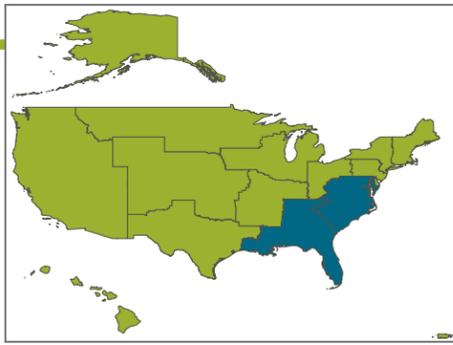
Challenges

- *Concentration.* Vacant properties and foreclosures tend to be clustered in concentrated areas, particularly in weaker-market neighborhoods, cities, and regions. Subprime lending has been associated with concentrations of foreclosures.
- *Complexity.* With the creation of mortgage-backed securities and varied incentive structures, the lending and servicing industries have become highly fragmented, making foreclosure a complicated process. This fragmentation makes it difficult to pinpoint parties accountable for mortgage modifications and responsible for maintaining properties.
- *Lenders slow to move vacant properties.* There is a major perception and communication disconnect between the lending and servicing industries on one hand, and consumers and the counseling agencies that represent them on the other. Although lenders claim that foreclosure is their least desired outcome, they seem inaccessible to distressed borrowers.
- *Valuation disagreements.* Differences on pricing and valuation of vacant property impede reuse.
- *Lack of standardized data.* High costs and poor quality of data make tracking the status of vacant properties and finding property owners or negotiable parties difficult, if not impossible. The lack of data is pervasive and prevents the development of strategic interventions and investment, as well as relevant applied research.
- *Limited knowledge base.* Practitioners and policymakers have little research and few sources of best practices to consult. In fact, even the basic definitions needed to frame research problems (e.g., vacant property, abandonment) need clarification. Relatively few experts are working in foreclosure mitigation and vacant property reclamation nationally; even these experts will admit to grappling with how best to address issues emanating from problem properties, collapsing housing markets, and borrowers in trouble.
- *Taking recognized best practices to scale is difficult.* Lack of capacity at the street level prevents implementation of effective strategies. This is a concern because many communities will be poorly equipped to leverage newly available funds quickly and effectively under the Housing and Economic Recovery Act for vacant property acquisition and disposition.

Strategies for Moving Toward Solutions

- *Keep habitable properties occupied.* Occupancy is a key short- and long-term strategy for neighborhood stabilization.
- *Political will is critical.* Successful neighborhood stabilization strategies require the backing of local government and elected officials. Successful programs have been developed and implemented in communities where foreclosure and abandonment are public priorities.
- *Solutions are not “one size fits all.”* What works in strong markets may or may not be replicable in weaker ones, and what works in one city with a robust nonprofit community development industry may not work in other cities that lack an existing infrastructure of partnerships and collaboration.
- *Cross-sectorial collaboration and interdisciplinary approaches* are especially relevant for community development and reinvestment challenges. The complexity of the issues surrounding foreclosure and abandonment require the benefit of varied perspectives of researchers and practitioners.
- *More research is needed,* particularly on evaluating the impact of neighborhood stabilization strategies; legal issues concerning foreclosure, property ownership, land use, and tax structures; market inefficiencies that allow phenomena such as “flipping” to flourish; and predicting potential waves of large numbers of foreclosures.

As overwhelming as the challenges are, solutions have been and are being developed and tested nationwide. Highlights of these, presented at each event in the Recovery/Rebuilding/Renewal series, are outlined in this overview. Through defining the challenges and presenting a collection of interventions, this summary may serve as a framework for ongoing collective efforts aimed at confronting the neighborhood impacts of foreclosure and reutilizing vacant and abandoned properties as positive assets.



Re-engineering of the Real Estate Market

Atlanta, GA, June 26-27, 2008

Hosted by the Federal Reserve Banks of Atlanta and Richmond

This invitation-only two-day symposium was held to highlight how high rates of foreclosures have impacted the functioning of the real estate market and to present effective strategies that are helping to guide local governments and communities to feasible solutions.

The symposium, attended by 100 practitioners and policymakers, featured two panel discussions, three breakout sessions, and three plenary addresses. The program focused on recovery of foreclosed properties, disconnects in the housing market, and rebuilding the consumer market place. It included

- Discussion with mortgage industry experts on voluntary measures recently undertaken to address foreclosures
- Insights on the recovery of foreclosed properties, renewal of communities weakened by foreclosures, and assistance to consumers adversely affected by the downturn in the housing market
- Presentations of practical policy changes that can alleviate preventable foreclosures, rebuild communities, and return the mortgage market to a well-functioning state

Challenges and barriers identified by presenters and participants include

- Variations in REO valuations
- Lack of nonprofit capacity to acquire and hold problem properties
- Inability to develop effective strategies within the parameters of national policies framed for very low-income communities
- The need to streamline the foreclosure process and to create mechanisms for guiding borrowers through it
- Acquisition and disposition of distressed condominium units
- Artificial credit score manipulation and lack of enforcement of laws for credit improvement companies
- Lack of financial literacy and the need for housing counseling
- Unwillingness of lenders to work with borrowers

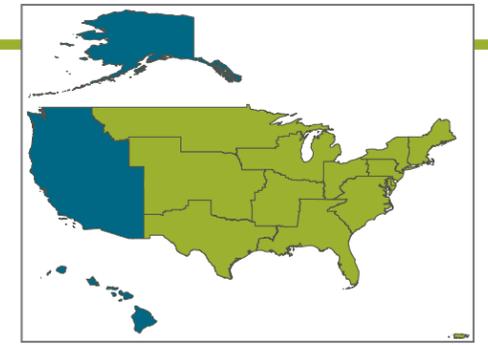
Strategies presented to address these challenges include

- Exploring ways to give financial institutions incentives to donate REO properties to local governments and nonprofits, and awarding CRA credit to financial institutions for partnering with the National Community Stabilization Trust
- Instituting “rent to re-own” programs, supplemented with financial education programs and rent in escrow
- Creating a clearinghouse for lenders to register REO properties
- Developing more training programs and other tools to build capacity of nonprofits
- Providing incentives to banks to sell to a single entity when dealing with a distressed condo
- Requiring banks to identify decision makers with authority over disposition of properties at the local level
- Developing more CDFIs, and structuring them so they can address distressed properties
- Giving homeowner associations first lien position on distressed properties
- Developing alternative credit scoring criteria and incorporating credit repair in financial education curricula
- Utilizing case worker approaches in foreclosure prevention
- Instituting bank branch-level reforms for more transparency, and hiring mortgage advisors to help consumers navigate through the mortgage loan application process
- Revising regulations for more transparency in the sub-prime market
- Developing mortgage recovery programs with creative (versus loose) underwriting policies, and a lease purchase program for REO property disposition

Stabilizing Communities: Addressing the Negative Impact of Foreclosures

July 15-16, 2008, Los Angeles, CA

Hosted by the Federal Reserve Bank of San Francisco



This two-day conference highlighted existing and emerging programs for stabilizing neighborhoods and converting REO properties to affordable use. The program, with four plenary sessions and eight breakout sessions, aimed to examine issues facing families and communities affected by foreclosure in high-cost real estate markets and to give the 350 participants specific tools and strategies for mitigating the negative impact of foreclosures on neighborhoods and borrowers.

Presenters and participants identified primary *challenges* for stronger market communities:

- Rapid house price depreciation
- Securitization of mortgages, which has caused disconnects of information and perceptions in the servicing industry
- Determining appropriate valuations of property
- Shrinking supply of affordable housing, given potential increases in rents

Sessions presented *strategies* that nonprofits and local governments can use to reduce the negative spillover effects of vacant properties. Strategies for converting REO properties into affordable housing include

- Using available data and research to better target resources
- Gaining insights into the servicing industries to address some of the disconnect between what lenders perceive or say and what homeowners and counselors experience
- The rehab of marketable properties
- Developing and implementing lease-purchase models
- Creative financing models, such as HFA loan programs and shared equity homeownership

Critical strategies that have been used to stabilize communities include

- Finding occupants for vacant properties as quickly as possible
- Property maintenance through identification of owners and through enforcement of local ordinances
- Formation of community partnerships and coalitions to facilitate conversion of foreclosed and REO properties into community assets
- Land banking programs
- Foreclosure prevention programs with sustainable loan modification terms
- Multi-agency approaches that address spillover effects and causes of foreclosure

The conference also presented strategies and tools for reducing the negative impact of foreclosures on borrowers, including credit repair and rental assistance, outreach to borrowers in need of credit repair, and housing relocation programs using flexible tenant selection criteria.