



Abandoned Foreclosures

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March 11, 2014**

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GAO's Report on Abandoned Foreclosures: Definition

- GAO defined abandoned foreclosures as properties
 - (a) for which the servicer initiates foreclosure but subsequently opts not to complete the foreclosure and
 - (b) that are vacant.

GAO's Report on Abandoned Foreclosures: Methodology

- GAO analyzed data reported to us by selected mortgage servicers and two government-sponsored enterprises (GSE) that purchase home loans, as well as information collected from literature, regulatory guidance, and interviews.
 - GAO obtained data on loans covering the period January 2008 through March 2010 from six servicers—including some of the largest firms and those that specialized in subprime loans and from Fannie Mae and Freddie Mac, the two primary GSEs that purchase loans from originators. In total, our data represents roughly 80 percent of all mortgages outstanding.
 - Using this data and information on property vacancies from the U.S. Postal Service (USPS), we conducted analysis to estimate a potential range of the extent to which abandoned foreclosures were occurring and the characteristics of these properties.

GAO's Report on Abandoned Foreclosures: Methodology

- GAO also conducted case studies in 12 locations that we selected to provide a range of states from different geographical regions, with varying local economic conditions. These locations were also in states that had different requirements for foreclosure, with some requiring actions to be approved by courts (judicial states) and some using other processes (statutory states).
- GAO conducted interviews with city and county officials, government stabilization program grantees, community development organizations, academic researchers, foreclosure assistance providers, state banking supervisors, and representatives of the regulators of banks and other mortgage market participants.

GAO's Report on Abandoned Foreclosures: Key Findings

- GAO estimated that abandoned foreclosures are rare--representing less than 1 percent of vacant homes between January 2008 and March 2010.
- GAO also found that, while abandoned foreclosures have occurred across the country, they tend to be concentrated in economically distressed areas.
- GAO also found that abandoned foreclosures most frequently involved loans to borrowers with lower quality credit--nonprime loans--and low-value properties in economically distressed areas.

GAO's Report on Abandoned Foreclosures: Key Findings

- Although abandoned foreclosures occur infrequently, the areas in which they were concentrated are significantly affected.
 - Vacant homes associated with abandoned foreclosures can contribute to increased crime and decreased neighborhood property values.
 - Abandoned foreclosures also increase costs for local governments that must maintain or demolish vacant properties.
 - Because servicers are not required to notify borrowers and communities when they decide to abandon a foreclosure, homeowners are sometimes unaware that they still own the home and are responsible for paying the debt and taxes and maintaining the property.
 - Communities are also delayed in taking action to mitigate the effects of a vacant property.

GAO's Report on Abandoned Foreclosures: Key Findings

- Servicers typically abandon a foreclosure when they determine that the cost to complete the foreclosure exceeds the anticipated proceeds from the property's sale.
- However, GAO found that most of the servicers interviewed were not always obtaining updated property valuations before initiating foreclosure.
- Fewer abandoned foreclosures would likely occur if servicers were required to obtain updated valuations for lower-value properties or those in areas that were more likely to experience large declines in value.

GAO's Report on Abandoned Foreclosures: Recommendations

- GAO recommended that the Federal Reserve and OCC take the following actions:
 - require that the mortgage servicers they oversee notify borrowers when they decide to charge off loans in lieu of foreclosure and inform borrowers about their rights to occupy their properties until a sale or other title transfer action occurs, responsibilities to maintain their properties, and their continuing obligation to pay their debt and taxes owed;
 - require that the mortgage servicers they oversee notify local authorities, such as tax authorities, courts, or code enforcement departments, when they decide to charge off a loan in lieu of foreclosure; and
 - require that the mortgage servicers they oversee obtain updated property valuations in advance of initiating foreclosure in areas associated with high concentrations of abandoned foreclosures.

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