Stabilizing Communities in the Wake of Foreclosures: Los Angeles

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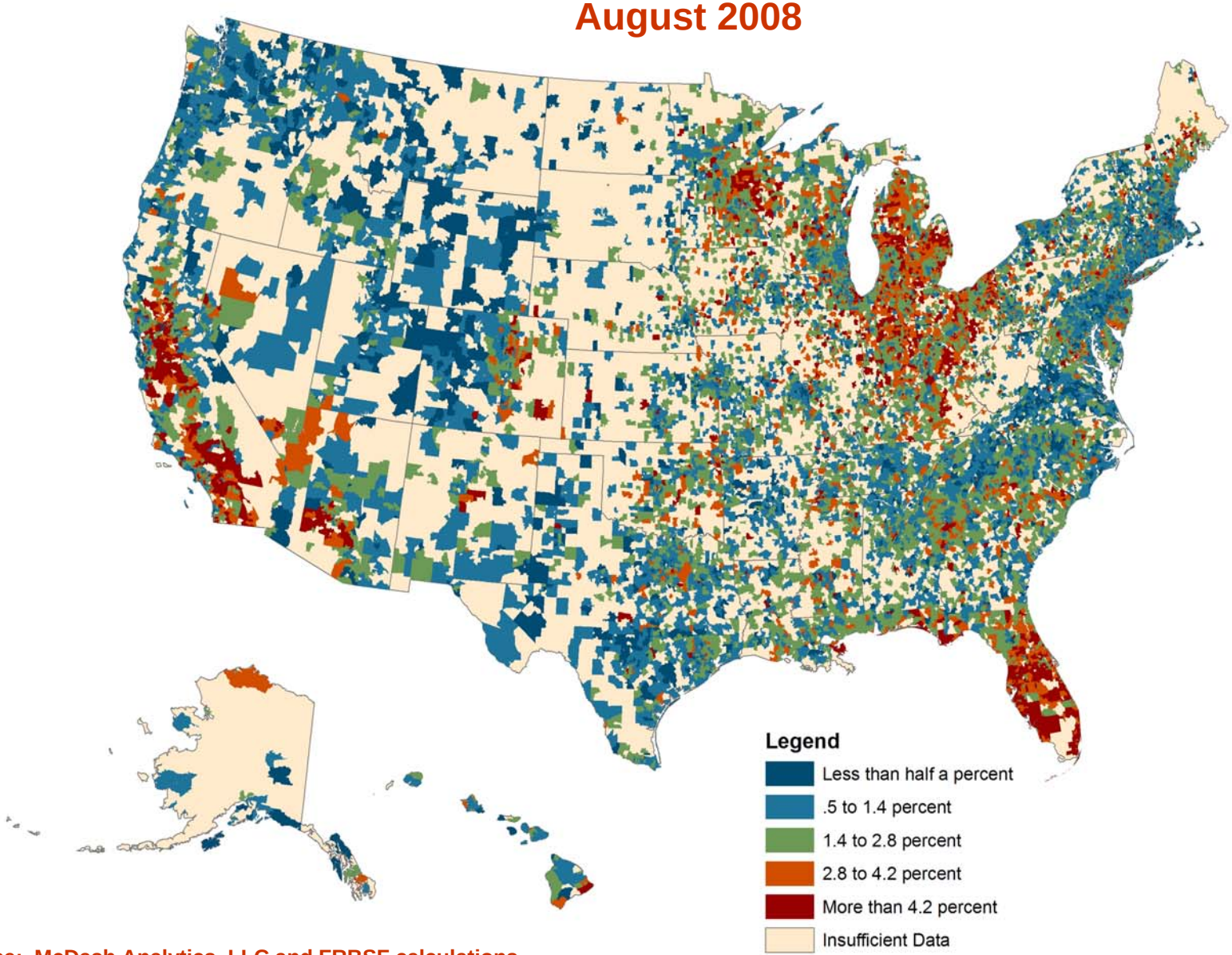
Overview of Presentation

- What are the trends in delinquencies and foreclosures in California?
  - How has Los Angeles been affected?
  - Where are REOs clustered in Los Angeles?
  - What are the limitations of these data in understanding local trends and identifying and acquiring REOs?
- Developing a neighborhood stabilization plan
  - Identifying local data sources to target interventions
  - Identifying partners
  - Identifying strategies and best practices

Trends in Delinquencies and Foreclosures

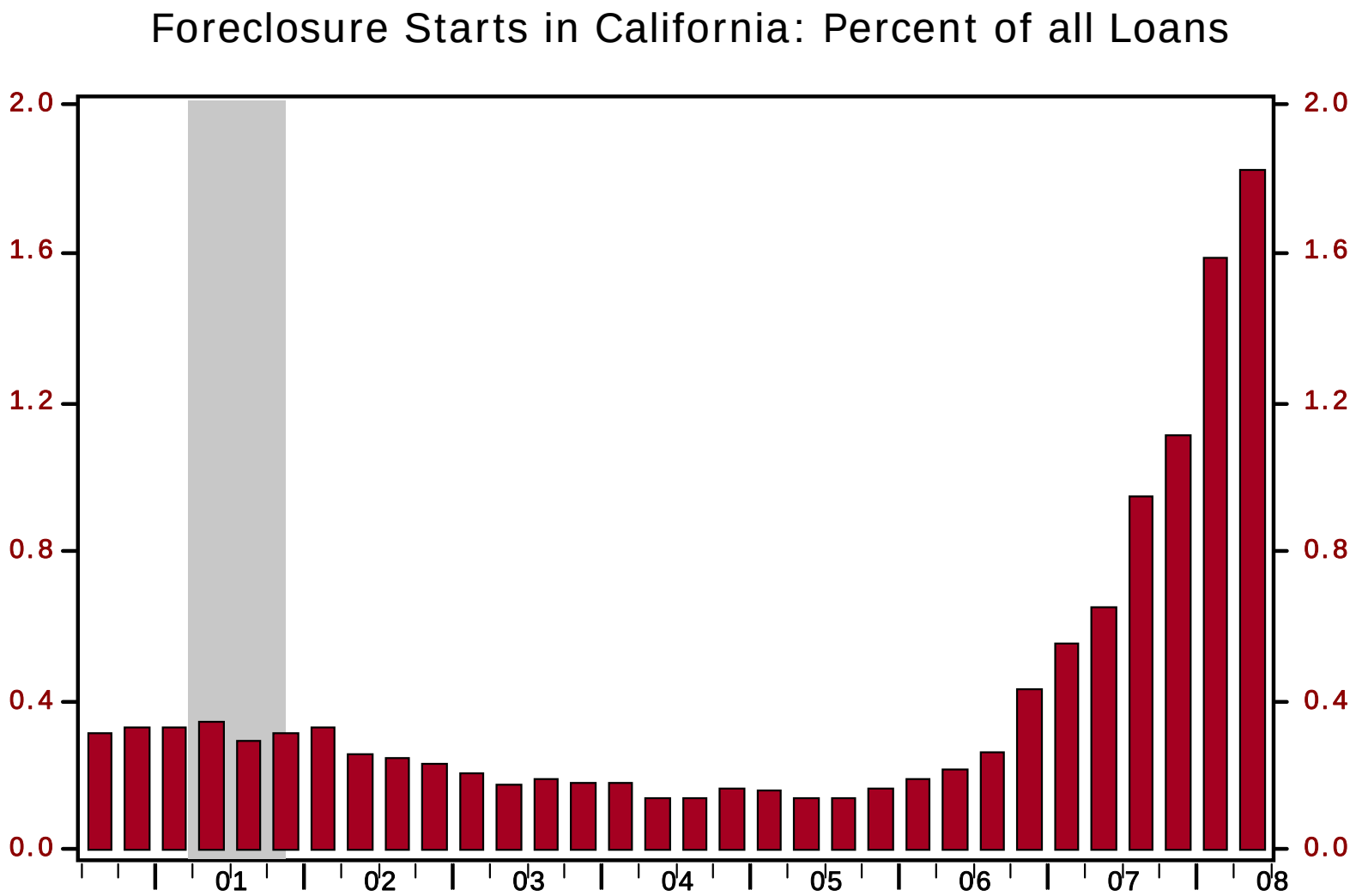
Percent of Mortgage Loans in Foreclosure or REO (by zip code)

August 2008



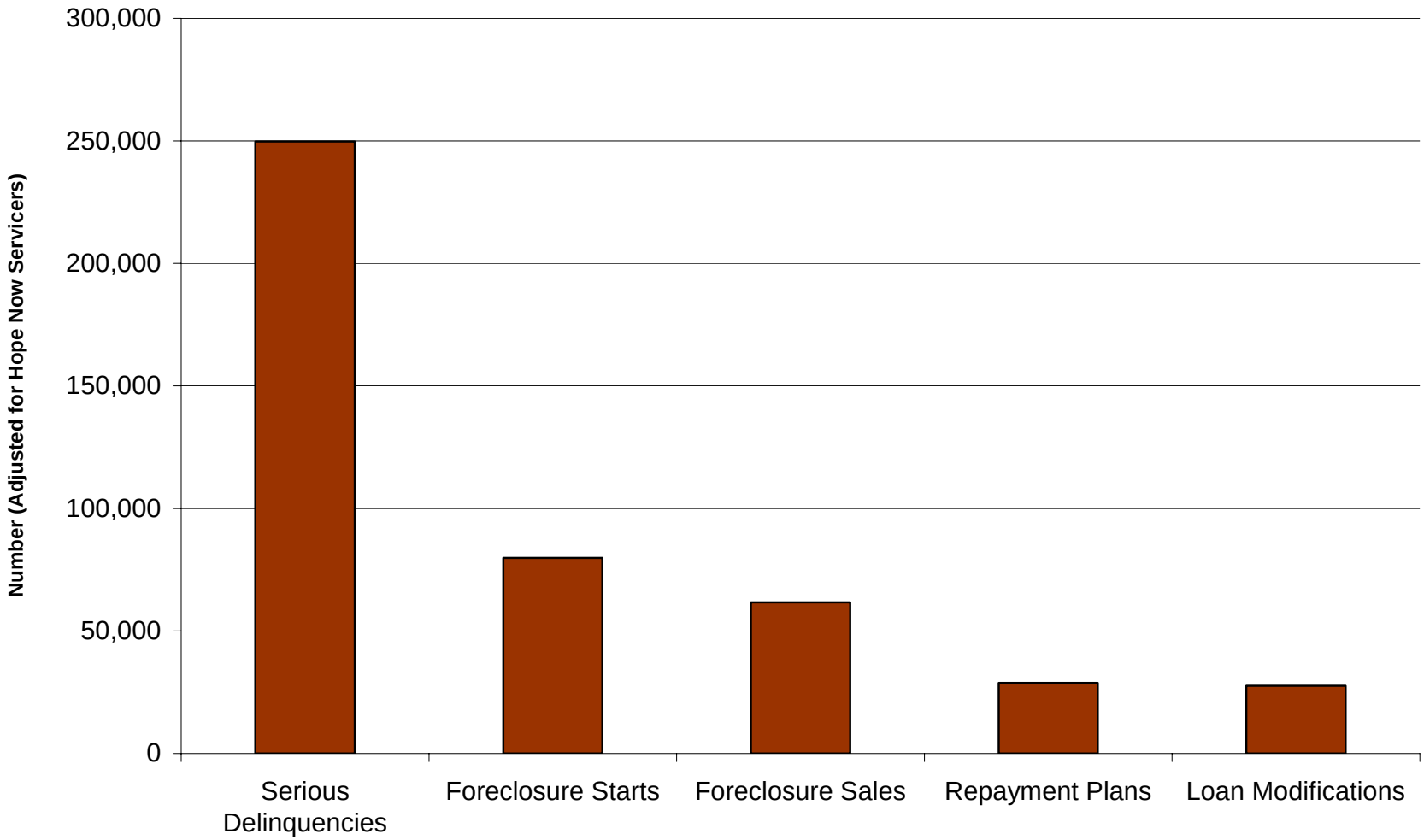
Source: McDash Analytics, LLC and FRBSF calculations

Foreclosure Starts in California Continue to Rise



Source: Mortgage Bankers Association, National Delinquency Survey, 2nd Quarter 2008

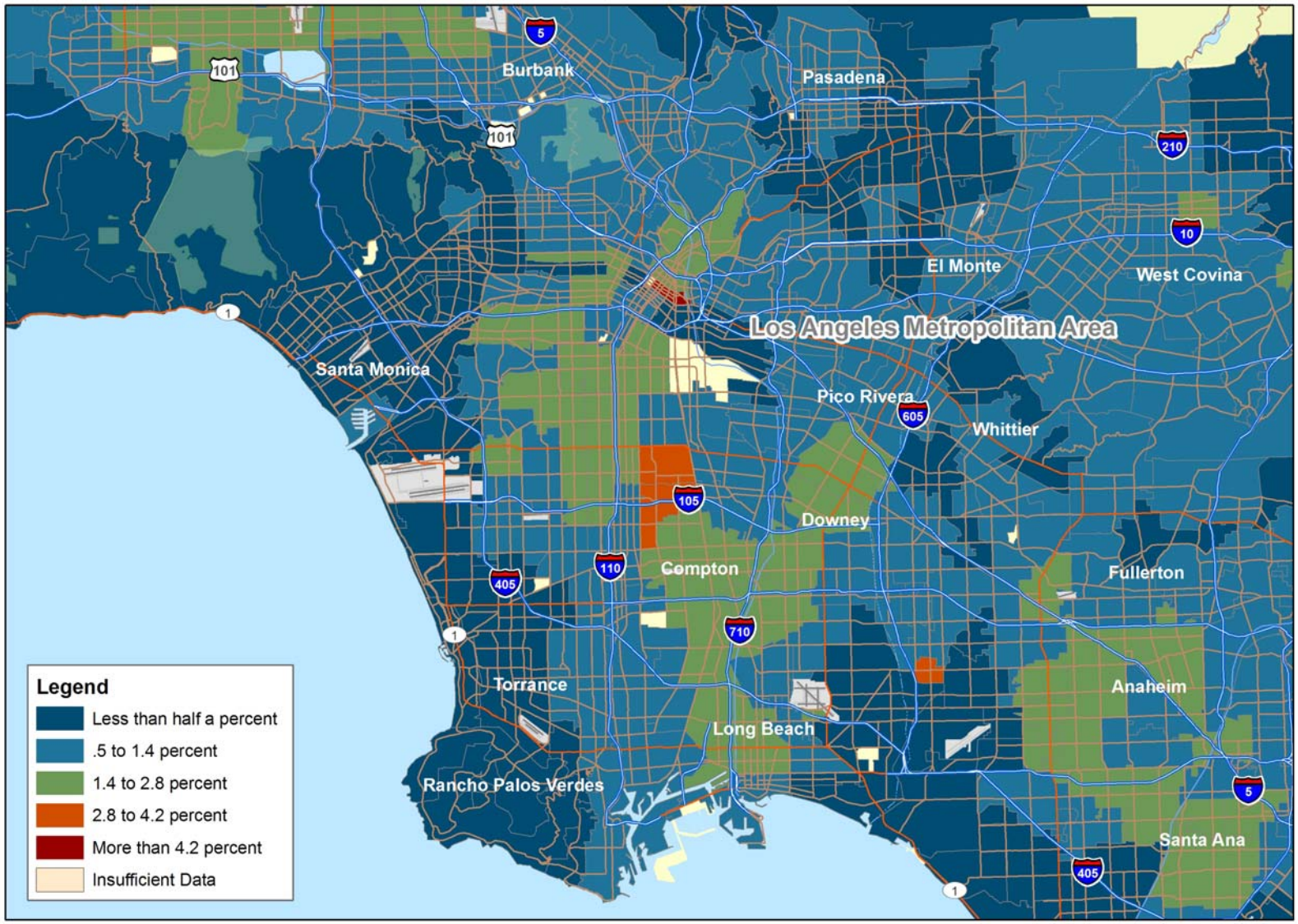
Loan modifications still fall way short of need



Source: Hope Now Servicing Data, September 2008, 3rd Quarter 2008

Los Angeles has seen a rapid rise in foreclosures

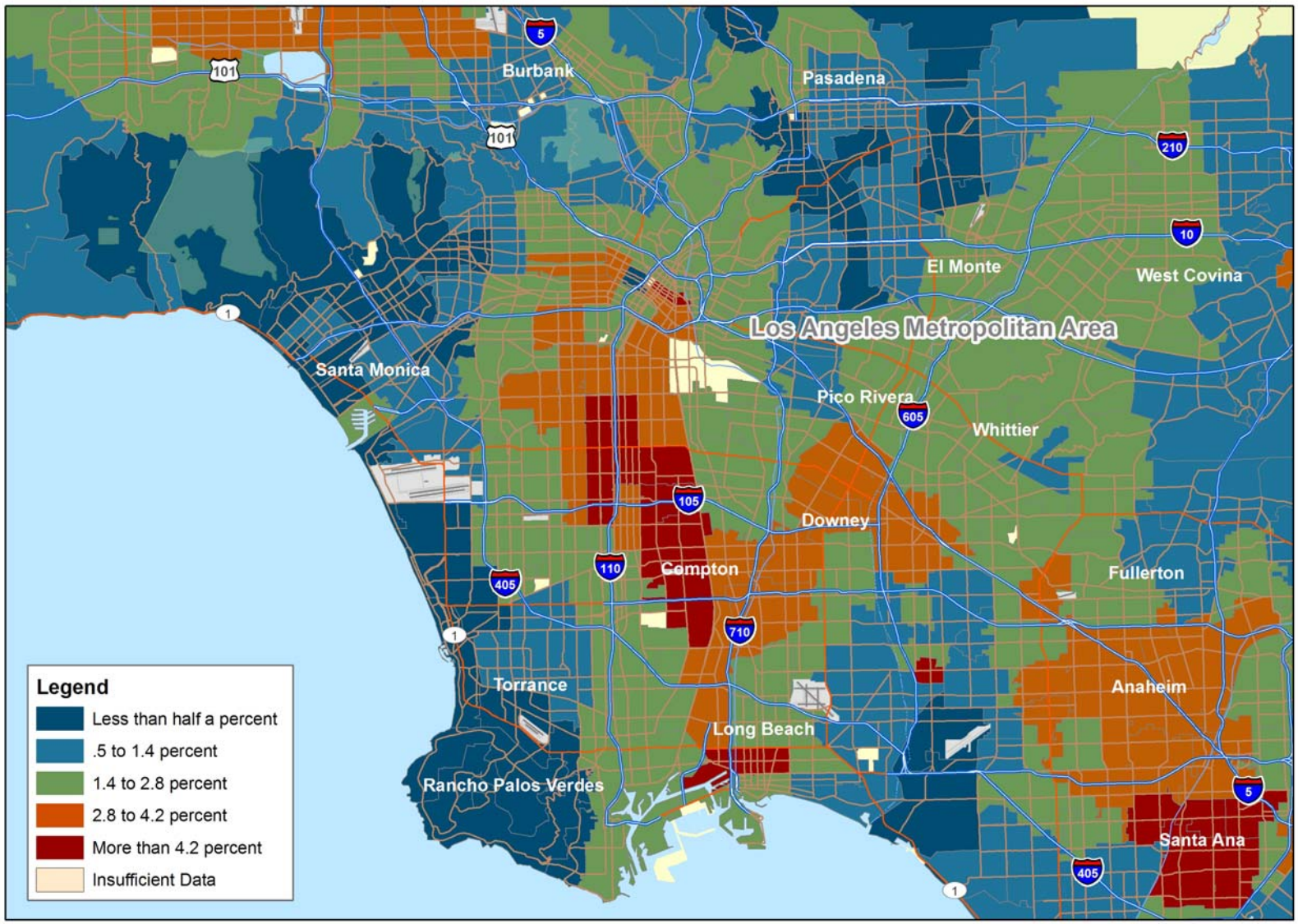
September 2007



Source: McDash Analytics, LLC and FRBSF calculations

Los Angeles has seen a rapid rise in foreclosures

April 2008



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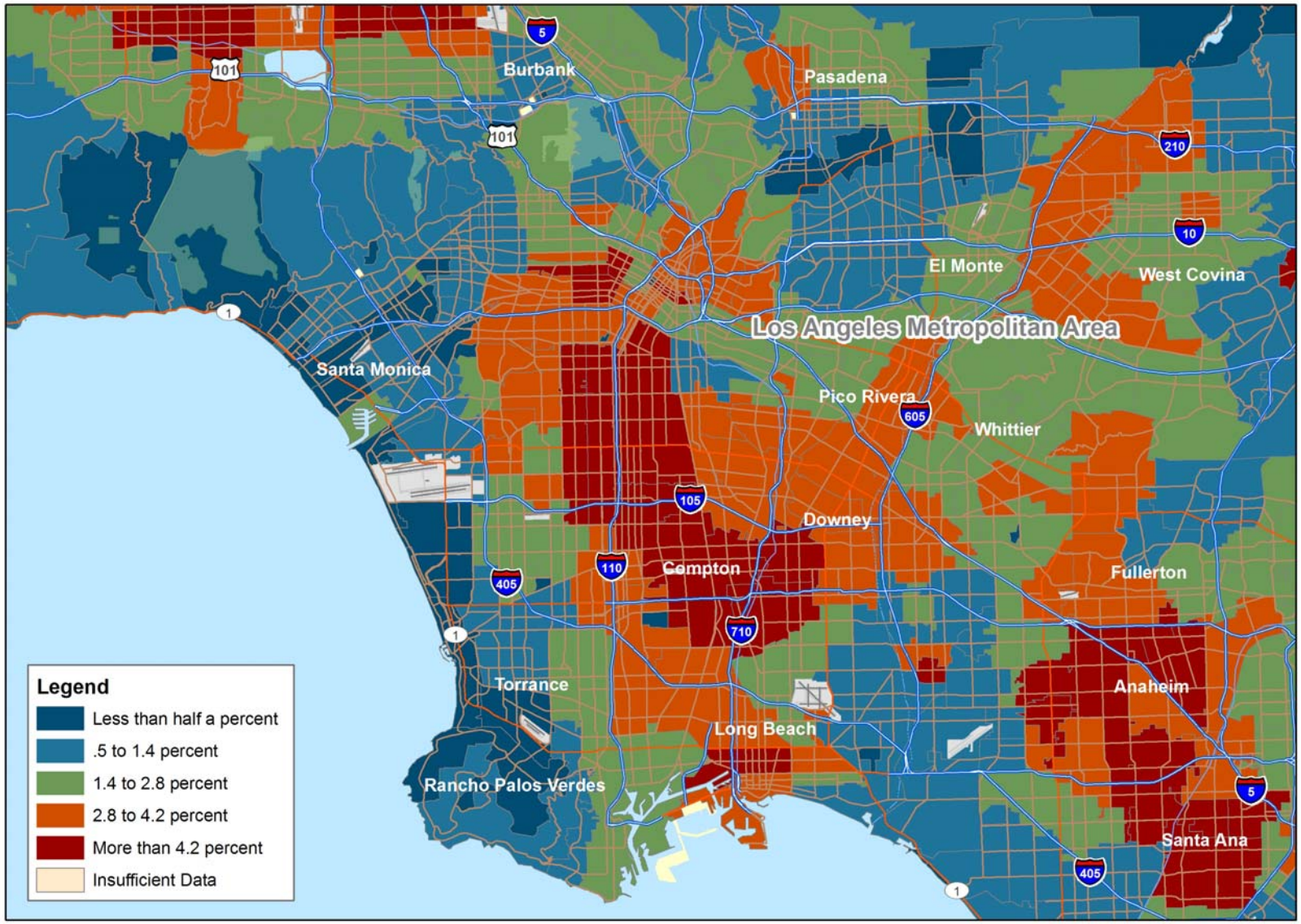
Los Angeles has seen a rapid rise in foreclosures

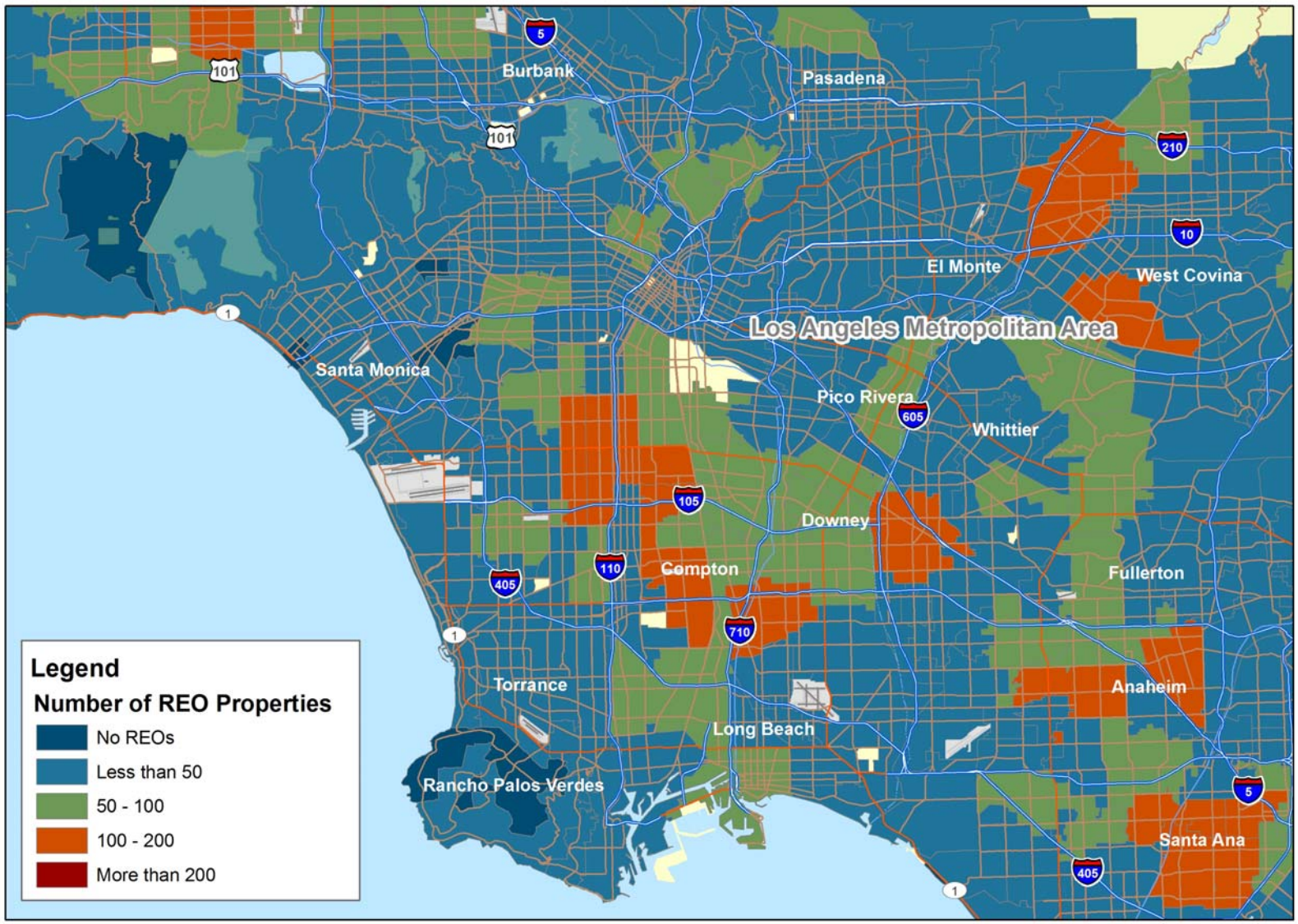
August 2008



Source: McDash Analytics, LLC and FRBSF calculations

REOs concentrated in certain areas of the county

August 2008



Source: McDash Analytics, LLC and FRBSF calculations

The trouble with foreclosure data

- Data on the real estate and mortgage markets are collected by many different sources, most costly and proprietary
- As a result, it is important to consider the limitations of data presented
  - Different definitions of subprime may affect the reporting of rates of delinquencies and foreclosures
  - Different methodologies and different sampling methods may affect the reports
  - Aggregated data at the zip code level can mask significant geographic variation and the types of borrowers affected
  - Data is often “old” or “stale”, particularly given the pace of change
- No comprehensive data system to meet the needs of all partners currently exists

Especially difficult to assess local REO picture from national data

- Limitations of zip code data
  - The size of the zip code can really affect the number of REO properties
  - Can't see if the REOs are concentrated on certain blocks within the zip
  - Delay in the data: August is most recent data, but these properties may have been sold already
  - Only a sample of loans, not representative of all housing units
    - We don't know how well national data sets capture REOs at the local level; they're better for conducting national macroeconomic analysis
- Important to have a way to identify property level data in "real time" – e.g., through an MLS or property registration database

Stabilizing Communities: Developing a Local Strategy for San Diego

Stabilizing Communities Online Resources

- Foreclosure Mitigation Toolkit
  - Available online at http://www.frbsf.org/community/issues/toolkit/index.html
  - The resources in the toolkit are presented as a four-step process
    - Step One: Assess the foreclosure situation
    - Step Two: Reach troubled homeowners
    - Step Three: Establish post-foreclosure support systems
    - Step Four: Stabilize neighborhoods
- NeighborWorks America
  - Stabilizing Communities webpage available at http://www.stablecommunities.org/
  - Includes case studies of best practices from across the country

Community Strategies - Identifying REOs at the local level

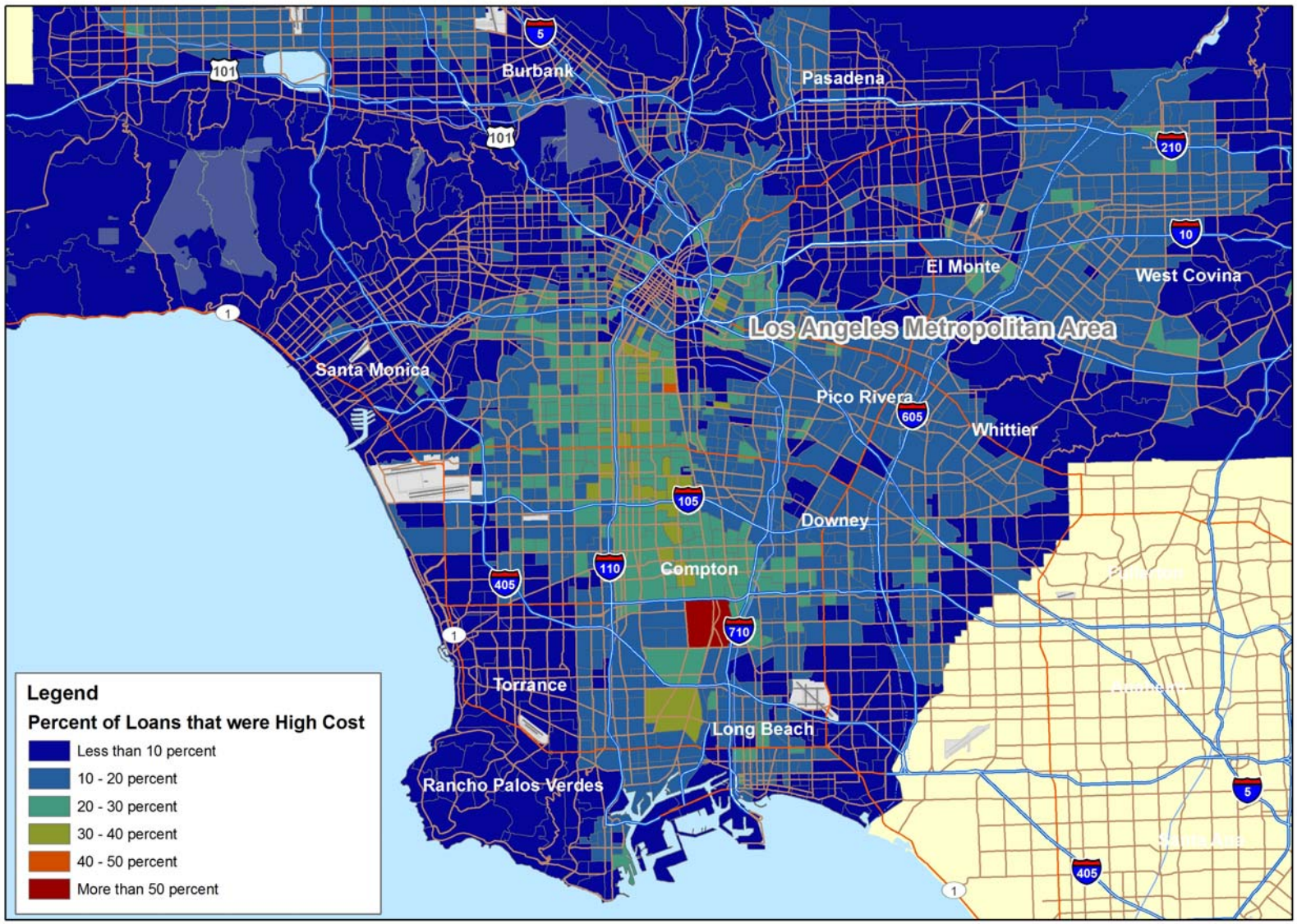
- Possible data sources
  - County records: most state laws require official notice of defaults and foreclosure to be filed with the county
    - These data are often the “best” source of data, since they are public documents and provide comprehensive information on the property; yet, paper records are still common, making it difficult to access
  - Local title company or public records company
    - In Massachusetts, local task force was able to engage a local company that compiles public records electronically and is now using that data to develop targeted interventions
  - RealtyTrac and Foreclosures.com, etc.
    - Timely, property level data; limit the number of downloads but can be effective for small geographic areas
  - Local Multiple Listing Service

Community Strategies - Identifying REOs at the local level

- Other data sources
  - Identifying share of subprime loans
    - 2005 HMDA Data: Conventional Loans with High Interest Rates
      - These data can be found at www.dataplace.org

Distribution of High Cost Lending in Los Angeles

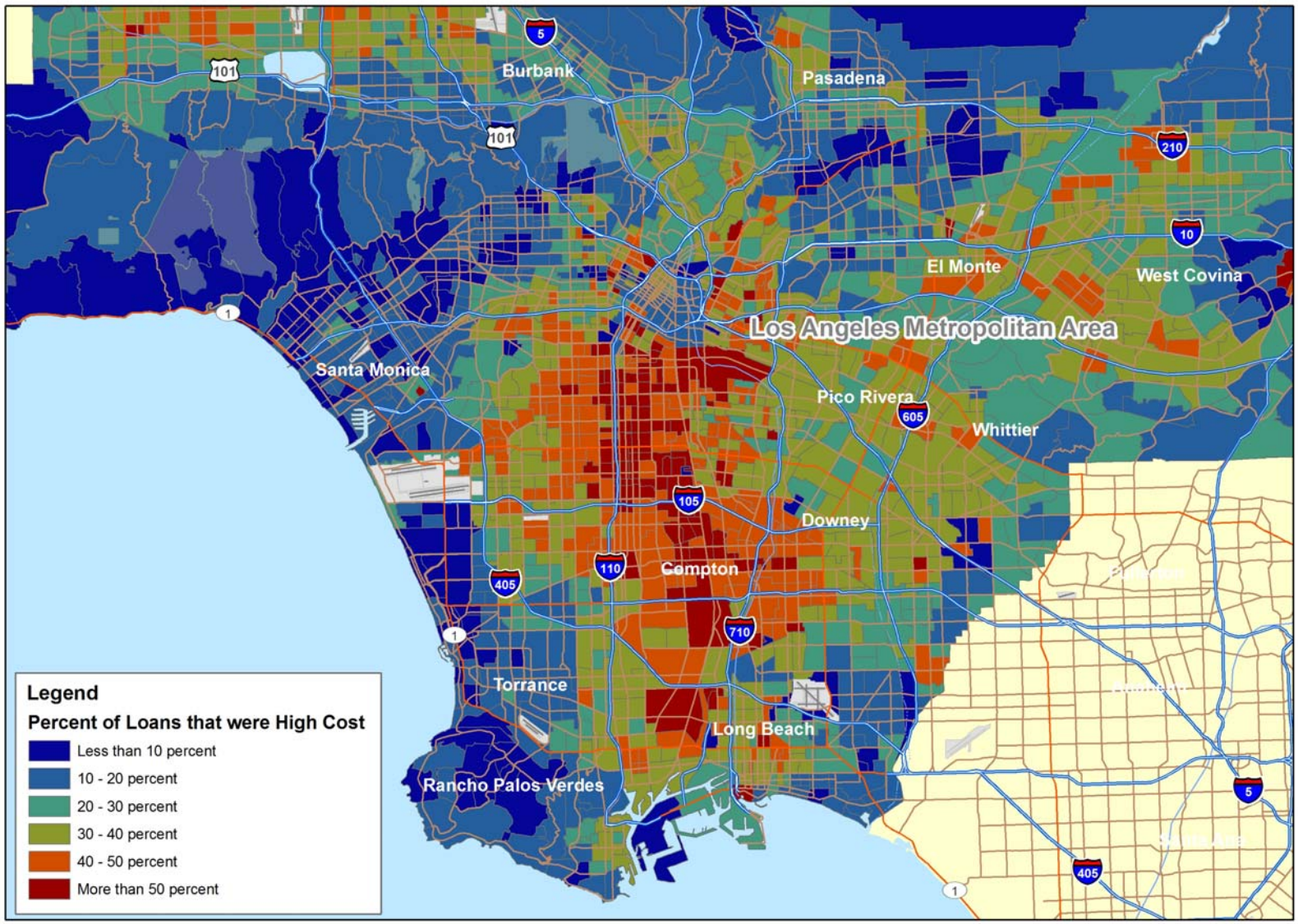
HMDA 2004



Source: HMDA 2004, FRBSF Calculations

Distribution of High Cost Lending in Los Angeles

HMDA 2006



Source: HMDA 2006, FRBSF Calculations

Community Strategies - Identifying REOs at the local level

- Other data sources
  - Identifying share of subprime loans
    - 2005 HMDA Data: Conventional Loans with High Interest Rates
      - These data can be found at www.dataplace.org
  - Administrative data: identifying neighborhoods in distress
    - Delinquent utility bills
      - Water, electricity and other municipal services
    - Delinquent property taxes
    - Counts of property related crimes
  - Census data: identifying affected populations
    - Low income households
    - Racial/ethnicity breakdowns

Community Strategies - Addressing Vacant Properties

- Goal is to establish **continuity of responsibility** for property, and to help finance the maintenance of vacant properties
  - Code enforcement (e.g. Chula Vista and Stockton)
  - Vacant property registration and fees (e.g. Chicago)
- Identifying responsible party on the property
  - State Law – Georgia SB 531 requires that notice of the foreclosure sale includes the name, address, and telephone number of the "individual or entity who shall have full authority to negotiate, amend, and modify all terms of the mortgage with the debtor."
- Strategies for taking over abandoned properties
  - Receivership models
  - Tax foreclosure

Community Strategies – REO Property Disposition

- Intervening before Foreclosure: entails buying the delinquent note before foreclosure and working with borrower first, if not successful, return to either rental or ownership
  - CDFIs: Self Help, Colorado, and Massachusetts
- Neighborhood Revitalization Approaches: targeting neighborhoods and using ‘traditional’ community development tools to acquire and rehab housing units
  - Neighborhood Progress Inc. in Cleveland
  - Dallas, Rochester, and Chicago
  - DC: New Markets Tax Credits
- Lender Approaches: working with a single lender to acquire a “bundle” of properties at a discount
  - Bulk Purchase
  - Pilot studies (e.g. HSBC model)
- Borrower approaches: providing favorable financing to borrowers interested in buying foreclosed properties
  - CAL FHA product

Key Lessons

- Use data strategically
  - National data sets can't capture local dynamics or "property level" data
  - Engage a local partner (e.g. title company, university, public records co., real estate agent) who can help to identify properties and their owners
- Cross-sectoral collaboration
  - Importance of political support and the "stick" of regulation
  - Task force model works well, especially when it brings together government, nonprofits, lenders/servicers, and private interests
- Draw on a wide range of funding sources
- Use public subsidies wisely
  - Cross-subsidize affordable housing goals by selling some properties at market rate
  - Anticipate long "holding" costs and ensure you have enough capital in addition to subsidy to implement your business plan
- Evaluate strategies across strong/weak markets