

REO Retention Rates in Massachusetts

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Disclaimer

- The views expressed today are mine.
- The do not necessarily reflect the views of
 - The Boston Fed



- or the Federal Reserve System



- When I say “we”, I mean members of the research department.

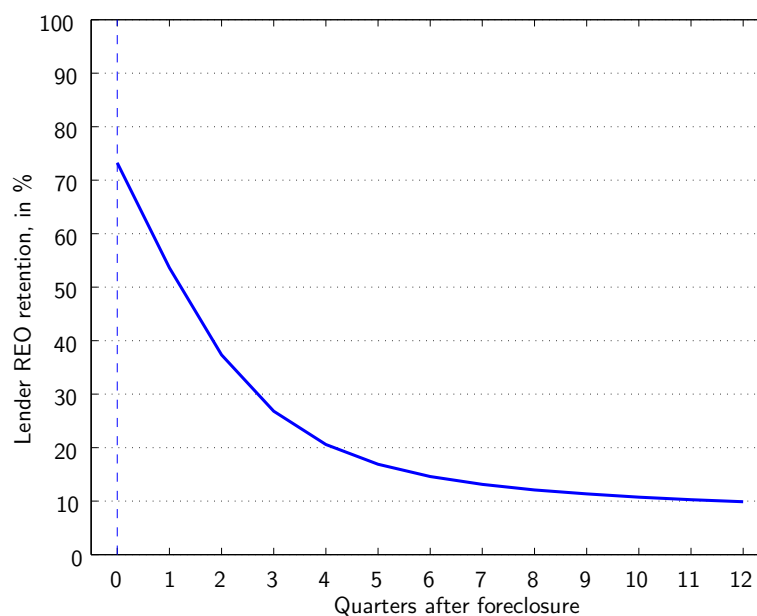
Caveat

- Everything I’m about to say could be wrong.
- Some things I’m about to say are almost certainly wrong.
- This is all very preliminary

What is REO Retention

- Focus on the “REO Retention Rate”
 - Percentage of foreclosed homes in REO n quarters after foreclosure:
- “REO Retention” – bad thing.
 - Not generating revenue
 - Property empty
 - Vandalism
 - Damage to community
 - Want to lower REO Retention

Figure: REO Retention rate, 1990-2007 reo_hazard_3_01



Data sources

Loan-level data

- Massachusetts Registry of Deeds (Warren)
 - Both directly and from The Warren Group
 - Every mortgage, purchase and sale deed, foreclosure petition, foreclosure deed in Massachusetts going back to 1987.
 - We define REO spell
 - Beginning: Foreclosure deed
 - End: Purchase with a mortgage
 - Problems... but spot checking says it works almost always.

Foreclosures in MA

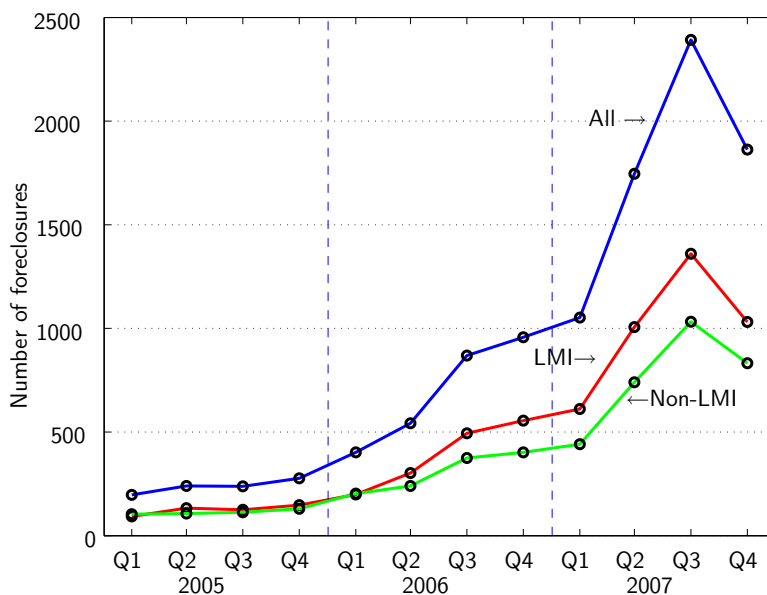
- Actual foreclosures (not petitions)
- Three facts
 - 1 Concentrated in LMI communities, not new construction.
 - 2 Disproportionately Multi-Family
 - 3 Many put nothing down.
 - 4 Many owned the house for a short time
- Source: Warren data

Communities

- Disproportionately LMI
- Minority
- More so than last time

	LMI % of		Minority Zip Code	
	Foreclosure	Ownerships	Foreclosure	Ownerships
2006	43.8	16.8	25	14.2
2007	44.2	17	25.6	14.3
1991	34.1	17.7	21.8	14.8
1992	38.8	17.6	23.3	14.7

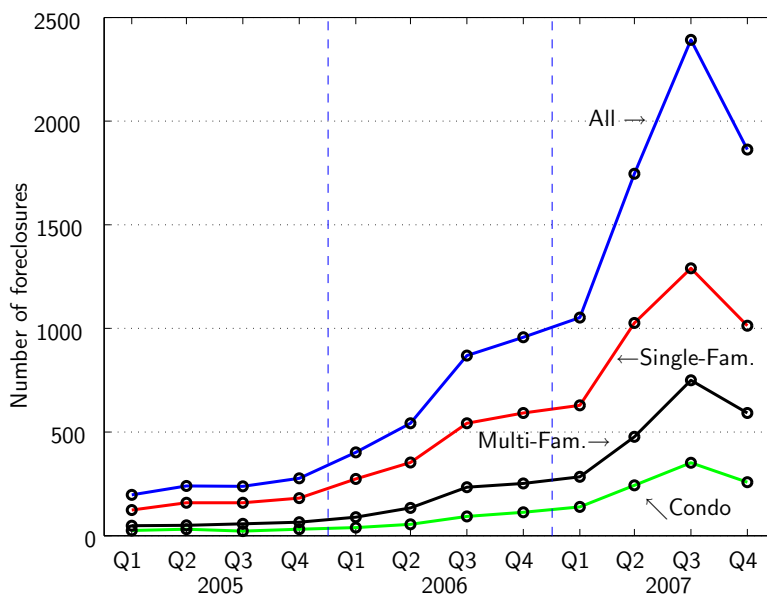
Figure: Recent foreclosure activity by community reo_hazard_2_05



Property Type

- Multi-family account for about 10% of the homes in MA.
- Overwhelmingly concentrated in LMI areas.

Figure: Recent foreclosure activity by property type reo_hazard_2_04



Tenure

- Percentage of foreclosees with who owned the house for...

	< 1 year	< 2 years	<3 years	>3 years	≥5 years	≥ 10 years
2006	4.0	26.9	42.4	57.5	42.3	21.8
2007	3.1	25.8	45.1	54.9	38.8	21.1
1991	5.8	11.7	24.8	75.1	.	.
1992	3.2	6.6	15.3	84.6	.	.

Purchase equity

- Percentage of foreclosees with LTV at purchase of...

	≤ 80%	80%–95%	95%–100%	≥ 100%
2006	8.6	41.1	15.7	34.5
2007	8.0	38.4	13.4	40.0
1991	35.9	53.9	1.9	8.2
1992	30.4	58.0	2.7	8.8

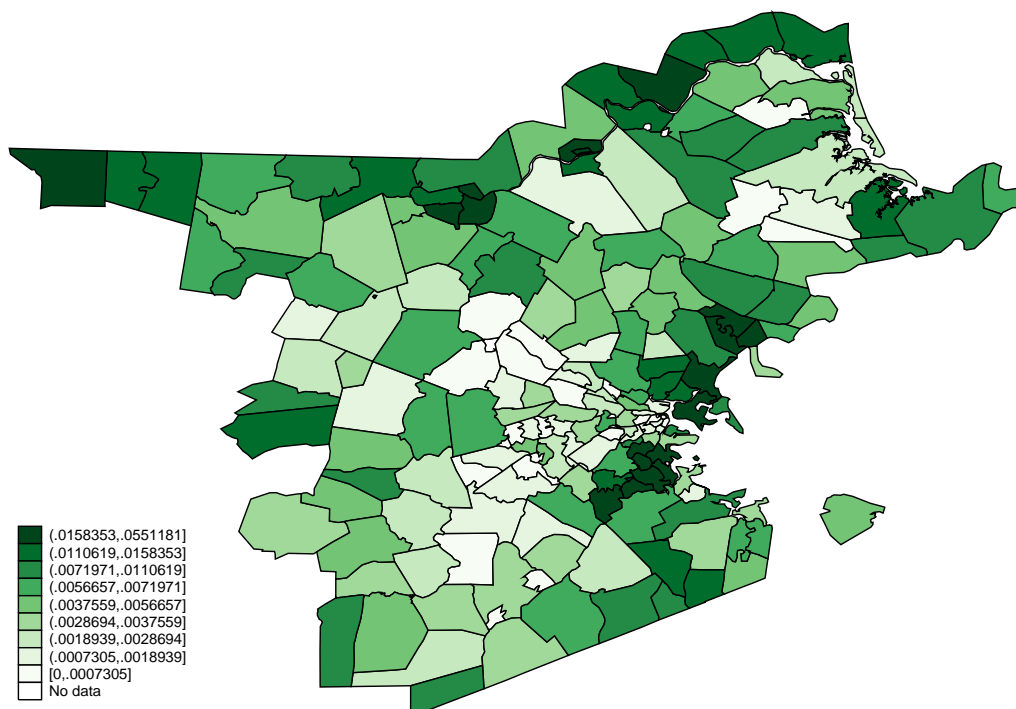
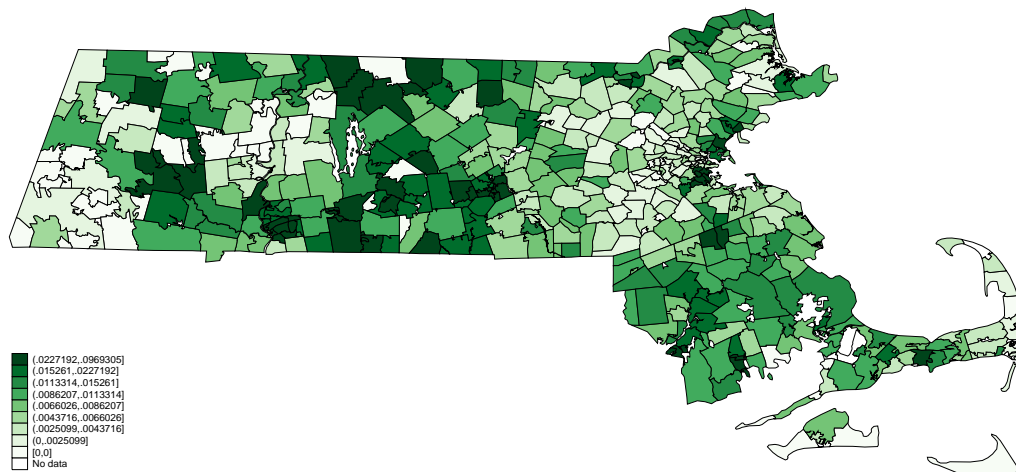
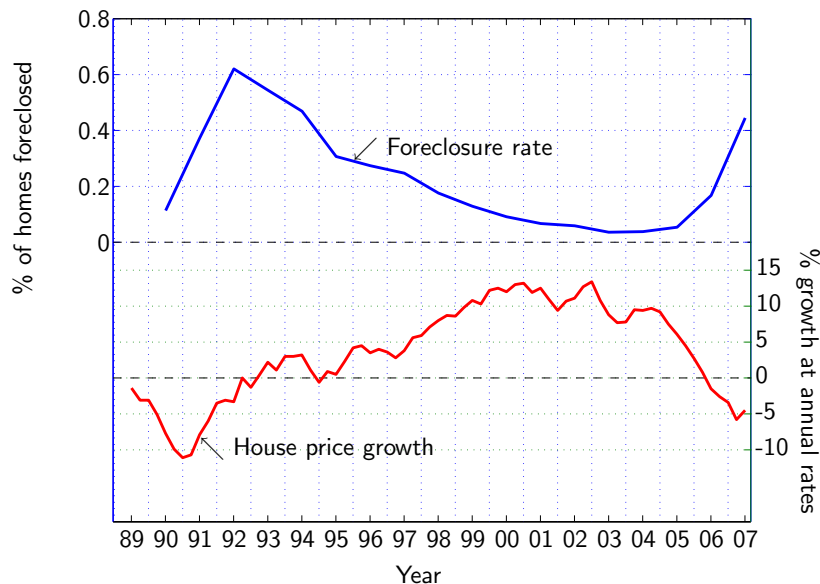
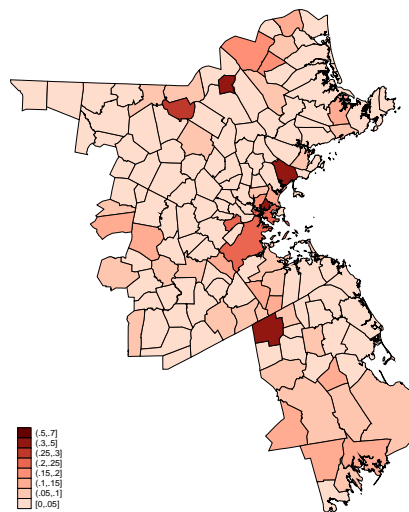


Figure: Foreclosures and house prices in Mass., 1989-present. Source: Boston Fed and The Warren Group.



REO in MA

Figure: REO outstanding in 3/2008 from foreclosures 1/1/2006-6/31/2007.



Historical

- More than a quarter of foreclosures either transfer at auction or are sold within the quarter of foreclosure
- Only 25 percent are retained after a year.
- 10 percent after three years
- Slightly worse for lower income
- And condos are terrible, but that may be just the early 1990s

Figure: REO Retention rate, 1990-2007 reo_hazard_3_01

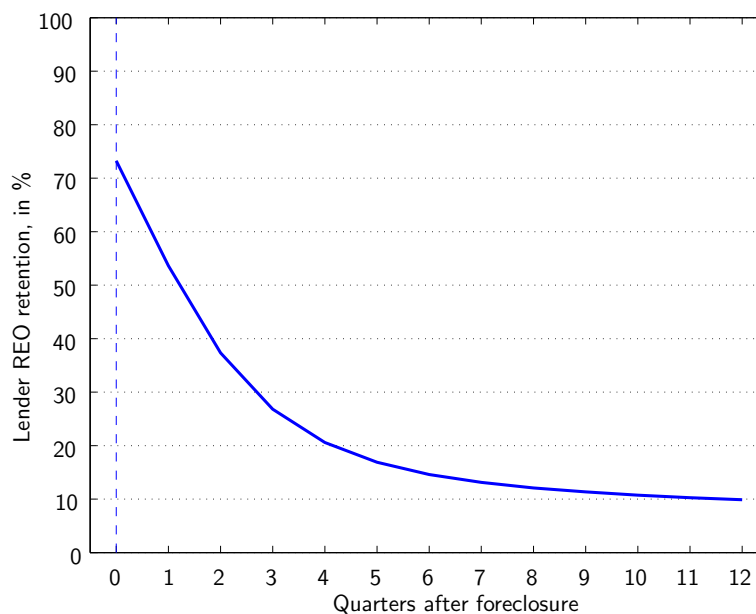


Figure: REO Retention rate, 1990-2007, by community income reo_hazard.3.02

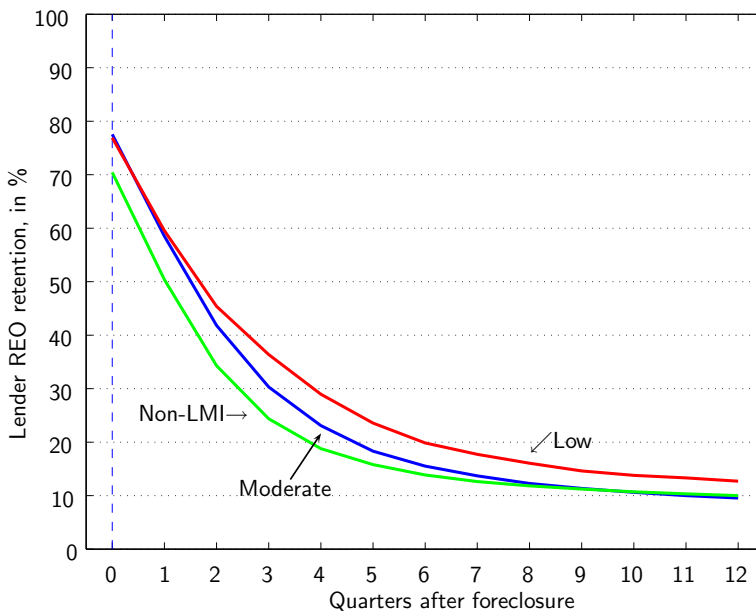
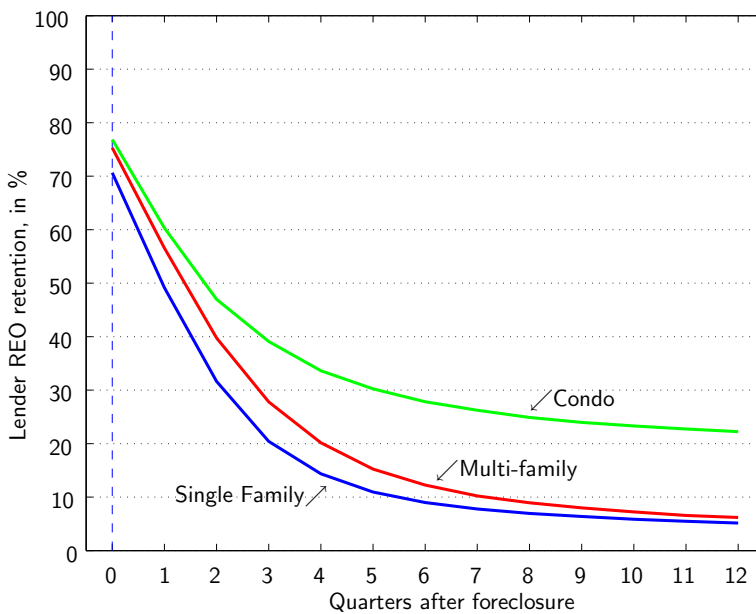


Figure: REO Retention rate, 1990-2007, by property type reo_hazard.3.03



Cyclical properties

- Much more difficult to unload property in a down market compared with an up market
- Only 20 percent at auction or within quarter versus 30 percent in a good quarter.
- In down market, almost half properties are left after one year, versus 30 percent in up market
- Much worse in low income communities

Figure: REO Retention rate, cycles reo_hazard_4_01

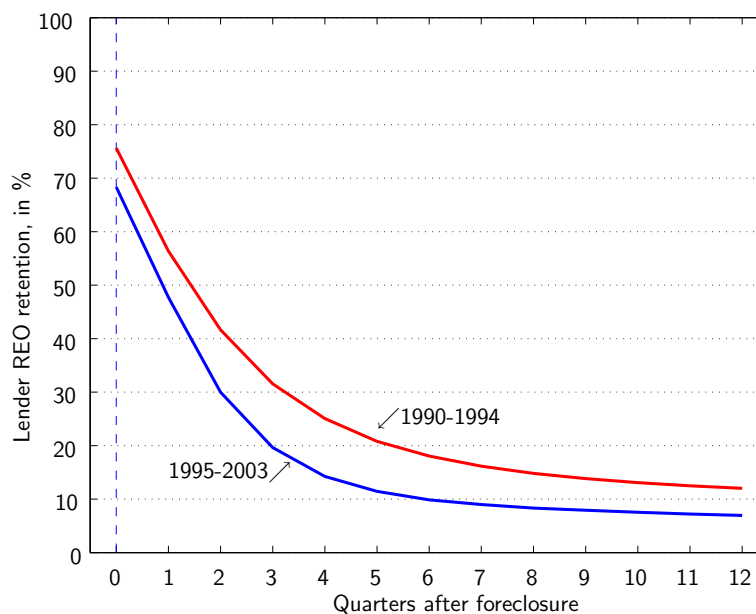


Figure: REO retention rates, over the cycle, low income communities.

reo_hazard4_02

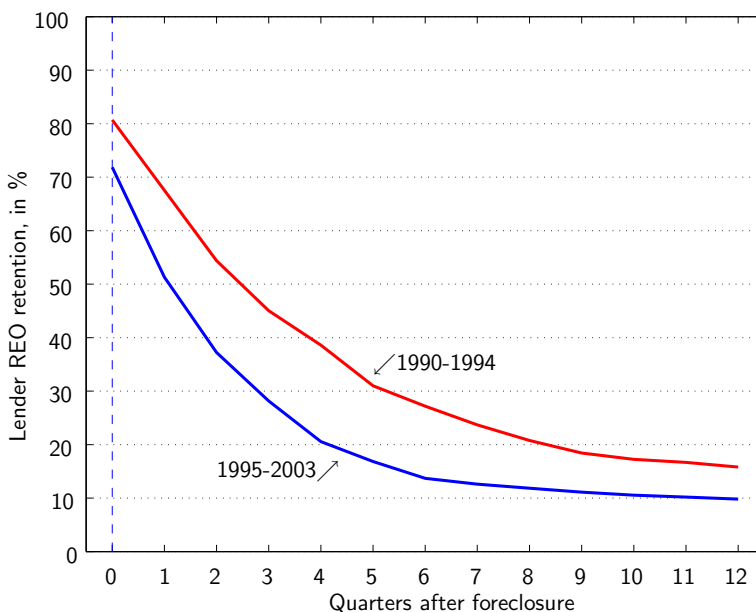
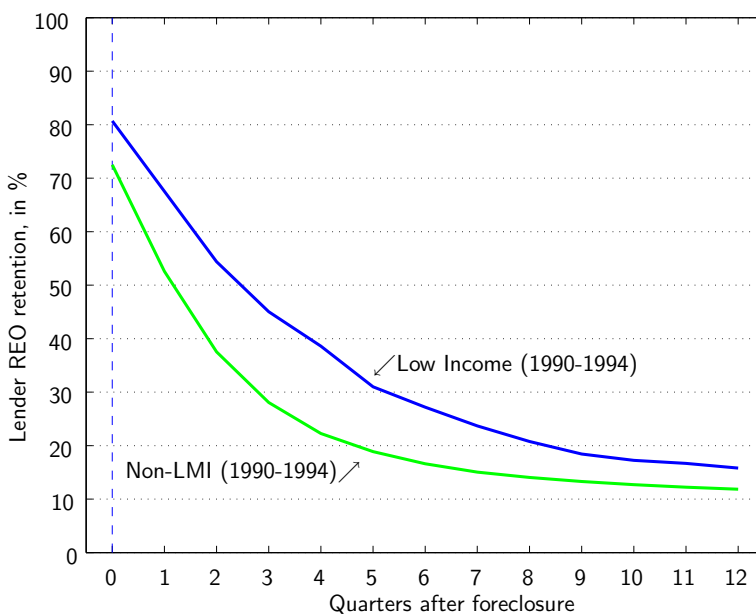


Figure: REO Retention in 1990-1994. reo_hazard4_03



Comparing foreclosure waves

- We compare Q1, 1992 (the peak year of the last wave) with Q1, 2007.
- Broadly similar
 - Lenders retained more Condos in 1992
 - Lenders retained more Multis in 1992

Figure: All residential reo_hazard_2_01

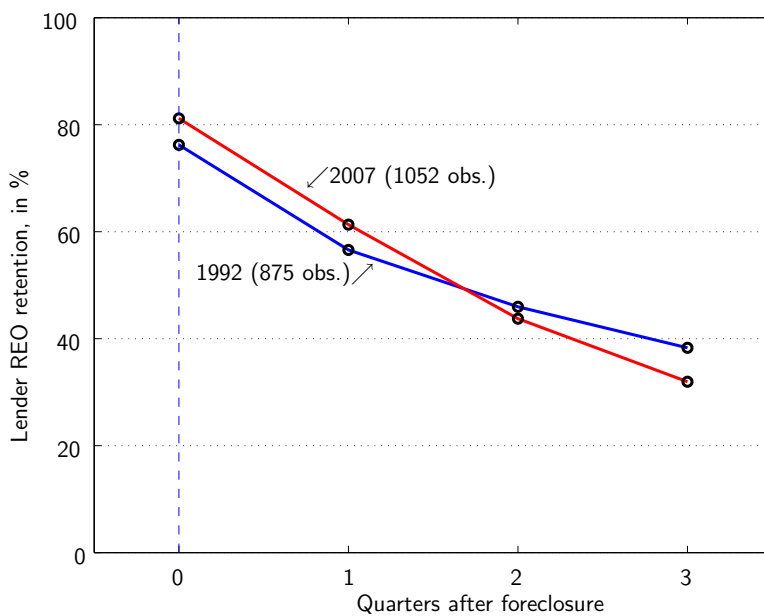


Figure: Condos only reo_hazard_2_02

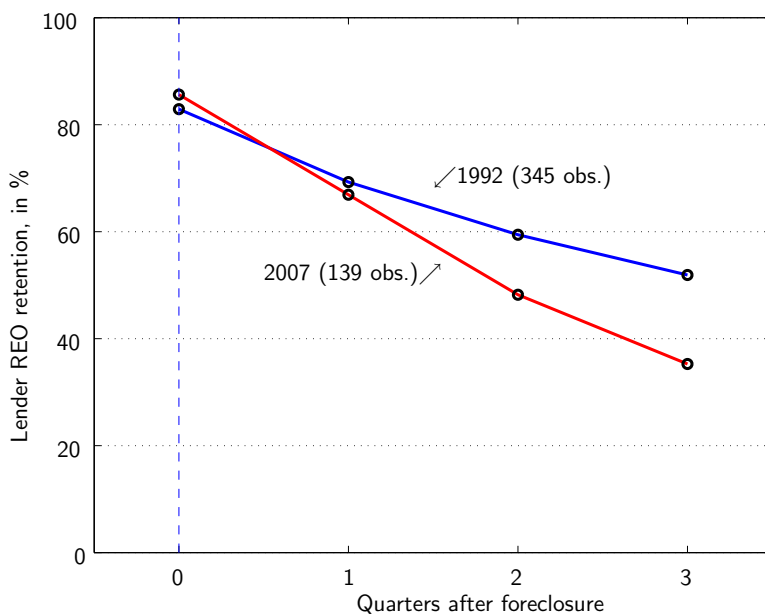
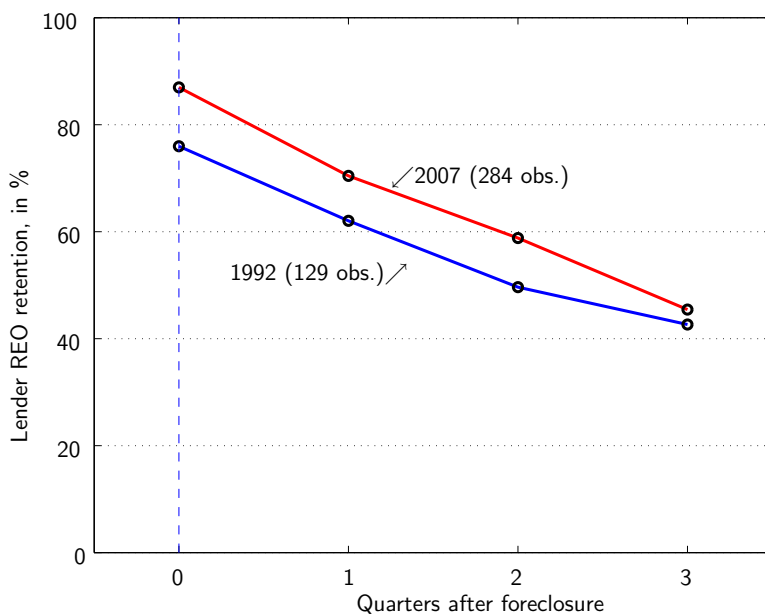


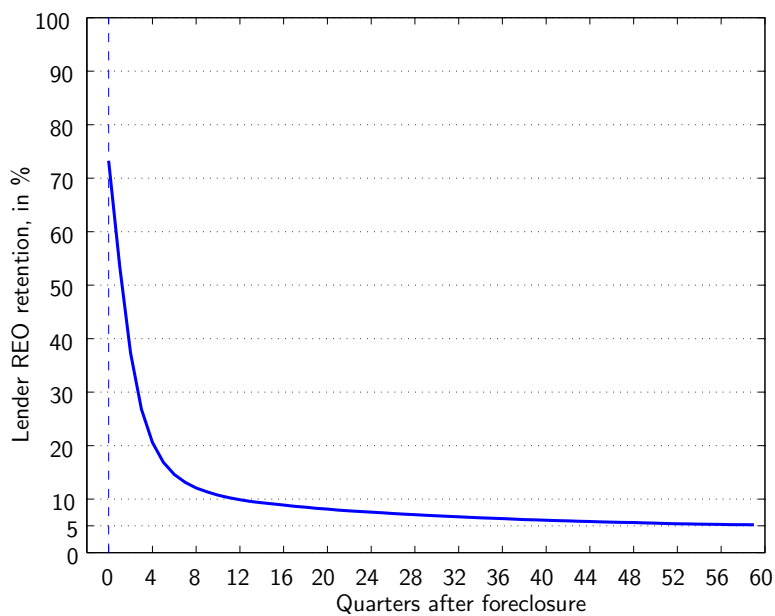
Figure: Multi-family only reo_hazard_2_03



Long-long REOs

- A small percentage of REOs last a long time
- More than 16 years...

Figure: REO Retention rate, 1990-2007 reo_hazard_3_04



- Disproportionately condos
- Only about 25% of all foreclosures are condos
- But 60 percent of the REOs lasting more than 5 years.