

Real Estate Owned (REO)

Disposition Risks & CRA Opportunities

Moderator: **Jim Park**, Former Chair, Community Advisory Council of the Federal Reserve Board

Panelists: **Barbara Belluardo**, Banking Supervisor, Federal Reserve Bank of Cleveland
Joseph Firschein, Deputy Associate Director, Federal Reserve Board of Governors
Brian Hurley, President & COO, New Vista Asset Management
P.J. McCarthy, Director, REO Alternative Disposition at Fannie Mae
Yves M. Mombeleur, Director of Seller Relationships at the National Community Stabilization Trust
Tyler N. Smith, REO Manager in REO Community Development Premier Asset Services, Wells Fargo Bank

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Purpose

- Provide information to financial institutions on potential risks resulting from inadequate REO management practices and controls
- Assess the impact of various REO disposition strategies on communities and neighborhood stabilization efforts
- Topic areas will include:
 - 1) Property preservation and maintenance
 - 2) Sales
 - 3) Promising community stabilization initiatives or alternative disposition strategies.

Current REO Market Observations

- REO properties are negatively affecting owner-occupied neighborhoods
- Foreclosure volumes are expected to increase as lenders continue to work through high portfolio delinquency rates
- Rental rates have increased in some markets, intensifying competition between investor and owner-occupant home buyers
- Low-value properties present unique challenges and may require alternative disposition strategies
- Opportunities available to REO holders to ensure that they are minimizing the adverse community problems associated with vacant and foreclosed properties

Property Preservation and Maintenance

- The maintenance and preservation of REO properties plays a central role in stabilizing neighborhoods, attracting owner-occupant buyers and maintaining neighborhood property values
- Risks to lenders resulting from inadequate property preservation, maintenance, and controls
 - Fines, penalties and sanctions resulting from the violation of local ordinances
 - Reputational and liability costs resulting from criminal activity or arson in vacant REOs
 - Reputational and liability costs resulting from vendor violations of property preservation guidelines
 - Litigation exposure resulting from inadequate vendor and/or broker oversight

Property Preservation and Maintenance

(continued)

- Promising practices associated with property preservation and maintenance
 - Direct engagement with local municipalities to ensure proper maintenance of REOs
 - Vendor oversight programs that include third-party quality control and audits
 - Close communication with major property servicing companies that maintain properties in service area
 - Partnerships with municipalities and not-for-profits to comply with building and housing codes and local ordinances for properties held in portfolio

REO Sales

- REO sales practices and programs directly affect servicer performance and broadly impact the communities in which REOs are being sold
- Risks to lenders resulting from inadequate REO sales practices and controls
 - Potential reputational risk from a lack of understanding of the unique challenges posed by the different channels for selling REO (in bulk to investors, auction, online, Realtors)
 - Adverse financial consequences from insufficient oversight of broker networks
 - Legal issues when evicting tenants

REO Sales *(continued)*

- Promising practices employed by successful REO sellers
 - “First Look” programs that enable owner-occupants, public entities, and nonprofits windows of time to bid on available properties
 - Donation of low-value REO to land banks or housing organizations with capacity to rehab or demolish
 - Strong oversight of repair and maintenance of listed REO properties
 - Screening and monitoring of bulk sale investors to assess their capacity for responsible maintenance and disposition after acquiring properties

Additional Resources

- “Rebalancing the Housing Market,” a speech by Governor Elizabeth Duke, Federal Reserve Board of Governors, September 1, 2011:
<http://www.federalreserve.gov/newsevents/speech/duke20110901a.pdf>
- “Problems in the Mortgage Servicing Area,” a speech by Governor Sarah Bloom Raskin, Federal Reserve Board of Governors, November 12, 2010:
<http://www.federalreserve.gov/newsevents/speech/raskin20101112a.htm>
- REO and Vacant Property Resources from Federal Reserve System Summit, September 1-2, 2010:
<http://www.federalreserve.gov/newsevents/conferences/reoconf.htm>
- Community Development and REO Resources at the Federal Reserve Bank of Cleveland:
http://www.clevelandfed.org/community_development/index.cfm?DCS.nav=Main

Questions

