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Real Estate Owned Foreclosed Homes: Preliminary Report

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ABOUT THE DATA:

The Johnson Center's Community Research Institute (CRI) at Grand Valley State University, in partnership with the Kent County Bureau of Equalization and Foreclosure Response embarked on a collaborative effort to share information regarding residential foreclosures in Kent County. This alliance allows CRI to access weekly sales history information for properties that have at least one Sheriff's Deed recorded since 2004. CRI then prepares and runs data-cleaning routines to select records meeting our residential foreclosure criteria. Residential foreclosures are defined as those properties repossessed by the lending institution that have a property classification code with the County indicating they are a single family home or a house converted to 4 units or less.

For more information about foreclosure criteria, data cleaning processes and analysis, see the report on foreclosures entitled "Sold Short: Residential Foreclosures in Kent County, 2004 to 2007", available at www.cridata.org.

REAL ESTATE OWNED PROPERTIES:

To further understand the effect of foreclosed homes on local housing dynamics, CRI was commissioned to examine Real Estate Owned properties throughout Kent County, focusing specifically on Grand Rapids.

What is considered a Real Estate Owned (REO) property?

Real Estate Owned (REO) properties are those repossessed and/or transferred from a homeowner back to the credit lender or trustee as a result of a foreclosure or forfeiture. Mortgage holders include banks and other types of financial institutions, real estate companies, housing investors and Government-Sponsored Enterprises (GSEs) like Fannie Mae and Freddie Mac.

What is the purpose of collecting REO data?

Since foreclosures began increasing in 2004, residential property sales transactions indicate 20,684 foreclosures have taken place in Kent County. As a percentage of the residential housing stock, that translates to 1 in 9 homes in the county have been repossessed since 2004. Forty-seven percent (47%), or 9,725 of countywide foreclosures have taken place in Grand Rapids. Foreclosures peaked in 2008, averaging nearly ten per day in Kent County. -Recent numbers show foreclosure rates slowly declining.

The number of vacant properties has also risen significantly. Such parcels lower nearby property values, reduce the tax base, stress government and non-profit services, can increase crime, and when unmaintained contribute to neighborhood blight. Dr. Paul Isely, Economics Department Chair at Grand Valley State University, conducted a preliminary study measuring the effect of vacant homes on property values. Results describe a 1% loss in value to properties for each vacant home within

500 yards¹. According to the U.S. Census, in 2000 there were 11,110 vacant units in Kent County. This number jumped to 19,662 vacant units in 2010 – a 77% increase.

A report authored by CRI staff in 2008 was aptly titled, “Sold Short: Residential Foreclosures in Kent County, 2004 – 2007.” It states that, “Our community as a whole is sold short when increased foreclosures bring down local property values and thus the tax base of the county and its municipalities – diminishing the funds available for local services and improvements. In addition, each foreclosed property can cost local government agencies an average of \$7,000 (and sometimes as high as \$34,000) in costs for inspections and monitoring of violations, court actions, police and fire services, unpaid utilities, and demolitions².”

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Other communities ravaged by foreclosures that have studied the detrimental effects of vacant and/or abandoned properties have concluded that REO properties are too often not maintained.

How do we determine a property is REO?

A property is assigned REO status once (1) the post-foreclosure redemption period ends and (2) the property falls into one of the REO categories in Table 1. Typically, this redemption period is six months after the property is sold at a Sheriff’s Sale. However, some properties have a 12-month redemption period. According to state law, this redemption period allows families to stay in the home, affording homeowners the opportunity to refinance the home, sell it on a short sale, negotiate a loan modification, or transition to new housing.

What time period is covered in this REO data?

This data includes properties that attained and remain in REO status since 2004 through April 30, 2012. The number of REOs can change daily based on new REO properties entering the system and those that are sold, re-inhabited, or no longer categorized as REO.

Is there one type of REO category?

No, an effort was made to determine the specific type of REO. **Table 1** provides a list of REO categories included in this preliminary report, along with a brief description.

¹ The study examined 400 homes in ten neighborhoods (nine in Grand Rapids and one in East Grand Rapids) during the first quarter of 2010, which were all sold for at least \$50,000. Only bank-owned properties were included in this study, therefore the reduction in property values could be greater/lesser if all types of vacant homes were incorporated.

² Chartkoff, S. B. & Rotondaro, G. (2008). Sold Short: Residential Foreclosures in Kent County 2004-2007. Grand Rapids, MI: Community Research Institute, Johnson Center at GVSU.

REO Category	Description
Government-Sponsored Enterprises (GSEs)	Properties owned by Federal government-backed loans such as Fannie Mae and Freddie Mac.
Bank Owned	Properties owned by financial institutions and required to file by HMDA using the HMDA Loan Application Register (LAR). These could include commercial banks, savings associations and credit unions.
Investors	Non-HMDA financial institutions. Properties owned by for-profit lending institutions or housing investors including but not limited to LLCs, LP, Corporations or Nonprofits.
Unknown	Properties were not provided an owner name but were sold/transferred during Sheriff's Sale and completed their 6-12 months redemption period.

Table-1: REO categories and definitions.

We estimate there are currently 2,009 REO properties in Kent County. The majority of these properties are Bank Owned (37%) followed by investor properties (26%), and Government-Sponsored Enterprises (22%). Fourteen percent (14%) of the properties could not be assigned a REO category because the owner's name was not provided in the County's data. *Table 2* provides the number and percent of REO properties by category in Grand Rapids and Kent County. *Attachment A* to this report shows a map with locations of REO properties.

REO Category	City of Grand Rapids	Pct. Grand Rapids	Kent County	Pct. Kent County
Bank Owned	306	36%	752	37%
Investors	282	33%	523	26%
GSEs	154	18%	448	22%
Unknown	106	13%	286	14%
Total	848	100%	2,009	100%

Table-2: Number and Percent of REO properties by category in Grand Rapids and Kent County. Kent County totals include Grand Rapids.

Additionally, we estimate that the 815 properties currently in the redemption period will likely move into REO status when the redemption period ends. *Table 3* provides the number and percent of In-Redemption properties in Grand Rapids and Kent County.

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In-Redemption	City of Grand Rapids	Pct. Grand Rapids	Kent County	Pct. Kent County
Bank Owned	207	67%	517	63%
GSEs	74	24%	221	27%
Investors	26	8%	69	8%
Unknown	4	1%	8	1%
Total	311	100%	815	100%

Table-3: Number and Percent of In-Redemption properties by category in Grand Rapids and Kent County. Totals for Kent County include Grand Rapids.

What are the known issues of REO data?

Although CRI makes every reasonable effort to provide accurate and reliable information, the fact is that public administrative data systems are complex, often built for single case reporting and subject to change to accommodate new data and internal reporting needs. CRI has worked closely with the Kent County Bureau of Equalization staff to understand the caveats and changes to customized codes developed for tracking foreclosure-related home sales transactions. In the case of REOs, CRI assigned data strength/accuracy scores of low, medium or high to each REO category developed for this report:

- *GSEs and Bank Owned* were assigned a **high** score due to consistency in the recording of names of the repossessing lending institution (i.e., Federal National Mortgage Association or Fannie Mae) and/or by using the HMDA Loan Application Register where applicable (i.e., Wells Fargo Bank NA).
- *Investors* were assigned a **medium** score due to inconsistencies in the recording of names of the repossessing lending institution or investor name. However, a global rule was applied for business entities containing or ending with LLC, LP, INC, Investment, Corporation or Nonprofits. The Michigan's Department of Licensing and Regulatory Affairs' Business Entity Search tool was used to verify and standardize the names of some of these business entities.
- A **low** score was assigned to properties where the repossessing lending or investing institution was missing (*Unknown*) but a Sheriff's Sale was recorded.

In addition, CRI identified 547 properties that were acquired by individuals. It is likely that a number of these could fall into the investors' category but CRI could not determine this for certain. In the case of properties in the redemption period, it is not uncommon to find the names of the repossessing lending or investing institution missing. These records are updated once the property redemption period ends.

Furthermore, during July 2011, CRI conducted a field data check with Foreclosure Response staff on a sample of 40 REO properties. The purpose of this data field check was to visually validate two premises:

1. Are there identifiable conditions to suggest a home was vacated and/or abandoned?
2. Is there a “For Sale” sign on the premises?

Of the 40 addresses visited as part of this study, 39 of the 40 homes were either for sale, vacant and/or abandoned.

A NOTE ABOUT PROPERTY LEGAL OWNERSHIP:

Data used to prepare this report has been gathered from property records of the Kent County Bureau of Equalization and represents the highest degree of parcel level accuracy available regarding legal ownership. Conversations with some lending institutions have identified that their understanding of ownership differs from that indicated in County records, claiming that entities recorded as owners are instead agents of the mortgage, therefore lacking ultimate authority over the property. For the purpose of this report, CRI uses the owner of record as it appears on the County’s Property Information System Property/Parcel Lookup.

Authors of this preliminary report hope that these findings help generate a constructive dialogue around ways to use this information for positive community impact as well as to improve the data for future releases. Please direct any questions or feedback about this report to Gustavo Rotondaro at rotondag@gvsu.edu.

Attachment A: Concentration of vacant housing units (2010) & REO Properties in Kent County, MI



Residential Foreclosure Data Period: January 2004 - March 31, 2012

