

Foreclosure and Housing Market Facts and Trends Cleveland and Cuyahoga County¹

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Foreclosure Trends

- Mortgage foreclosures have held steady for the past couple of years, at about 12-13,000 filings per year county-wide. [Earlier data indicating 14-15,000 did not filter out tax foreclosures.]
- Foreclosures are slowing somewhat in the Eastside African American neighborhoods.
- They are increasing in the Westside predominantly white neighborhoods.
- Still, foreclosures over the next 2 years (2009-2010) are projected to remain higher on the Eastside (6,700 loans at-risk²) than the Westside (3,700 loans at-risk).
- Foreclosures are increasing in the suburbs.
- Foreclosures in the suburbs (13,756 loans at risk) are projected to be higher than in the City (10,438 loans at risk) during 2009 and 2010.
- In addition to the “loans at risk”, based on subprime, high cost and ARM data, reports from loan counselors suggest that an increased number of foreclosures are now due to defaults on *mainstream* loans, precipitated by job loss and the economy.

Foreclosure Prevention Efforts

- Cuyahoga County has developed an excellent foreclosure prevention system.
 - A two-year evaluation by Cleveland State University found that for borrowers who take advantage of the counseling, over 50% of them have gotten their foreclosure stopped.
 - On the downside, less than a third of the victims of foreclosure are actually seeking help.
 - Stats from most recent period studied (March 2007 – February 2008)
 - Approximately 12,500 foreclosures filed
 - 3081 borrowers counseled (25% of annual foreclosures filed)
 - 1756 foreclosures stopped (14% of annual foreclosures filed)
 - An updated report from CSU will hopefully be coming soon.
- An “early warning” system developed by Case Western Reserve University in partnership with Neighborhood Progress is enabling a more direct targeting of borrowers at risk, including personalized mailings and door-to-door campaigns.

Post-Foreclosure Vacant Property

- Foreclosure filings per se do not damage markets, but the large-scale emptying out of homes, and the resultant abandonment and blight, has a crippling effect on neighborhood housing markets.
- A clear majority – 71% - of the vacant property inventory in Cleveland is associated with foreclosure (either a foreclosure filing or Sheriff Sale since 2000).

¹ Sources: A mix of personal observations, government agency data, and both published and unpublished research from the NEO CANDO data system, Center On Urban Poverty and Community Development, Case Western Reserve University.

² “At risk” defined as loans having one of the following characteristics: an adjustable rate mortgage, a high-cost mortgage, a mortgage from a subprime lender, or any loan already in active foreclosure.

- A telling statistic documents the trend of plummeting sales of property out of bank's "REO" (Real Estate Owned) inventory.
 - In 2005 only a fraction (less than 10%) of REO property was sold by banks for less than \$10K – this was true in all areas: City, suburbs, Eastside, Westside.
 - By 2008 67% of REO property sold in Cleveland was sold for less than \$10K.
 - In the hard-hit Eastside neighborhoods, the percentage was even higher - 78%.
 - Westside neighborhoods fared better – only 33% sold out of REO for less than \$10K.
- Outermost suburbs were virtually unaffected [so far – but note the potential for increased future foreclosures in the suburbs, above].

Ramped Up Response to Blight

- Cities across the country are ramping up their code enforcement efforts to deal with abandonment.
- Cleveland has dramatically increased its condemnation, prosecution and demolition efforts.
 - Demolitions in the City have gone from 200 in 2005 to 1100 in 2008, and are projected to reach 1700 in 2009.
 - Cleveland is beginning to prosecute banks for code violations.
- Neighborhood Progress sued Wells Fargo and Deutsche Bank and as a result Housing Court Judge Raymond Pianka issued an injunction which restricts Wells sale of its REO inventory.
- The cleanup from demolition is beginning to have an effect – the greening of hard hit neighborhoods like Slavic Village is now allowing remaining stable homes to visibly stand out.

Banks Response To Being Held Accountable

- As REO property continues its 8-year decline, and it theoretically approaches negative value, two lending industry responses have emerged.
 - Bulk sales by banks i.e. "dumping" to flippers, speculators and investors at bargain-basement prices.
 - Bank "walk-aways", i.e. not taking the foreclosure through to Sheriff Sale, so the bank never takes title – and avoids responsibility.
- Although foreclosure filings have remained relatively steady since the 1st quarter of 2008, Sheriff sales are down.
 - Cleveland: While there were 972 Sheriff Sales in the 1st quarter of 2008, there were only 536 Sheriff Sales in the 2nd quarter of 2009 – a 45% drop in frequency.
 - County-wide: While there were 1893 Sheriff Sales in the 1st quarter of 2008, there were only 1319 Sheriff Sales in the 2nd quarter of 2009 – a 30% drop in frequency.
- In addition, the overall REO inventory has declined. Combined with the emerging trend of banks not taking property at Sheriff Sale, banks have successfully unloaded [or avoided altogether] a significant portion of their existing inventory.
 - County-wide, banks now own 7,806 properties compared to 9,898 in March 2008 – down by 21%.
 - In Cleveland, banks now own 3,771 properties compared to 5,304 in March 2008 – down by 29%.
- Meanwhile the volume of vacant property is still high, *it's just shifting to different ownership* – increasingly in the hands of flippers and speculators as banks have been successfully "dumping" their inventory.

- The current count for Cleveland is 11,547 vacant homes, of which only 22% consists of bank-owned REO property.
- The current count for the County is 23,805 vacant homes, of which only 25% consists of bank-owned REO property.
- Hopefully, efforts by the City, combined with private actions by NPI and others, will shut down the pipeline of irresponsible dumping to flippers and speculators.
- A new County Land Bank, modeled after the Genesee County Michigan Land Bank, has just begun operations and will soon present an alternative, responsible, disposition strategy for bank REO property.
- The lending industry has, over the past 8 years, slowly evolved and demonstrated an ability to rethink its business practices.
 - Unrealistic expectations of recouping lost loan value through foreclosure are decreasing.
 - Willingness to modify loans has increased.
- But the fact that foreclosure filings on the front-end are still high suggests that lessons from the back-end problems have still not yet led the industry to embrace a wholesale approach to loan modification.

Recent Hopeful Developments With REO Management and Disposition

- Fannie Mae made an unprecedented commitment to the City of Cleveland.
 - No further bulk sale of REO property unless the City approves the buyer.
 - Agreed to cooperate with the City's Building and Housing Department to permit an interior inspection of all Fannie Mae owned property.
- HUD entered into an unprecedented agreement with the City regarding its REO inventory.
 - Any property valued at \$20,000 or less would be offered for sale to the City for \$100.
 - Any property valued at over \$20,000 would be offered for sale to the City at a 50% discount.
- In partnership with Enterprise Community Partners, LISC and other housing intermediaries, a number of the major loan servicers have created the National Community Stabilization Trust, through which REO properties are offered to community development entities at discounted prices. NPI is presently the "pilot" conduit for Trust property in six target neighborhoods in the City of Cleveland. The program is promising, but too new to have any data that can yet point to success.
- A second REO intermediary, the REO Clearinghouse, Inc., has recently been established to provide similar REO disposition services to municipalities and community development entities. NPI is also working with the Clearinghouse to move properties toward beneficial re-use by CDCs and others. The program is promising, but too new to have any data that can yet point to success.
- The new County Land Bank will soon be in a position to take property through the Trust, and the Clearinghouse, throughout the entire County.

Market Sales Data

- Overall, the volume of property sale transactions has changed little since 2000, but many of those are increasingly sales "tainted" by foreclosure, REO dumping, etc.
- The opportunity for market recovery is best seen when viewed through the lens of non-tainted sale transactions.
 - In 2000 92% of all sales in the County were not tainted by foreclosure.
 - Likewise, in 2000 84% of all sales in Cleveland were not tainted by foreclosure.

- By 2008, only 52% of County sales were not tainted by foreclosure.
- By 2008, only 29% of Cleveland sales were not tainted by foreclosure.
- While this suggests that strong areas have shrunk, it is just as significant to note that strong segments of the market continue to exist, in spite of the horrific onslaught of foreclosure.
- This is further demonstrated by a comparison of sale prices over the past 8 years.
- When looking at all transactions, sale prices have dropped dramatically.
 - County-wide the median home sale price dropped from \$102K in 2000, to \$72K in 2008.
 - In Cleveland the median home sale price dropped from \$65K in 2000, to \$13K in 2008.
- But, when looking only at non-tainted transactions, it is clear that segments of market strength persist.
 - County-wide the median price of non-tainted property **increased** from \$107K in 2000 to \$125K in 2008.
 - In Cleveland the median price of non-tainted property **remained steady** - \$67K in 2000, \$65K in 2008.
- In addition to blight elimination and stabilization activities, the path to neighborhood market recovery will include engaging in housing rehab in those neighborhoods that have significant pockets of “non-tainted” housing stock.

Summary of Remaining Challenges

- Foreclosure filings remain high.
 - Although banks and their loan servicers are doing more loan modifications than they did 4 or 5 years ago, they still have not embraced a *wholesale* approach to modification. Consequently, the majority of foreclosures are not being averted in a manner that avoids abandonment.
 - And, although Cuyahoga County has a foreclosure counseling system with a 52% rate of stopping foreclosure, the majority of foreclosure victims are still not getting into that system.
- Increased bulk REO sales...essentially a dumping of property by banks...is resulting in a dispersal of the vacant property inventory into the hands of flippers and speculators, making it more difficult to find and hold the owner accountable.
- The emerging trend of bank “walk-aways”, i.e. prosecuting the foreclosure action, and emptying out the home, but then not taking title at Sheriff Sale, is resulting in more vacant property ending up in a “twilight zone” with a “toxic title”...the homeowner is gone, but they still have title, and no ability to maintain, repair the property, or abate public nuisance conditions.
- Code enforcement has clearly improved over the past several years, but still needs further improvement to be up to the task of dealing with the volume of abandoned property. In addition, the code enforcement system needs greater transparency...obtaining timely data on the status of inspections, prosecutions, condemnations and demolitions is still a challenge. The City has embarked on two partnerships that represent hopeful signs for improvement: A new partnership between the City and Case Western Reserve University’s NEO CANDO data system will hopefully yield improvements to the accessibility of data by the public over the next six months. And, the City’s “Housing Code Enforcement Partnership” with local community groups will hopefully help the City more efficiently target its resources to problem properties.
- Except for strategically targeted areas, as noted above, the weak housing market presents a serious challenge to both for-profit and non-profit housing redevelopment efforts.