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CENTER ON URBAN POVERTY AND COMMUNITY DEVELOPMENT**

**BEYOND REO:
Property Transfers at Extremely Distressed Prices in Cuyahoga
County, 2005-2008**

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The Center on Urban Poverty and Community Development seeks to address the problems of persistent and concentrated urban poverty and is dedicated to understanding how social and economic changes affect low-income communities and their residents. Based in Cleveland, the Center views the city as both a tool for building communities and producing change locally, and as a representative urban center from which nationally-relevant research and policy implications can be drawn.

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Introduction

Mortgage foreclosures in Cuyahoga County have grown at an astounding rate in recent years and many of these properties are ultimately auctioned at sheriff's sale.¹ When a property is put up for sheriff's sale, it is most often purchased by the bank, mortgage company, mortgage servicer or government-sponsored enterprise (GSE) that was involved in the financing of the mortgage loan. The result is that massive amounts of housing inventory, referred to as REO (real estate owned) property, are in the hands of these financial institutions, which are trying to manage and dispose of these properties.² This REO inventory can pose serious problems for the community if the properties are not maintained or if they are disposed of without regard for how the next sale may impact surrounding property values or productive land reutilization.³

Previous research by the Center on Urban Poverty and Community Development documented that in 2007, Cuyahoga County properties auctioned at sheriff's sale remained in REO about three times longer than before the foreclosure crisis began; and that when they were sold out of REO they lost an astonishing 56 percent of their market value.⁴ This suggests that there is indeed reason to be concerned about the disposal of REO properties and whether a growing number of properties are becoming seriously distressed as a result.

This report continues the investigation of what is happening to properties that have gone through foreclosure, with a focus on the next transaction after the sheriff's auction when properties are being sold out of REO to a wide variety of buyers that include corporations, individuals, nonprofits, and local governments. Using property deed information from the Cuyahoga County Auditor located in NEO CANDO⁵, this report examines the trend of properties

¹ Coulton, C., Chan, T., Schramm, M., & Mikelbank, K. (2008). *Pathways to foreclosure: A longitudinal study of mortgage loans, Cleveland and Cuyahoga County, 2005-2008*. Cleveland, Ohio: Case Western Reserve University, Center on Urban Poverty and Community Development.

Find the report online at http://blog.case.edu/msass/2008/06/23/Pathways_to_foreclosure_6_23.pdf

² Schramm, M., & Coulton, C. (2007). *Houses in transition: A report on properties owned by financial institutions and real estate organizations in Cuyahoga County, 2007*. (Behind the Numbers: Brief No. 6). Cleveland, Ohio: Case Western Reserve University, Center on Urban Poverty and Community Development.

Find the report online at

http://blog.case.edu/msass/2007/09/01/update_behind_the_numbers_brief_no_6_properties_owned_by_financial_institutions.html

³ A limitation of this study is that we have no up-to-date information on the condition of the properties being sold for \$10,000 or less. Local listings of vacant and abandoned properties are incomplete, or capture information at only one point in time.

⁴ Time in REO for sheriff's sales properties from 2000 to 2002 is compared with the projected time in REO for 2007 sheriff's sales properties. In 2000 to 2002, 50 percent of REO properties were sold within four months. Projecting the 2007 results suggests that it will take at least three times as long for the 2007 sheriff's sale properties to resell. See: Coulton, C., Mikelbank, K., & Schramm, M. (2008). *Foreclosure and beyond: A report on ownership and housing values following sheriff's sales, Cleveland and Cuyahoga County, 2000-2007*. Cleveland, Ohio: Case Western Reserve University, Center on Urban Poverty and Community Development.

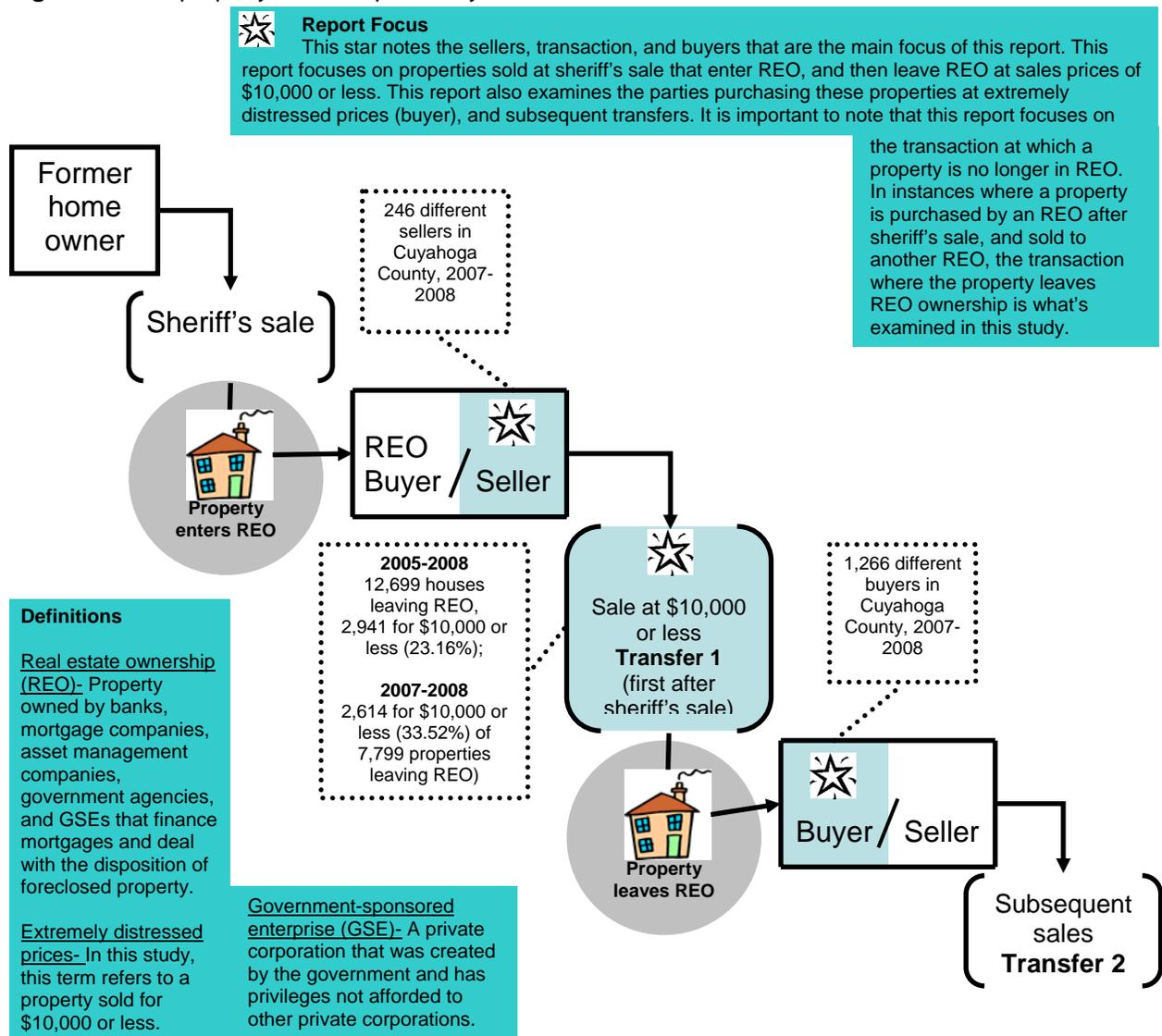
Find the report online at

http://blog.case.edu/msass/2008/01/13/foreclosure_and_beyond_a_report_on_sheriffs_sales_cleveland_and_cuyahoga_county_20002007.html

⁵ Access NEO CANDO online at <http://neocando.case.edu>. Auditor data in NEO CANDO is obtained from the Center on Housing Research and Policy at Cleveland State University.

sold at extremely distressed prices from 2005-2008, the most frequent sellers and buyers of these properties in 2007 and 2008, time between transactions of properties, the price of properties in subsequent transactions, and limited information about the practices of some buyers and sellers of REO properties. We define 'extremely distressed prices' as property sold for \$10,000 or less; this figure is one-ninth of the median value of a single-family property sale in Cuyahoga County in 2007.⁶ Between 2005 and July 2008, there were 2,941 REO properties sold for \$10,000 or less, or 23.16% of all 12,699 REO properties sold. A majority of these property transactions for \$10,000 or less, 2,614, occurred between January of 2007 and July of 2008 (see **Figure 1** for a pictorial depiction of the focus of this report, and key term definitions). It should also be noted that over 60% of these properties are tax delinquent as of October 30, 2008.

Figure 1- REO property ownership and key term definitions



⁶ Median sales price, single-family property, Cuyahoga County, 2007 from NEO CANDO system, Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences, Case Western Reserve University. Find NEO CANDO online at <http://neocando.case.edu>.

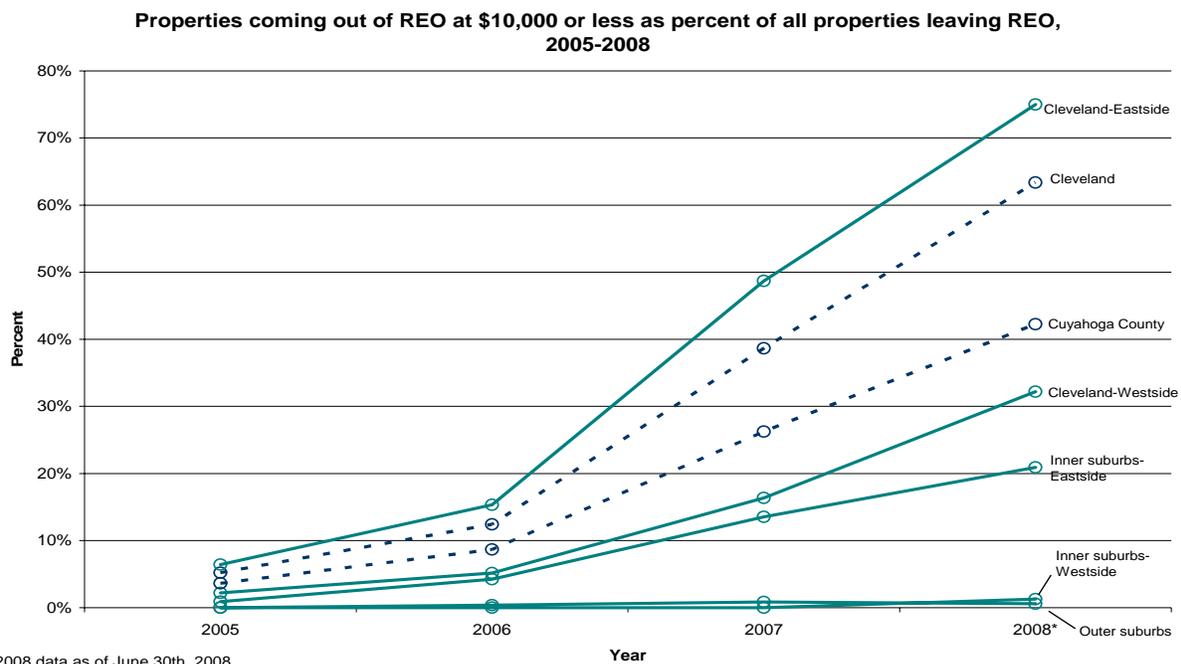
The trend: Increasing properties at decreasing prices

Between 2005 and 2008, REO properties sold at extremely distressed prices made up an increasing percent of all REO properties sold. As shown in **Figure 2**, 3.62 percent of REO properties in Cuyahoga County in 2005 were sold at extremely distressed prices. This proportion grew to 42.26 percent by the end of June 2008; a nearly twelve-fold increase.

The numbers of extremely distressed sales tend to concentrate on the east side of the city of Cleveland. Here, the percent of properties coming out of REO ownership at \$10,000 or less increased dramatically between 2005 and 2008; in 2005, 6.42 percent of east side properties coming out of REO were sold at extremely distressed prices, and in 2008, 75 percent were sold at extremely distressed prices. This percentage represents a staggering 1,122 properties on the east side of the city of Cleveland.

In the city of Cleveland, 63.36 percent of properties are sold at this low price (also shown in **Figure 2**). Focusing on the west side of the city of Cleveland alone shows that it has a much lower rate of properties sold at extremely distressed prices, with 32.20 percent of properties coming out of REO at \$10,000 or less in 2008. Of the areas outlying the city of Cleveland, the east-inner ring suburbs also have a high rate of properties coming out of REO at extremely distressed prices. From 2005 to 2008, this rate has increased from .91 percent to 20.90 percent. Rates of sales of these low price properties have remained somewhat stable in the west-inner ring suburbs and the outer suburbs. Between 2005 and 2008, these areas have seen less than 2 percent of properties coming out of REO selling at extremely distressed prices.

Figure 2- Percentage of all REO properties sold at extremely distressed prices of \$10,000 or less, of all properties leaving REO, Cuyahoga County, 2005-2008.



*2008 data as of June 30th, 2008.
 Source: Cuyahoga County Auditor transfer data from NEO CANDO, Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences, Case Western Reserve University.
<http://neocado.case.edu>

Figure 3 maps the location of properties leaving REO at extremely distressed prices in Cuyahoga County. As previously shown, many of the properties are located on the east side of the city of Cleveland.

Figure 3- Density of properties leaving REO at extremely distressed prices.

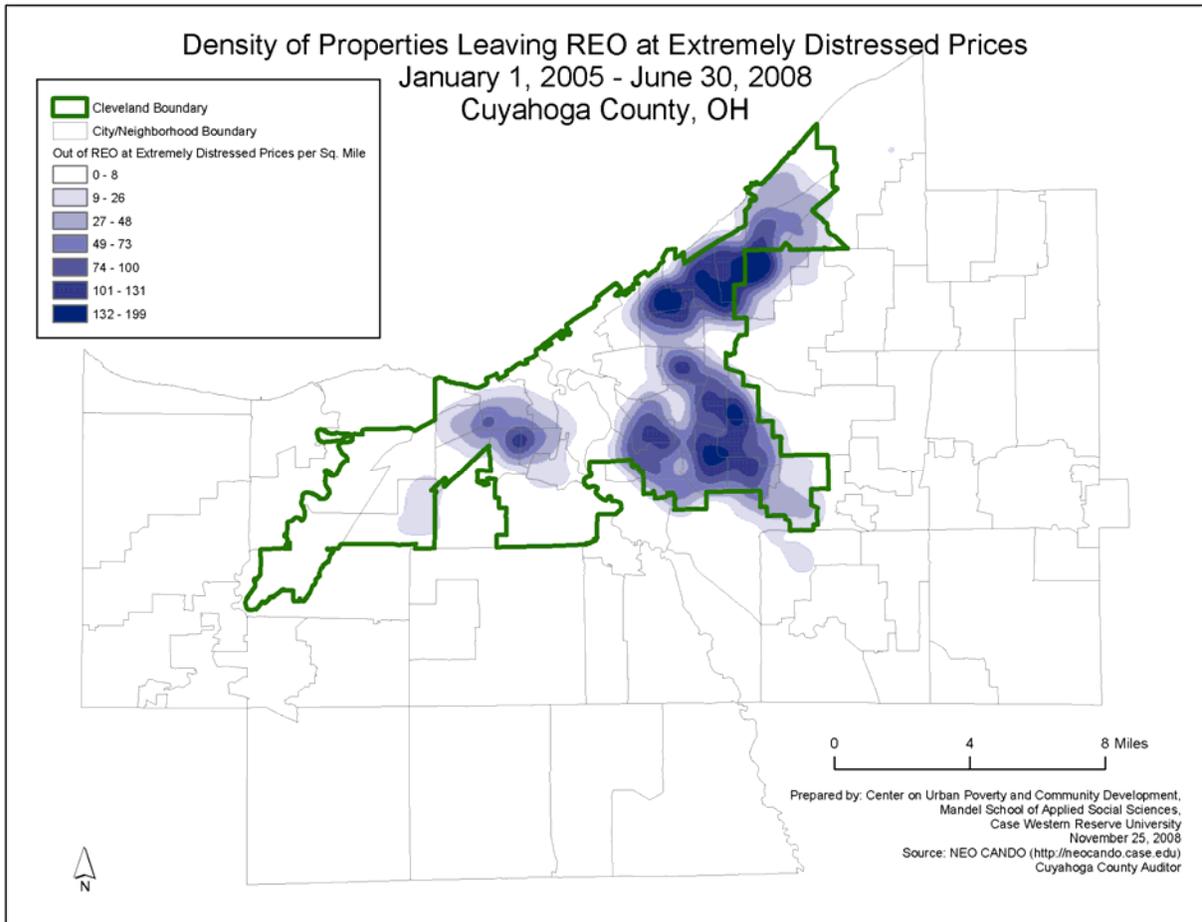
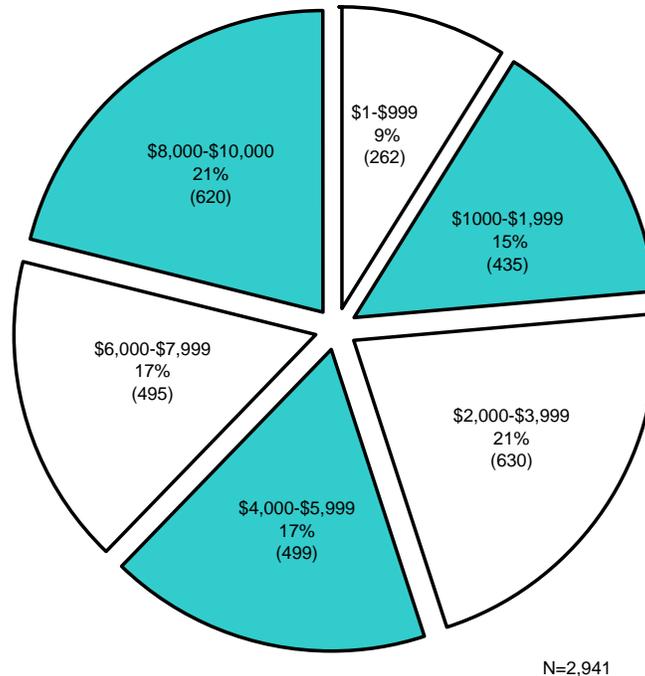


Figure 4 (following) shows the price distribution of properties coming out of REO at extremely distressed prices. Of properties coming out of REO at \$10,000 or less, nearly ten percent are priced at \$1,000 or less. Half of these properties are priced at \$4,500 or less.

Figure 4- Price distribution of REO properties sold for \$10,000 or less.

Price Distribution, Properties Leaving REO at Extremely Distressed Prices, 2005-2008



Source: Cuyahoga County Auditor transfer data from NEO CANDO, Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences, Case Western Reserve University. <http://neocado.case.edu>

The sellers of REO properties at extremely distressed prices

In total there are 246 different owners that sold REO property for \$10,000 or less from January 2007 to July 2008 in of Cuyahoga County. Most of these sellers are financial institutions, though some sellers are GSEs. The top ten sellers of properties coming out of REO at extremely distressed prices in 2007 and 2008 are listed in the **Table 1**. Among properties sold for \$10,000 or less in Cuyahoga County, Deutsche Bank is the top seller, having sold 486 REO properties at extremely distressed prices from January 2007 through July 2008. Wells Fargo follows Deutsche Bank, selling 304 properties for \$10,000 or less in Cuyahoga County.⁷ The top 10 sellers in this list account for 69% of REO properties sold for extremely distressed prices in the study period.

For top sellers, properties sold at extremely distressed prices are making up a large share of these companies’ REO properties sold (See column 5 of **Table 1**). For example, 44.63 percent of all Deutsche Bank’s REO properties sold in 2007 and 2008 were priced at \$10,000 or less. Half of all REO properties sold by LaSalle Bank were transferred at extremely distressed prices, a higher share than all other top sellers.

⁷ It should be noted that sales may have been handled by a servicer who represented these entities, but this analysis focuses on the seller as shown on the deed transfer.

Table 1- Top sellers of REO properties sold for \$10,000 or less.

Top Sellers of REO Properties, Cuyahoga County, 2007-2008				
Seller	Number of REO properties sold, \$10,000 or less	Percent of total REO properties sold	REO properties sold by seller, all prices	Percent of REO properties sold for \$10,000 or less by seller
Deutsche Bank National Trust	486	18.59%	1089	44.63%
Wells Fargo	304	11.63%	771	39.43%
Fannie Mae	239	9.14%	982	24.34%
U.S. Bank National Association	194	7.42%	519	37.38%
LaSalle Bank National Association	162	6.20%	322	50.31%
Bank of New York	112	4.28%	404	27.72%
JP Morgan Chase Bank	103	3.94%	298	34.56%
HSBC Bank	75	2.87%	163	46.01%
Homecoming Financial Network	73	2.79%	173	42.20%
Wachovia Bank	56	2.14%	150	37.33%
Total (top sellers)	1804	69.00%	4871	62.46%
Total REO properties sold	2614		7799	
Source: Cuyahoga County Auditor transfer data from NEO CANDO, Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences, Case Western Reserve University. http://neocando.case.edu				

All of the top sellers listed are privately owned corporations, with the exception of Fannie Mae which is a government- sponsored enterprise (GSE). Though government agencies and GSEs play a role in returning foreclosed properties to the market, many of their transactions could not be included in this study due to missing sales prices in the local records. Thus, it is not known to what degree they sold properties at extremely distressed prices.⁸

Top buyers of REO properties at extremely distressed prices

While there were 246 entities in Cuyahoga County selling REO properties for \$10,000 or less, there were 1,266 different entities (both companies and individuals) purchasing these 2,614 homes for sale. Again, this list focuses on property transactions that occurred between January 2007 and July 2008.

⁸ Properties with a sales price of \$0 in local records are treated as missing data in this study. The problem is that sales price in the Cuyahoga County auditor's property transfer records use a property transaction's conveyance fee to calculate the sales price of a property. If a conveyance fee was not required, a sales price may be listed as \$0, regardless of the actual sale price of a property. Property transfers at a price of \$0 have therefore been eliminated from the study, as their actual sales price cannot be determined. The Ohio Revised Code (§319.54) exempts governmental organizations and nonprofit organizations (among other parties and situations) from paying a conveyance fee on a property transfer. Therefore, the sales prices are most often missing for transfers from HUD (80.43 percent, or 941 properties) and Freddie Mac (61.43 percent, or 215 properties). Also, quite a few transfers from the Veteran's Administration are missing sales prices (60.74 percent, or 99 properties). However, Fannie Mae has few missing values (1.08 percent, or 16 properties).

Table 2, shown below, outlines the top buyers of properties coming out of REO at extremely distressed prices in Cuyahoga County. Percentages are calculated based on the total number of properties leaving REO in Cuyahoga County from 2007 to 2008 (2,614). Destiny Ventures is the top buyer of REO properties at extremely distressed prices, purchasing 145 properties, though their purchases make up only 5.55 percent of the total number of REO properties sold. The second largest purchaser, Stonecrest Investments, purchased 62 REO properties at extremely distressed prices in Cleveland, constituting 2.37 percent of the total.

Table 2- Top buyers of REO properties for \$10,000 or less.

Top Buyers of REO Properties at \$10,000 or Less, Cuyahoga County, 2007-2008		
Buyer	Number of properties	Percent of properties by buyer
Destiny Ventures	145	5.55%
Stonecrest Investments	62	2.37%
Blue Spruce Entities	60	2.30%
REO Nationwide	53	2.03%
Econohomes LLC	32	1.22%
Bryce Peters Financial Corp	31	1.19%
RECA	30	1.15%
Jeffrey Clark	25	0.96%
SL Holdings LLC	22	0.84%
BSB Investments LLC	21	0.80%
Total (top buyers)	481	18.40%
Total REO properties sold	2614	
Source: Cuyahoga County Auditor transfer data from NEO CANDO, Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences, Case Western Reserve University.		
http://neocando.case.edu		

The fact that a relatively small number of major sellers are transferring their REO properties to a long and diverse list of buyers raises the question of what type of relationships connect these parties and facilitate property transactions. From our data, we can see patterns between a few buyers and sellers. A large percentage (40.7 percent) of REO properties bought by Destiny Ventures is sold by Deutsche Bank. REO Nationwide and SL Holdings, LLC buy 49 percent and 95 percent of their properties from Deutsche Bank, though they owned many fewer properties in 2007 and 2008 than did Destiny Ventures. RECA purchased 90 percent of the properties they bought at distressed prices between 2005 and 2008 from Fannie Mae.

Though the data provide some evidence of a network of buyers and sellers, it is limited. When a property is sold, the purchaser of the property customarily files the deed with the Cuyahoga County Recorder. The data only captures buyers and sellers on recorded deeds. It is likely that a broker-type relationship exists to facilitate this network of buyers and sellers, though this type of relationship would not be captured in property deed records. In addition, some agreements like 'rent-to-own' agreements between buyers and sellers may not be captured in public records, and

if there are delays in the recording of deeds, the true length of time between property transactions may not be reflected.

REO Properties: After selling at extremely distressed prices

Between 2005 and 2008, there were 2,941 properties coming out of REO sold for \$10,000 or less. Of these properties, 625, or 21.25 percent, were sold yet again between 2005 and 2008; making for the properties' second transfer (after the sheriff's sale). A smaller number of these properties, 51, were sold again during this period, representing a third transfer after sheriff's sale, and one was sold a fourth time. Since our data examines properties from 2005 to July 2008, the amount of time each property is examined varies based on its date of sale, with properties sold in 2005 being observed for longer time than properties sold at a later date. Because of this, our figures underestimate the percent of properties that will ultimately be resold, and this figure would change with further observation. Also, our data are only complete to the extent that public records are complete; property sales where the buyer fails to file the property deed would not be captured in public record, or in our analysis.

Table 3 examines the amount of time elapsed between property deeds being recorded (property transfers) for properties coming out of REO for \$10,000 or less. Examining the time between property transfers helps us determine something about the purchaser's interest in or use of the home. Column 2 shows the first transfer out of REO and column 3 the next transfer after that.

Table 3- Time between REO property transfers, of properties sold for \$10,000 or less

Timing of Property Transfers Among Properties Leaving REO at \$10,000 or Less, 2005-2008					
Time elapsed since previous sale	Number of properties leaving REO (Transfer 1)	%	Number of properties resold (Transfer 2)	%	
0 to 90 days	375	12.75%	277	44.32%	
91 to 180 days	634	21.56%	149	23.84%	
181 to 1 year	1365	46.41%	142	22.72%	
1 year or more	567	19.28%	57	9.12%	
Total	2941		625*		
*2,316 properties leaving REO at \$10,000 or less were either not transferred a second time during the study period, or a property transfer deed was not filed.					
Source: Cuyahoga County Auditor transfer data from NEO CANDO, Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences, Case Western Reserve University.					
http://neocando.case.edu					

As **Table 3** shows, over half the properties that are sold at extremely distressed prices have been in REO for more than 180 days.⁹ However, the second sales that occurred happened relatively

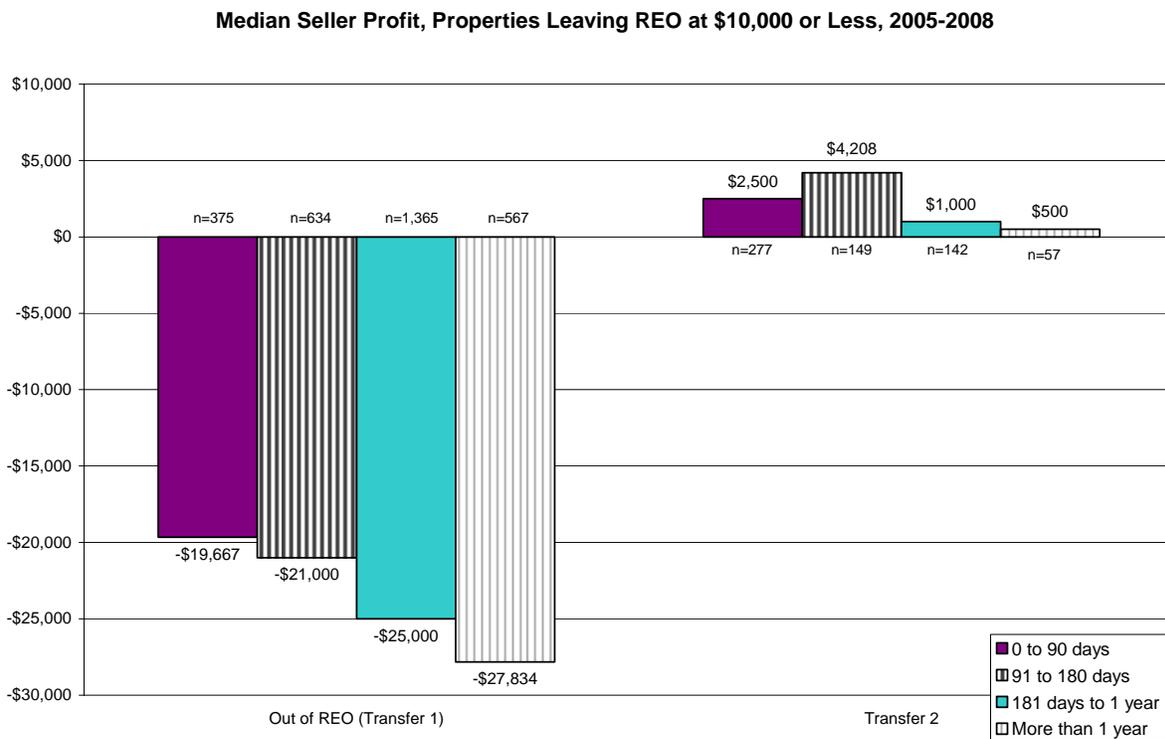
⁹ In the first case, where time between sheriff's sales and the first subsequent sale of a property is examined (the property's time spent in REO), time may be overestimated because some properties may have been transferred from

quickly. After leaving REO, 44.32 percent of properties were sold again within 90 days. Again, these figures could change with further observation over time.

REO Properties: Profits of buyers and sellers

Figure 5 below depicts the median profit or loss of companies selling property after sheriff's sale for \$10,000 or less. Profit or loss is determined by comparing the sales price at the transfer with the previous transfer. Thus, the first transfer out of REO compares that price with the sheriff's sale price.¹⁰ These profits are further divided by the amount of time between the properties purchase and its next sale. Only properties coming out of REO at extremely distressed prices are included.

Figure 5- Median profit (loss) of sellers of REO properties at \$10,000 or less



Source: Cuyahoga County Auditor transfer data from NEO CANDO, Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences, Case Western Reserve University. <http://neocado.case.edu>

As can be seen in **Figure 5** above, properties coming out of REO that are sold for \$10,000 or less represent a substantial loss for the seller (financial institution, mortgage company, or GSE). Properties sold more than one year after they were purchased at sheriff's sale (entered REO)

one REO to another in the interim. REO to REO transactions were consolidated to one transfer; the transfer focused on in this study represents the point at which a property leaves REO.

¹⁰ It is important to note that a property's price at sheriff's sale is required to be at least two-thirds of its appraised value, as determined by appraisers contracted through the sheriff's department. However, a sheriff's sale price most often reflects the remaining lien on the property and not its market value.

show the largest median loss. Properties sold up to 90 days after being purchased at sheriff's sale represent the smallest loss for the purchaser.

In contrast, when the property is sold again, it most often sells at a small profit. Properties sold within 90 days (or three months) after being bought out of REO make a median profit of \$2,500 for their sellers. Properties sold between three and six months after they were purchased out of REO represent the most profitable properties, with a median \$4,208 profit. Whether or not buyers have had any time to improve these properties is not known. Nevertheless, many of these second transactions on properties that were sold out of REO seem to yield only very small gains per transaction.

Some property sales may not be captured in our data. Properties can be sold without the transaction being publicly recorded, though failing to record the deed is risky for a buyer and could result in loss of title if the property is sold again to another buyer who does file their deed. On the other hand, REO buyers may choose to accept that risk and not file their deed in order to shield their ownership and legal responsibility for the property. In addition, properties leaving REO at extremely distressed prices may be sold through land contract, and, although Ohio Law requires land contracts to be recorded, in some cases they are not.¹¹ In any case, only property transactions that have been recorded are reflected in this report.

Market Processes: What we know

In dealing with the ramifications of properties being sold at such low prices, Cleveland's community development corporations (CDCs) and Cleveland City Council have worked with some entities in this network of buyers and sellers to learn about the practices of buying and selling of REO properties. One such buyer is outlined (see *The Econohomes Model on p. 11*). Econohomes is one of the top buyers of REO properties listed in this study; during the study period, all of the homes Econohomes purchased were priced at \$5,500 or less.

Through these sources, it is inferred that some sellers of REO properties create large 'packages' of properties that span multiple states, but are usually within one larger geographic region. Sellers may offer a package as a whole to the top buyers and other companies; and they can choose to buy the entire package of properties, or none at all.

Some purchasers seek to find owner-occupants for homes. Other purchasers intend to resell the properties relatively quickly, and may package properties regionally to resell them as the REO owners did. It is possible that the small profits illustrated in **Figure 5** are a function of regional property packaging and sale in bulk at a standard price point. For example, between 2005 and 2008 Destiny Ventures sold 121 properties that they had acquired out of REO for \$10,000 or less. Over one-third (43) of these properties were sold at \$500 profit. All of the top buyers (who later sell these properties, as represented in Transfer 2 of **Figure 5**) are located out of state, and these small median profits may only be a small picture of a larger, national-scale profit.

¹¹ Information from Kermit J. Lind, Clinical Professor of Law, Cleveland-Marshall College of Law, Cleveland State University, and Frank Ford, Esq., Senior Vice President for Research and Development, Neighborhood Progress, Inc, Cleveland, OH.

The Econohomes Model

Econohomes is a for-profit company located in Austin, Texas. Econohomes purchases REO properties in cities across the United States at very low prices, focusing on selling them to low-income people, and has sold over 700 houses since beginning operation in 2006.

Once a property is purchased by Econohomes, a representative investigates the average home value of the other properties in the neighborhood, and estimates the cost of improvements required to bring the property up to the average value of other properties in the neighborhood. The average home value, minus the ball park estimate of improvements becomes the price of the home. The company also ensures that the price of monthly home payment and property taxes do not add up to more than the average price of rents in the neighborhood. Once the property is priced, it is marketed, giving interested buyers a phone number to call for more information.

Buyers go through a pre-qualification screening with an Econohomes representative, a written credit application, and a final screening by phone. The representative assesses the potential buyer's credit history (to determine whether past issues are situational or long-term credit-abusive behaviors), the buyer's income (looking for income that is three times a prospective monthly payment, taxes, and insurance on the property), and the buyer's collateral. The representative also discusses the buyer's ability to make repairs on the home, since substantial repairs are usually necessary to make the home insurable, like replacing siding, piping, furnaces, and fixing walls.

If the buyer is approved, Econohomes sells the home via a Land Contract and Promissory Note transaction, where the home will be owned by the purchaser after 13 to 14 years of payments. Once the Land-Contract agreement is signed, the buyer has 60 to 90 days to make the property habitable and insurable. Econohomes acts as the loan servicer, and works with buyers to make timely payments. When possible, Econohomes sells the Land Contract and Promissory Note to an investor.

More information about Econohomes can be found online at <http://www.econohomes.net/>

The resulting multiple transfers can delay the occupancy of the property further. Multiple quick property sales can create problems for sellers as well. If the property deed is not filed, or if it takes some time to be recorded, the former owner is seen as the owner of record, and is the party that would receive complaints and other penalties for housing code violations. This has affected sellers in the past who have sold properties but remained the owner of record, and were sought after in court for property code violations.

Conclusions

Summary of findings

This study examined Cuyahoga County properties that left REO at extremely distressed prices of \$10,000 or less, the sellers and buyers of these properties, subsequent transfers, and profits and losses of sellers. Such distressed sales were rare prior to 2006, but by 2008 more than 42% of REO sales were for prices of \$ 10,000 or less, with 2,614 properties transferred at these low prices between 2007 and July 2008 alone. Although numerous financial institutions are

involved in these distressed sales (246), a small number of sellers account for the majority of the properties going for \$10,000 or less. Moreover, most of the transactions are handled by mortgage servicers whose identity does not appear in the public records of the sales transfer. The buyers of these properties are numerous (1,266), with only a handful buying more than 100 properties that are located in Cleveland. The fact that the majority of these properties become tax delinquent and that many are resold quickly with only a small price increase suggests that most of the buyers are not improving the properties or finding owner occupants or responsible investors who will bring the property back to viability in the short run. Once large numbers of properties enter this type of cycle, they present formidable problems for local government and community organizations attempting to stabilize neighborhoods.

Challenges: REO on the market and in neighborhoods

The patterns of buying and selling distressed property outlined in this paper create a wide array of challenges for those working to minimize the effects of foreclosure on their neighborhoods. First, the very low prices of these properties suggest that they have often been sitting vacant for a long period of time while they go through foreclosure, and are subject to vandalism and theft. CDCs, the municipal building and housing departments, as well as the investors that eventually look to find occupants for the homes, report them being stripped of anything of value; siding, wiring, pipes, appliances, and furnaces are often stolen while the home sits vacant. This complicated chain of buyers and sellers delays the return of the property to productive use as either an owner-occupied home or rental property, and facilitates the home's devaluation.

Second, it is difficult for local parties to communicate with owners of these properties, most of whom are out of town. As this report shows, there exists a large network of buyers and sellers, and these properties change hands multiple times in a short amount of time, making it difficult to communicate with the property owners. This presents a problem for those organizations working to bring properties up to neighborhood standards, or simply working to answer residents' questions about who owns the house next door.

In addition, the bundling of properties from different states in a bulk sale makes it difficult for organizations, like CDCs and local governments working in the interest of their specific locality to purchase and work with their own problem properties. Local organizations have not been able to connect with top REO sellers to acquire these properties, local organizations can not feasibly attain properties packaged for sale regionally, and what facilitates the transactions between top sellers and top buyers is not captured in public record.

Recommendations for dealing with REO properties

To mitigate harm done to communities by distressed REO properties cycling through buyers and sellers, REO owners should follow two general guidelines. First, REO owners need to be sure that property transfers are recorded in a timely fashion and according to law. This insures that the buyer on record is the most current owner and simplifies efforts to contact the owner of

the property if problems occur, and holds the owner responsible for any problems with the property.¹²

Second, REO owners need to communicate with local entities that focus on neighborhood stabilization. REO owners, local governments, and local community development organizations need to discuss ways to facilitate local channels for bringing these properties back to sustainable productive use (either through rehabilitation and occupancy or demolition) rather than allowing properties to fall into the cycle of distress identified in this study. There are many possible avenues for this type of cooperation. Cuyahoga County treasurer Jim Rokakis has proposed creating a county land bank to obtain and make use of tax foreclosed properties (see a description of the proposed land bank on p.14).¹³ Though not its main purpose, the land bank would serve as an entity to which financial institutions could donate unwanted REO property, and a resource for connecting properties with CDCs and other local housing programs, such as lease-purchase programs run by community agencies (see a description of the Cleveland Housing Networks program on p. 15).¹⁴ The National Community Stabilization Trust (NCST), a national nonprofit, was formed in 2008 to connect REOs with local governments and nonprofits, as well as make financing available to these agencies and their housing programs. NCST was formally recognized as a nonprofit organization in early October 2008, and is currently running tests of their program model in cities across the nation.¹⁵ The U.S. Department of Housing and Urban Development's (HUD) "Dollar Home" initiative has in the past offered foreclosed HUD-owned homes to local governments after having been on the market for six months.¹⁶

Finally, a recommendation stems from a data limitation of this report, which was the lack of information on the condition of the properties that were sold at distressed prices. It is important for municipalities to keep up-to-date information about vacant, blighted, or abandoned properties. Information about the condition of these properties would be helpful in estimating how many are worth investment, and what properties need to be demolished. When linked with local records about the property ownership and whether it is in REO, such information could be used by local organizations to target their negotiations with lenders and services. Efforts to protect properties and to see that they are maintained would also be facilitated by such information.

Many properties that have gone through foreclosure and sheriff's sale need to be returned to the market and productive use or to be converted to other land uses. If these properties are transferred to a multitude of buyers, mainly out of state, it is difficult for communities to

¹² Ford, F. (2008). *REO property: The second wave of the tsunami*. Information presented at "Stabilizing Communities, Addressing the Negative Impact of Foreclosure" conference in Los Angeles, CA. Presented July 16, 2008.

¹³ Hexter, K.W., Greenwald, C., Petrus, M.H. (2008). Sustainable reuse strategies for vacant and abandoned properties. Northeast Ohio Research Consortium.

¹⁴ For more information about the proposed land bank, contact the office of the Cuyahoga County Treasurer, Jim Rokakis, see also HB 602 or SB 353.

¹⁵ For more information about the National Community Stabilization Trust, see <http://www.stablecommunities.org/taxonomy/term/339/all>.

¹⁶ For more information about HUD's Dollar Home Initiative, see <http://www.hud.gov/offices/hsg/sfh/reo/goodn/dhmadabout.cfm>.

implement plans to address the consequences of the foreclosure crisis. This report outlines some of the patterns of buyers, sellers, prices of properties returning to the market, and illustrates the need for a further examination of the market forces pushing these properties, and their effects on neighborhoods.

Cuyahoga County Land Bank

The goal of the proposed Cuyahoga County Land Bank is to facilitate the reutilization of vacant and abandoned properties by obtaining ownership and assisting governmental organizations and other entities in rehabilitating or demolishing property. The land bank will be able to acquire tax foreclosed properties. The land bank will also be able to accept property from private individuals and corporations, including bulk transfers of distressed bank-owned vacant properties, thereby preventing those properties from becoming the targets of irresponsible flipping and property speculation.

The land bank will be funded in a way that generates unrestricted income to rehabilitate or demolish properties. It is estimated that surplus income from delinquent tax penalties could generate approximately \$7 million annually. The operating income of the land bank will also be supplemented by the sale of marketable properties acquired through the tax foreclosure or REO donation process.

Cleveland Housing Network and Community Development Corporations The Lease Purchase Model

Cleveland Housing Network (CHN) is a nonprofit, tax-exempt 501(c)3 organization located in the city of Cleveland, Ohio. The organization works in collaboration with 22 community development corporations (CDCs) in the city of Cleveland; CHN and CDCs across Cleveland operate a lease-purchase program, along with other programs, to facilitate home-ownership for low-income individuals in Cleveland. Since 1981, CHN has built or rehabilitated 2,400 homes through its lease purchase program. Since 2003, 90% of families (132 out of 147 eligible after 15 year rental period) have taken over the title of their formerly-leased homes.

The lease-purchase program helps neighborhoods strategically plan and implement sustainable housing development and low-income home ownership. CHN, in collaboration with CDCs, identifies vacant areas in neighborhoods as well as key homes that are badly in need of repair, and targets these areas for development and rehabilitation. Homes chosen for rehabilitation for the lease purchase program will require no additional work by the lessee, other than regular maintenance. Beginning in 1994, CHN added additional resources to facilitate a more comprehensive, sustainable rehabilitation of homes that includes vinyl siding and replacement windows on every lease purchase house developed, as well as over 90 furnaces.

Families accepted into the lease purchase program receive home maintenance and care training. Often, the neighborhood's CDC provides property maintenance for the lease purchase properties while they are in their 15-year rental periods. After 15 years, the home is eligible to be put up for sale, and the renting family has the option to purchase the home. Sales prices for lease purchase homes have ranged from \$6,500 to \$22,000, and home appraisals have ranged from \$35,000 to \$85,000.

More information about CHN can be found online at <http://www.chnnet.com/>.

Appendix: Percent of properties leaving REO at \$10,000 or less, 2005-2008				
Cleveland neighborhood	Percent of REO properties sold for \$10,000 or less	Number of REO properties sold for \$10,000 or less	Total number of REO properties sold	
Brooklyn Centre	13.18%	17	129	
Buckeye-Shaker	36.55%	91	249	
Central	44.44%	12	27	
Clark-Fulton	33.50%	68	203	
Corlett	30.90%	127	411	
Cudell	17.84%	33	185	
Detroit-Shoreway	36.76%	75	204	
Downtown	--	--	--	
Edgewater	7.84%	4	51	
Euclid-Green	27.59%	40	145	
Fairfax	67.70%	109	161	
Forest Hills	40.86%	161	394	
Glenville	44.27%	255	576	
Goodrich-Kirtland Park	60.00%	9	15	
Hough	58.76%	114	194	
Industrial Valley	66.67%	4	6	
Jefferson	0.40%	1	248	
Kamms Corners	--	--	64	
Kinsman	70.77%	46	65	
Lee-Miles	16.20%	63	389	
Mt. Pleasant	35.14%	182	518	
North Broadway	58.87%	146	248	
North Collinwood	21.66%	60	277	
Ohio City	30.77%	16	52	
Old Brooklyn	0.70%	2	286	
Puritas-Longmead	11.66%	33	283	
Riverside	--	--	33	
South Broadway	41.54%	194	467	
South Collinwood	34.10%	134	393	
St. Clair-Superior	65.91%	145	220	
Stockyards	32.07%	59	184	
Tremont	16.67%	10	60	
Union-Miles	46.77%	210	449	
University	37.50%	12	32	
West Boulevard	10.24%	26	254	
Woodland Hills	53.85%	119	221	

Source: Cuyahoga County Auditor transfer data from NEOCANDO, Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences, Case Western Reserve University.
<http://neocando.case.edu>

Appendix: Percent of properties leaving REO at \$10,000 or less, 2005-2008			
Cuyahoga County municipality	Percent of REO properties sold for \$10,000 or less	Number of REO properties sold for \$10,000 or less	Total number of REO properties sold
Bay Village	--	--	51
Beachwood	--	--	12
Bedford	1.61%	2	124
Bedford Hts.	--	--	99
Bentleyville	--	--	--
Berea	1.18%	1	85
Bratenahl	28.57%	2	7
Brecksville	--	--	28
Broadview Hts.	--	--	23
Brooklyn	--	--	28
Brooklyn Hts.	--	--	1
Brook Park	1.35%	1	74
Chagrin Fall Twp.	--	--	--
Chagrin Falls Village	--	--	6
Cleveland Hts.	2.82%	15	532
Cuyahoga Hts.	--	--	--
East Cleveland	45.44%	244	537
Euclid	5.22%	25	479
Fairview Park	--	--	49
Garfield Hts.	7.23%	25	346
Gates Mills	--	--	8
Glenwillow	--	--	7
Highland Hills	14.29%	1	7
Highland Hts.	--	--	7
Independence	--	--	8
Lakewood	--	--	258
Linndale	100.00%	2	2
Lyndhurst	--	--	43
Maple Hts.	4.97%	23	463
Mayfield Hts.	2.22%	1	45
Mayfield Village	--	--	7
Middleburg Hts.	--	--	25
Moreland Hills	--	--	7
Newburgh Hts.	3.45%	1	29
North Olmsted	--	--	91
North Randall	--	--	6
North Royalton	1.43%	1	70
Oakwood	--	--	31
Olmsted Falls	--	--	50
Olmsted Twp.	--	--	31

Continued on next page

Appendix: Continued			
Cuyahoga County municipality	Percent of REO properties sold for \$10,000 or less	Number of REO properties sold for \$10,000 or less	Total number of REO properties sold
Orange	--	--	11
Parma	--	--	322
Parma Hts.	--	--	61
Pepper Pike	--	--	17
Richmond Hts.	--	--	41
Rocky River	--	--	36
Seven Hills	--	--	15
Shaker Hts.	2.58%	5	194
Solon	--	--	41
South Euclid	0.46%	1	218
Strongsville	--	--	54
University Hts.	1.30%	1	77
Valley View	--	--	6
Walton Hills	--	--	5
Warrensville Hts.	6.63%	13	196
Westlake	--	--	32
Woodmere	--	--	4
Cleveland- eastside	28.58%	2233	5457
Cleveland- westside	9.61%	344	2236
City of Cleveland	33.50%	2577	7693
Inner-ring suburbs	9.47%	357	3771
Outer-ring suburbs	0.57%	7	1235
Suburbs	7.27%	364	5006
Cuyahoga County	23.16%	2941	12699
Source: Cuyahoga County Auditor transfer data from NEOCANDO, Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences, Case Western Reserve University.			
http://neocando.case.edu			

Data notes

This analysis examines properties that were sold at sheriff's sale, entered REO, and sold out of REO. The data does not include the small number of properties that were sold at sheriff's sale to private individuals. In the cases where properties entered REO and were transferred among financial institutions, the last financial institution owning the property before it is transferred out of REO is considered the owner of record and the seller at the transaction out of REO. The data does not include properties where the sales price of record was listed as zero dollars (see footnote five). In these cases, sale prices listed in public record may be incorrect, because they are calculated based on conveyance fees. In cases where a property was sold by a private individual or investment organization to a financial institution, this transaction was considered a 'defacto' sheriff's sale. The data set used for this analysis relies on public records and systems that make these records publicly available. Data for 2008 is as of June 30, 2008.