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# Wholesale funding and the increase in construction bank-owned real estate in the US financial crisis


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The housing crisis left some metropolitan areas littered with partially constructed subdivisions and developments. Most of these failed developments were built by small construction firms reliant on small banks for finance. Failed construction projects became bank-owned real estate (REO), prolonging the crisis and contributing to an uneven process of urban redevelopment. This paper describes the market for REO in urban areas. Who owns REO? How is it sold? What are the economic determinants of REO? This panel report discusses the REO market in urban areas. The housing crisis left some metropolitan areas littered with partially constructed subdivisions and developments. Most of these failed developments were built by small construction firms reliant on small banks for finance. Failed construction projects became bank-owned real estate (REO), prolonging the crisis and contributing to an uneven process of urban redevelopment. This paper describes the market for REO in urban areas. Who owns REO? How is it sold? What are the economic determinants of REO? This panel report discusses the REO market in urban areas.



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## Disclosure statement

No potential conflict of interest was reported by the author.

## Notes

1. President Obama has recently increased FDIC coverage to deposits of up to \$250,000, but for the time frame of this study, the limit has been \$100,000.
2. Conversations with bankers and sensitivity tests with the data suggest that this effect is probably around, but not specifically 6 years. I tested the lag using a fixed effect model and found similar results in the 5–8 year period. I chose 6 years to maximize the number of observations.
3. I calculate the 2006 FDIC coverage limit as a percentage of the median household income in 2006.



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