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The accumulation of lender-owned homes during the US mortgage crisis: examining metropolitan REO inventories

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Pages 619-645 | Published online: 04 Oct 2010

Cite this article <https://doi.org/10.1080/10511482.2010.505872>

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Abstract

A key component of the mortgage crisis has been the accumulation of lender-owned (REO) properties. This paper examines metropolitan REO inventories and changes in REO levels to identify large metropolitan areas where the metropolitan processes to identify

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Keywords:

foreclosure

mortgage

vacant/abandoned property

housing

Acknowledgments

I would like to thank the editor and anonymous reviewers for helpful comments on an earlier draft of this paper. I also want to thank the Community Affairs unit of the Federal Reserve Bank of Atlanta for supporting this work through its visiting scholars program. All opinions and any errors in this work remain solely my responsibility.

Notes

¹For examples of local government and nonprofit responses to vacant, foreclosed properties see www.stablecommunities.com or http://www.foreclosure-response.org/browse_map.html.

²Cutts and Merrill (2008) found that the proportion of properties in post-sale redemption period – the latter

³While local governments may still abandon

⁴See

⁵In multi-unit housing units located in state A and 30 percent of the state A



⁶If the entrance of well-seasoned loans is not controlled for, increased REO activity may merely reflect the expansion of the sample over time. At the same time, many loans were originated after August 2006. Therefore, merely restricting the REOs to those for loans originated by August 2006 would provide an overly conservative measure of REO activity and growth, especially given the poor loan performance of the many loans that originated after August 2006.

⁷Groups 1 and 2 combined accounted for 86 percent of all reported REO in the LPS data set as of August 2008 and for 64 percent of the increase in reported REO over the August 2006 to August 2008 period.

⁸In recent years many distressed borrowers had loans with interest rates well above the low prevailing market rates. When this happens, the effective, “mark-to-market” value of the loan increases. As a result, some borrowers faced both increases in the effective market values of their loans as well as declining market values of their homes, leading to rapidly escalating “mark-to-market” loan-to-value ratios.

⁹By “formerly hot” housing markets, I mean MSAs where prices increased steeply – with appreciation rates typically reaching well over 10 percent annually – over the 2002 to 2006 period, during the biggest national run up in housing values. “Weak market” MSAs are those where population growth was very low over this period and “relatively stable” markets are those where annual appreciation rates were generally under 10 percent annually.

¹⁰REO in the sample was chosen as the independent variable because it was chosen as the most relevant measure of REO activity as the independent variable is expected to be a function of REO.

¹¹The dependent variable is the number of REOs in the sample, adjusted for the level of REO activity in the sample.

¹²In Warrenton, the dependent variable is the number of REOs in the sample, adjusted for the level of REO activity in the sample.



the two clustering variables. The procedure begins with each observation constituting its own cluster. At this initial step, the sum of squared distances of all observations from their respective cluster centroids is zero, since each observation is its own respective centroid. At each successive step in the procedure, two clusters are merged so that they result in the minimum increase in the sum of squared distances of all observations from their respective centroids. The two variables used here were standardized to deal with problems of differences in scale and variance.

¹³Both Minnesota and Michigan, the two large states with the very long post-sale redemption periods, have relatively short pre-foreclosure periods, at an estimated 53 and 38 days, respectively.

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