REO and Beyond:
The Aftermath of the Foreclosure Crisis in Cuyahoga County, Ohio

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The foreclosure crisis was apparent earlier in the Cleveland area than in many other parts of the country. Signs began appearing in the late 1990s as foreclosure filings rose steeply, more than quadrupling between 1995 and 2007 and peaking above 14,000 in 2007, higher than any county in Ohio.[1] Since 2006 alone, one in five homes has been foreclosed on in the hardest-hit areas, including neighborhoods on the northeast and southeast sides of the City of Cleveland and in East Cleveland, a municipality bordering it. The growth of subprime lending played a major role in the crisis: Studies by local researchers show that subprime home-purchase loans *had an 816 percent higher chance of going into foreclosure* than other loans.[2] Subprime lending and foreclosure did not fall evenly on everyone. In fact, African-Americans held subprime loans two to four times more often than their white counterparts of similar income, leading to high rates of foreclosure and a disproportionate impact on neighborhoods with high proportions of African-American residents.[3]

This article focuses on properties in Cuyahoga County, Ohio, home to the City of Cleveland, and uses administrative data from county agencies to examine property transfers and property value after foreclosure. Though our focus is on Cuyahoga County municipalities and Cleveland neighborhoods, some foreclosure-related processes and phenomena are also applicable to the greater Northeast Ohio region and other weak-market cities across the United States. In addition, we provide examples of the ways that communities have partnered with local researchers, using data to strategize and focus efforts on REO property remediation.

Examining the growth and waning of REO property inventories can help communities understand the forces behind the movement of REO properties from sheriff's sale out of REO; it can also help communities strategize relationships with the most significant REO owners.

In our examination of REO properties and in partnership with community development organizations, we use data in three ways:

- **To test and create proxies where data are scarce or unavailable.** Data about the current condition of a property are unavailable and would be labor-intensive to create, but U.S. Postal Service vacancy data and tax delinquency data from the County Treasurer can serve as indicators of the level of productive ownership of a property after foreclosure.
- **To present a picture of the current landscape of foreclosure and REO properties.** This picture helps community organizations strategize rehabilitation efforts and scarce resources around existing neighborhood assets. Timely data on the status of properties help communities resolve housing issues early on.
- **To encourage data-driven decision making.** Together, these data allow us to examine the foreclosure and market processes involved with REO properties and to inform policies around foreclosures and other property issues.

The Growth of REO Properties

If a foreclosure does not get resolved by other means, most properties eventually end up at a foreclosure sale (called a "sheriff's sale" in Ohio). Prior to the current crisis, foreclosed properties in Cuyahoga County often went to private

Properties leaving REO in 2009 on Cleveland's east side were selling for a mere 13 percent of their estimated previous market value.

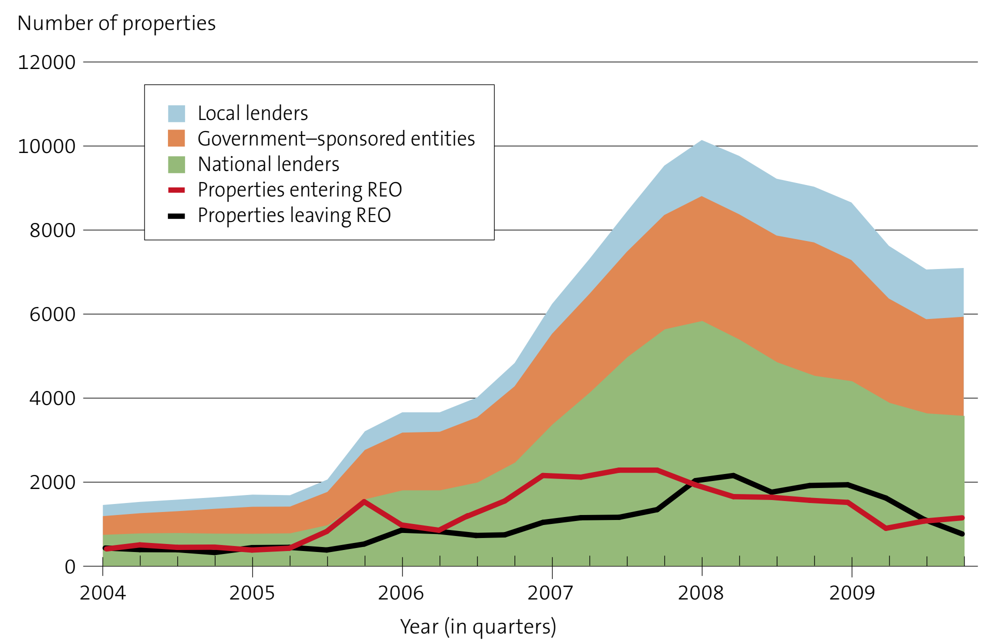
buyers (individual homeowners and investors) at foreclosure sales. In 2000, private buyers made up 35 percent of the market at these sales. Since 2007, almost all properties coming out of foreclosure sales enter real-estate-owned, or REO, status. REOs are thus properties owned by banks and lenders as a result of foreclosures that ended in unsuccessful attempts to sell them.

REO properties can be problematic because they are often vacant and susceptible to vandalism and devaluation. It can be difficult for neighbors and others to determine who is responsible for care and maintenance of the property, since REO owners frequently hire servicers to care for properties. Additionally, municipalities have a hard time discerning who should be held accountable when the property is in violation of housing codes.

Cuyahoga County's inventory of REO properties has grown rapidly (see figure 1). From 2004 to 2008, REOs increased from 1,449 to 10,133, a jump of nearly 600 percent. Figure 1 shows that this accumulation occurred initially because of the rapid growth in properties entering REO and the concomitant slowing of the rate at which properties were sold out of REO. In fact, the median time that foreclosed properties spent in REO doubled from 2000 to 2007.[4] Since its peak in 2008, the county's REO inventory has declined gradually, probably because of a slowing of the number coming in from foreclosure sales and an increase in the number of properties leaving REO. Possible reasons for these changes in the flow of properties into and out of REO are discussed later in this article.

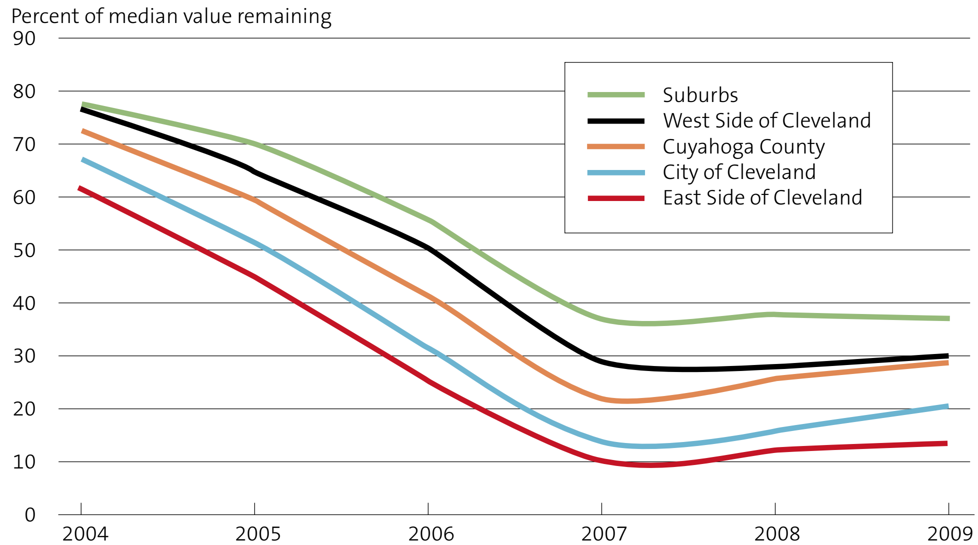
Figure 1 also shows the mix of REO inventory holders. National lenders account for the largest proportion of REO inventory throughout the study period; their inventories rose more sharply in 2006 and 2007 and dropped more quickly in 2008 and 2009 than GSEs' or local banks' inventories. National lenders, local lenders, and GSEs all experienced a sharp decline in properties entering

Figure 1
Properties Entering and Leaving REO
Cuyahoga County



Prepared by: Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences, Case Western Reserve University.
Source: NEO CANDO (http://neocando.case.edu), Tabulation of Cuyahoga County Auditor data.

Figure 2
Median Percent of Property Value Remaining after Sheriff's Sale



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Source: NEO CANDO (http://neocando.case.edu), Tabulation of Cuyahoga County Auditor data.

REO from the fourth quarter of 2008 until the second quarter of 2009. GSEs rebounded sharply in the third and fourth quarters of 2009, while national and local lenders' properties entering REO leveled off. All three types of lenders have seen a decrease in properties leaving REO since the fourth quarter of 2008.

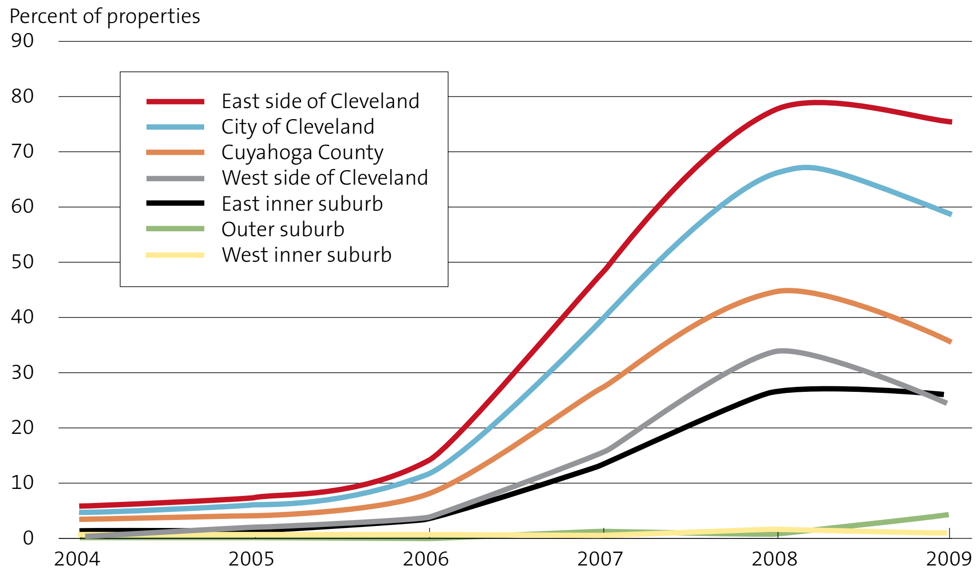
Sales of Distressed REOs Dominate Some Areas

The Cleveland region has numerous areas inundated with vacant, for-sale REO properties. How is their presence affecting housing values? One measure compares the selling prices of properties coming out of REO with their estimated market value prior to foreclosure (see figure 2).

Not surprisingly, properties sold out of REO in Cuyahoga County, within the City of Cleveland, and in Cleveland's suburbs are selling for less than their previous estimated market value. What is notable now is *how much* less than their previous value these properties are selling for. In 2000, properties sold out of REO were purchased for up to 76 percent of their pre-foreclosure estimated market value. But by 2007, post-REO sales prices hit a low point relative to their previous estimated market value. By 2009, prices had rebounded, but only slightly. Properties leaving REO in 2009 on Cleveland's east side were selling for a mere 13 percent of their estimated previous market value. In Cuyahoga County and suburban Cleveland, properties selling out of REO in 2009 fetched sales prices of 28 percent and 37 percent of their estimated market value, respectively. Though housing prices also dropped during this period, this change in itself does not account for all of the value lost after a sheriff's sale. Consider that from 2004 to 2009, housing prices in the Cleveland metropolitan region fell only 11 percent;[5] taking into account the already-low housing prices and the sheer number of transactions, these post-REO sales price figures have disastrous effects on the values of neighboring properties not in foreclosure and on the tax bases of neighborhoods and communities.

REO properties in Cuyahoga County are also increasingly being sold at extremely distressed prices—defined as $10,000 or less—mainly to

Figure 3
Percentage of all REO Properties Sold at Extremely Distressed Prices*
Cuyahoga County, 2004–2009



* An extremely distressed price is $10,000 or less.
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Source: NEO CANDO (http://neocando.case.edu), Tabulation of Cuyahoga County Auditor data.

out-of-state corporations and individuals looking for bargains. As figure 3 shows, 2.6 percent of REO properties were sold at extremely distressed prices in 2004, a share that increased 17-fold before peaking in 2008. The proportion declined to 35 percent in 2009, still 13 times greater than in 2004. As is the case with subprime lending, this trend of houses selling at extremely low prices has affected areas within the county disproportionately. In this case, too, much of the activity is concentrated on Cleveland's east side. In 2004, 4 percent of properties on the city's east side coming out of REO were sold for less than $10,000. Three years later, nearly *80 percent* of the properties on the east side sold out of REO were purchased at extremely distressed prices. Even though the total number of properties in the county leaving REO dropped significantly by 2009, the proportion of properties leaving REO at distressed prices on the east side of Cleveland declined only slightly, from 78 percent to 75 percent.

A small number of sellers account for most of these distressed sales. An examination of the owners of record for thousands of houses that were sold for $10,000 or less in Cuyahoga County from 2007 to 2009 reveals that, although numerous financial institution are involved in these sales, the top five sellers of REO properties at these prices are responsible for more than 50 percent of these transactions. From 2007 to 2009, the following companies topped the list: Deutsche Bank, Fannie Mae, Wells Fargo, the U.S. Department of Housing and Urban Development, and U.S. Bank. The data also show that houses sold for $10,000 or less make up substantial percentages of all REO properties sold. These findings, along with anecdotal information provided by buyers, suggest that some sellers are unloading large quantities of REO properties at extremely low prices. "Dumping" is what some call it.

However, public record can be deceiving in this regard. It is important to note that while public record indicates the party that holds title to a property, often a bank or lender has hired a servicer to handle transactions related to a property. Most property sales out of REO, in fact, are handled by mortgage servicers whose identity does not appear in the public records of sales transfers; this makes communication difficult for parties interested either in purchasing a property or raising concerns about its condition.[6]

On the purchasing side, the data reveal that there are many buyers of these properties—more than 1,200 in 2008—with only a handful of buyers purchasing more than 100 properties each in the Cleveland area. Here, too, local records are not always indicative of what's happening. Buyers may purchase properties under many different auspices, and may own many more properties than public records show. By and large, however, buyers are out-of-state corporations or investors. It is typical for sellers of REO properties and investors to have relationships; some sellers package properties regionally and sell them to their customers in bulk. Almost all properties are sold sight unseen.[7] These transactions, which are collectively defining and reshaping some neighborhoods, are often conducted by individuals from outside the region who have no direct knowledge of the neighborhoods or the properties.[8]

Many Former REO Properties Left to Deteriorate

After being sold out of REO, properties can go in two directions. Either they return to some productive use or they continue on a path of neglect and deterioration. The price of a property at REO sale is one indicator of the direction in which the property will go. Table 1 includes all REO sales in 2004–09, and evaluates three markers of deterioration as of February 2010: vacancy status as recorded by the U.S. Postal Service and supplemented by vacancy survey data from the City of Cleveland; tax delinquency status, which is conferred when

Table 1
Distress Signs of Properties after Leaving REO, 2004–2009
(as of February 2010)

Price on leaving REO	% vacant	% tax delinquent	% demolished*
$1–10,000	49%	56%	9%
$10,001–30,000	27%	27%	3%
$30,001–50,000	19%	19%	2%
$50,001–75,000	12%	11%	2%
$75,001–100,000	14%	11%	4%
$100,001–125,000	10%	10%	3%
$125,001–150,000	8%	4%	0%
$150,001 and above	5%	3%	0%
Total	27%	25%	5%

*Data for demolitions are available for properties located in the City of Cleveland only. Percents are out of number of REO properties in the City of Cleveland.
Sources: NEO CANDO and tabulation of Cuyahoga County Auditor data by the Center on Urban Poverty and Community Development, Case Western Reserve University.

Timely, accurate, and accessible data are essential to strategically addressing foreclosure prevention and property remediation efforts.

a property carries a balance from any previous tax year; and whether or not the property has been demolished by the City of Cleveland (private demolitions and demolitions by suburban municipalities are not included because data are not available).

Properties sold for $10,000 or less represent some of the most at-risk for deterioration after they leave REO status. Of properties that were sold out of REO at extremely distressed prices between 2004 and 2009, 56 percent were tax delinquent as of February 2010, 49 percent were listed as vacant, and nine percent of those located in Cleveland have since been demolished. Properties sold at higher prices have lower incidences of these outcomes, although the rates for properties in the $10,000–$30,000 price range are still relatively high. Markers of deterioration are inversely related to the sales price, suggesting that many of the properties sold out of REO at low prices are not being occupied or maintained and thus are becoming problematic for neighborhoods and local governments.

Addressing the Challenges of Post-REO Properties

Tremendous efforts have been made in Cuyahoga County to manage the foreclosure process and assist households at risk of losing their homes. Now, additional and increased attention is being paid to the maintenance and reutilization problems of properties that have come through REO.

Critical to understanding Cleveland's capacity to handle this crisis is awareness of the long history of local investment in building community capacity. Going back several decades, local and national philanthropic organizations have invested in institution-building by providing targeted and sustained resources to the field, particularly through intermediaries that support housing and community development.[9] Moreover, these philanthropic organizations have provided essential support for developing a robust capacity among local universities that, in part through longstanding partnerships with local governments, can provide up-to-date data on housing and neighborhoods. Local universities partner with community organizations to provide data that help them determine which properties are priorities for acquisition and rehabilitation, to keep abreast of current property conditions, and to continue developing tools to monitor other property issues as they arise.

Providing these critical data and information to community organizations requires keeping up-to-date records of the foreclosure, sheriff's sale, and REO status of properties, as well as gathering and organizing information that can serve as a credible proxy for property delinquency status (such as vacancy and tax delinquency information). Researchers also monitor property issues that communities are experiencing through more qualitative measures; in this way, they can further support the partnership by developing tools to help organizations keep track of what is going on in communities.

On the prevention side, researchers identify mortgages that are at risk of foreclosure—high-cost mortgages whose interest rates will soon increase—and pass this information on to community organizers who encourage homeowners to seek preventative foreclosure counseling. On the remediation side, researchers provide community development organizations with up-to-date property transfer information, vacancy information, and tax delinquency information, so organizations can strategize property remediation. For example, in Cleveland, the Neighborhood Stabilization Team, comprised of local researchers and community development officials, meets monthly with neighborhood groups to exchange knowledge on changes in the status of neighborhood properties, noting, for instance, whether any properties have gone into foreclosure or been sold at foreclosure sale. The group then discusses strategies for rehabilitating problematic properties, focusing on the properties that are closest to community assets.

The property rehabilitation and acquisition side of this partnership consists, first, of strategically identifying areas in which to target resources, areas that have both great strengths and needs. Because of limited funding, community organizations must focus on rehabilitating homes in areas with existing community assets. Once areas are identified, community development organizations keep a close eye on properties in the areas, watching for foreclosure filings and property transfers.

On a national level, two organizations are working to acquire REO properties and connect them to local organizations: The nonprofit National Community Stabilization Trust was formed in 2008 by six national nonprofits with expertise in community development and housing. The REO Clearinghouse, a for-profit agency formed by Safeguard Properties, was established in early 2009. Both agencies' purpose is to help stem the decline of communities with high concentrations of vacant and abandoned property by connecting national-level servicers with local community development organizations, offering foreclosed properties to these organizations at discounted rates. Cleveland was one of the first cities to work with both the Trust and the REO Clearinghouse. Although these organizations' current efforts in northeast Ohio are small in scale and strategically focused on very specific areas, they will help inform and direct broader efforts going forward. (See also in this publication "Acquiring Property for Neighborhood Stabilization: Lessons Learned from the Front Lines," by Craig Nickerson.)

On a local level, once an organization establishes a connection with holders of REO properties—a sometimes-difficult step—it can employ any of several measures to return properties to viable use. One new approach to cycling vacant Northeast Ohio houses back into productive use is the recently established Cuyahoga County Land Reutilization Corporation (informally called the "county land bank"), whose primary function is to obtain and utilize tax-foreclosed properties, although the land bank can also accept any property donated to them. Led by County Treasurer Jim Rokakis, a coalition of local and state agencies managed to overcome a lot of barriers in passing state legislation to create the new land bank, which is modeled after a highly successful program in Genesee County, Michigan. (See also in this publication "How Modern Land Banking Can Be Used to Solve REO Acquisition Problems," by Thomas J. Fitzpatrick IV.)

The county land bank can help further the revitalization efforts of individual communities as well as regional coalitions. By strategically amassing land, it can help communities implement plans for communal green spaces. Pooling properties in the new land bank will also mitigate the risks associated with land ownership, risks that were previously assumed by small, local CDCs. With the land bank in place, these same area CDCs can focus their efforts on getting land bank properties back on the market and into productive use in their neighborhoods.

Finally, a critical component of any effort to bring vacant properties back to productive use is financing. The federal Neighborhood Stabilization Program provides a crucial piece of this equation, allotting funds to localities to help them meet their specific needs. The program's funds in Cleveland and Cuyahoga County are helping to support the demolition and remediation of numerous vacant and abandoned properties. However, given the enormity of the need here, these funds will only go so far.

Conclusion

In summary, the data reveal that in Cleveland and Cuyahoga County, properties are leaving REO through bulk sales at extremely low prices. It is uncertain whether or not these market processes will be able to bring properties back to productive use. To date, properties sold at extremely low prices have high levels of vacancy and tax delinquency.

Though this report focuses on Cleveland and Cuyahoga County, it includes information on specific tools being employed here that other areas may be able to replicate and use to identify and prevent potential issues. Timely, accurate, and accessible data are essential to strategically addressing foreclosure prevention and property remediation efforts, and are essential for those carrying out these programs.

Cleveland has been characterized as a "resilient" weak-market city, in part because of its ability to use data to strategically target resources within communities to help spur neighborhood recovery.[10] Cleveland's strong network of nonprofit community development organizations is essential to developing and carrying out these strategies. Efforts to address the crisis—here in northeast Ohio and in every community across the nation—must be multifaceted and coordinated among various entities, must be data-driven, and must be strategic.

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Endnotes

1 Zach Schiller and April Hirsh, "Foreclosure Growth in Ohio" (Cleveland, Oh.: Policy Matters Ohio, 2008). Available at http://policymattersohio.org/publications.htm.

2 Claudia Coulton, Tsui Chan, Michael Schramm, and Kristen Mikelbank, "Pathways to Foreclosure: A Longitudinal Study of Mortgage Loans, Cleveland and Cuyahoga County, 2005–2008" (Cleveland, Oh.: Case Western Reserve University, Mandel School of Applied Social Sciences, Center on Urban Poverty and Community Development, 2008). Available at http://neocando.case.edu.

3 Coulton et al., cited above.

4 Claudia Coulton, Kristen Mikelbank, and Michael Schramm, "Foreclosure and Beyond: A Report on Ownership and Housing Values Following Sheriff's Sales, Cleveland and Cuyahoga County, 2005–2007" (Cleveland, Oh.: Case Western Reserve University, Mandel School of Applied Social Sciences, Center on Urban Poverty and Community Development, 2008). Available at http://neocando.case.edu.

5 Calculated using the Federal Housing Finance Agency's housing price index for the Cleveland-Elyria-Mentor City/MSA, sale price only, seasonally adjusted using the annual average over four quarters.

6 Claudia Coulton, Michael Schramm, and April Hirsh, "Beyond REO: Property Transfers at Extremely Distressed Prices in Cuyahoga County, 2005–2008," (Cleveland, Oh.: Case Western Reserve University, Mandel School of Applied Social Sciences, Center on Urban Poverty and Community Development, 2008). Available at http://neocando.case.edu.

7 As evidenced by the business models of some of the country's largest REO buyers.

8 See note 7.

9 Some examples of these intermediaries in Cleveland are Neighborhood Progress Inc., Cleveland Housing Network, and Enterprise Community Partners.

10 Todd Swanstrom, Karen Chapple, and Dan Immergluck, "Regional Resilience in the Face of Foreclosures: Evidence from Six Metropolitan Areas" (Berkeley, Ca.: University of California at Berkeley, Institute of Urban and Regional Development, 2009).