

---

# Left Behind: Troubled Foreclosed Properties and Servicer Accountability in Chicago



## Acknowledgements

The authors would like to thank Adam Gross, Dan Immergluck, and Tommy Fitzgibbon for comments provided on various drafts of this report. The findings of this research report and the recommendations are the authors' own. The authors also thank Woodstock staff Beverly Berryhill, Patricia Woods-Hessing, Tom Feltner, Dory Rand, Katie Buitrago, and Suniya Farooqui for their invaluable assistance in the production of this report.

This project would not have been possible without generous support from the John D. and Catherine T. MacArthur Foundation, the Chicago Community Trust, and the Woods Fund of Chicago.

## About the Authors

Geoff Smith, Senior Vice President – Mr. Smith has researched a wide range of housing and community development topics, including mortgage lending policy, housing market trends, small business finance, financial institution regulation, access to banking services, and general community reinvestment policy. He has authored and co-authored numerous Woodstock publications and co-authored research published in journals including *Housing Policy Debate* and *Urban Affairs Review*; testified on predatory lending issues and community reinvestment policy at hearings held by the U.S. House Financial Services Committee, the Federal Reserve Board, the State of Illinois Department of Financial and Professional Regulation, and the Chicago City Council, and has been quoted in *USA Today*, the *Wall Street Journal*, the *Chicago Tribune* and other media outlets. He has also appeared on *NBC Nightly News*. Geoff received a B.A. in Geography from the University of Illinois at Urbana-Champaign and an M.S. in Geography from the University of Wisconsin-Madison.

Sarah Duda, Senior Research and Project Associate – As the Senior Research and Project Associate at Woodstock Institute, Ms. Duda contributes to research, written analysis, and technical assistance on various issues concerning housing policy and access to fairly priced financial products and services. Reports she has co-authored have been used by community stakeholders and cited by the media and by agencies such the City of Chicago Department of Community Development, the Office of the Illinois Attorney General, the Federal Reserve Bank of San Francisco and by members of the Illinois General Assembly. Sarah received a B.A. from Antioch College in Yellow Springs, Ohio, and a Master in Urban Planning and Policy from the University of Illinois at Chicago.

## Left Behind

### *Troubled Foreclosed Properties and Servicer Accountability in Chicago*

#### Executive Summary

The following report illustrates the relationship between foreclosures and vacant properties in the City of Chicago. It combines data from the City of Chicago on vacant and potentially vacant buildings with data on foreclosure filings, completed foreclosure auctions, and property transfers to better understand the number of vacant properties that have at some point been part of the foreclosure process. It identifies a group of “red flag” properties which are troubled vacant properties where a foreclosure has been filed, but no outcome has been reached. For such vacant properties, particularly those that have been in the foreclosure process for many years, there are concerns that the servicer has chosen to “walk away” from the property leaving no clear accountable party for problems that may arise there. The report also identifies a group of lender-owned, foreclosed properties that most likely are vacant and not in compliance with the City of Chicago’s vacant building regulations. Findings of the report show:

- **Foreclosures make up a significant portion of properties on the City’s vacant buildings index.** There were 18,320 properties on the City’s vacant buildings index as of September 2010. Of these, 12,674, or 69.2 percent, were associated with a foreclosure filed between 2006 and the first half of 2010. Of these 12,674 properties, 10,778 were related to a foreclosure filing which was linked to a subsequent outcome such as a completed foreclosure auction or a property transfer such as a short sale. There were 1,896 “red flag” properties on the City’s vacant buildings index where there was a foreclosure filing with no subsequent outcome.
- **These “red flag” properties are of significant concern to City officials and communities, particularly if they sit vacant for extended periods of time.** Of the “red flag” properties identified, over 40 percent of these “red flag” homes have been in the foreclosure process for more than a year and a half, which means their loan servicers likely have decided not to complete foreclosure.
- **“Red flag” foreclosures are disproportionately concentrated in Chicago’s African American communities.** Over 71 percent of “red flag” homes are located in highly African-American communities, compared to only 6.5 percent in predominantly white communities. African-American communities are 11 times more likely to have a “red flag” home than are white communities, while they are 3 times more likely to have a foreclosed property and 6 times more likely to have a vacant building.
- **There are a substantial number of properties in the citywide inventory of likely vacant lender-owned properties that are not registered with the City as vacant properties.** There are 2,558 lender-owned single family homes that are likely vacant but not registered with the City of Chicago. This represents over 57 percent of the inventory of lender-owned single family homes in the City as of the third quarter of 2010. These homes are likely not secured and maintained to the standards required by the City of Chicago and may be in an advanced state of disrepair.

Some key ways to address problems associated with vacant buildings and foreclosures include:

- **Keep homes occupied**—Loan servicers should proactively pursue solutions, such as sustainable loan modifications, that allow homeowners to stay in their homes whenever possible.
- **Hold servicers accountable**—State and federal regulators should ensure that loan servicers are implementing strategies to limit the damage that vacant properties have on communities.
- **Increase ability to enforce existing vacant property rules**—Local governments should be given more authority to ensure that mortgage servicers maintain vacant properties up to required standards.
- **Improve data sharing to increase information on vacant buildings**—Better coordination of data among different levels of government would allow for more efficient enforcement of vacant property registration and maintenance requirements and early identification of compliance issues.

## Introduction

The ongoing foreclosure crisis has led to a dramatic increase in vacant and abandoned properties across the City of Chicago. While some of these properties are secured and maintained by their owners, many are not and can pose significant risks for neighborhood stability. Vacant and abandoned properties can rapidly spiral into disrepair, affecting the values of neighboring properties and attracting criminal activity. In many cases, vacant properties lack clear ownership, without which the substantial costs of dealing with these troubled properties are borne by the city and by the community. Often, the most troubled properties are concentrated in African American communities on the City's South and West sides, frequently clustered on highly distressed blocks.

The foreclosure crisis has made some of the traditional concerns with vacant properties more complicated. In the past, concerns about vacant properties and foreclosure were largely tied to the disposition of properties that had completed the foreclosure process, entered a mortgage servicer's portfolio of lender-owned properties, often called real estate owned (REO) properties, and sat vacant until they could be sold and returned to productive use. While the management of such properties remains an issue, there are growing concerns about vacant properties where a foreclosure has been filed but has not yet been completed. Properties that are not occupied or proactively maintained by mortgage servicers are at high risk of falling into disrepair and having a significant negative impact on the community. This is especially true for troubled properties that have been in this state for extended periods of time, raising concerns that the servicer has chosen to charge-off the mortgage after initiating foreclosure and has effectively "walked away" from the property.

The following analysis illustrates the relationship between foreclosures and vacant properties in the City of Chicago. It combines data from the City of Chicago on vacant and potentially vacant buildings with data on foreclosure filings, completed foreclosure auctions, and property transfers to quantify the number of vacant properties that have at some point been part of the foreclosure process. It identifies a group of "red flag" properties which are troubled vacant properties where a foreclosure has been filed, but no outcome has been reached. For such vacant properties, particularly those that have been in the foreclosure process for many years, there are concerns that the servicer has chosen to "walk away" from the property leaving no clear accountable party for problems that may arise there. The report also identifies a group of lender-owned, foreclosed properties that most likely are vacant and not in compliance with the City of Chicago's vacant building regulations. The report examines the spatial concentrations of these properties in communities of color and concludes with a set of recommendations for limiting the negative impact on communities caused by vacant properties associated with foreclosures. These recommendations include increasing servicer accountability for the disposition of such properties, improving resources for enforcing vacant building regulations, and enhancing data sharing partnerships to better identify the universe of vacant properties.

## Context

### Vacant Properties and Foreclosures in Chicago

Vacant and abandoned buildings have been a problem in certain Chicago neighborhoods for many years. Shifts in population from economically distressed City neighborhoods to other urban neighborhoods, suburban communities, or other parts of the country led to an excess supply of housing and commercial buildings in parts of the City. Poorly maintained vacant buildings can destabilize communities by serving as a magnet for criminal activity, increasing the risks of fire or health hazards, and decreasing the values of nearby properties.<sup>1</sup> At the end of the third quarter of 2010, 6.3 percent of the residential addresses in the City of Chicago were categorized as vacant for 90 days or longer by the U.S. Postal Service. Of these vacant addresses, 55.8 percent had been vacant for one year or more.<sup>2</sup>

The foreclosure and economic crisis has exacerbated the problem of vacant and abandoned properties in Chicago. Starting in 2006, distressed communities that were already dealing with vacant and abandoned building issues began to experience dramatic increases in foreclosure activity. Between 2006 and 2008, new foreclosure filing activity in the City roughly doubled from 10,268 in 2006 to 20,592 in 2008. The communities most heavily impacted by the City's foreclosure problem, however, were largely concentrated on Chicago's South and West Sides. For example, citywide in 2008, there were 36.2 foreclosure filings per 1,000 mortgageable properties. However, in communities such as Englewood, West Englewood, Washington Park, and Chicago Lawn on the City's South Side and North Lawndale, West and East Garfield Park, Humboldt Park, and Austin on the City's West Side, foreclosure filings per 1,000 mortgageable properties ranged from 67 to over 180.<sup>3</sup>

A number of factors drive up the volume of distressed, vacant and abandoned properties in communities hit hard by foreclosures. Through the foreclosure process, existing homeowners or tenants typically are evicted from a property upon completion of a foreclosure auction. This creates a vacant property. In some cases, these properties have been vacant for many months prior to the foreclosure being completed and, as a result, are damaged either due to lack of regular maintenance or through theft and vandalism. These properties are added to the inventory of available housing even if the building is not immediately marketed for resale. However, many communities hit hard by the foreclosure crisis have weak demand for housing for reasons such as high levels of unemployment, economic distress, physical deterioration of the building stock, declining property values, and lack of access to financing for interested buyers. This combination of growing numbers of distressed properties in certain communities and a lack of demand for those properties has led to an accumulation of properties for which there is no market.<sup>4</sup>

### Mortgage Servicers and Lender Walkaways

Servicers are the entities responsible for initiating foreclosure proceedings and the disposition of foreclosed properties. Broadly speaking, a servicer's responsibilities include collecting mortgage payments from borrowers; escrowing taxes and insurance; and handling loss mitigation, foreclosures and REO property administration. In this role, the servicer is the primary entity with which troubled borrowers work when trying to negotiate a loan modification, short sale, or deed in lieu of foreclosure. Ultimately, if no other outcome can be reached, the foreclosure process is completed at a foreclosure auction and the property reverts to lender ownership. At this point, the servicer is the entity that takes on the administrative responsibilities related to REO property disposition. These responsibilities include securing and maintaining the property, conducting any necessary repairs to make the property saleable, and marketing and selling the property to a third party. In many cases, however, these

---

<sup>1</sup> Mallach, Alan. *Bringing Buildings Back*. Montclair, NJ: National Housing Institute, 2006.

<sup>2</sup> Calculated by authors from HUD Aggregated USPS Administrative Data on Address Vacancies.

<sup>3</sup> Smith, Geoff and Sarah Duda. *The Chicago Region's Foreclosure Problem Continued to Grow in 2008*. Chicago, IL: Woodstock Institute, 2009.

<sup>4</sup> Smith, Geoff and Sarah Duda. *Roadblock to Recovery: Examining the Disparate Impact of Vacant Lender-Owned Properties in Chicago*. Chicago, IL: Woodstock Institute, 2009.

responsibilities are not conducted by servicers themselves, but outsourced to local or national firms that specialize in REO property management.<sup>5</sup>

Decisions made by servicers before, during, and after the foreclosure process can greatly affect the outcomes for specific properties. For delinquent mortgages, servicers are responsible for continuing to make scheduled principal and interest payments to the loan pool as well as covering any additional servicing-related costs. Servicers must also cover the costs associated with REO disposition. These costs can be substantial, particularly in weak markets where a property is expected to be vacant for an extended period. While the servicer is repaid for these outlays through proceeds from foreclosure fees and liquidation of the foreclosed property, the servicer may not be repaid if there are insufficient funds generated. Therefore, the particular foreclosure strategy a servicer employs is tied to whether or not the expected future proceeds from fees and property liquidation will cover the anticipated costs associated with that strategy. If properties have been devalued because of deferred maintenance, vandalism, or general declines in local property values, then servicers may determine that the cost of proceeding with a foreclosure exceeds its expected return. In these cases, a servicer may choose to charge off the mortgage on the property and consider it a loss.<sup>6</sup>

Often dubbed “lender walkaways” or “abandoned foreclosures,” these charge offs in lieu of foreclosure have become increasingly common in recent years, particularly in distressed markets with high levels of vacant properties.<sup>7</sup> Such properties are at significant risk of becoming blighted because the property has often been vacated by the owner or tenant occupants and, once it is charged off, the servicer is no longer responsible for completing the foreclosure process and maintaining the property. Such properties can rapidly spiral into disrepair, and city governments often are unable to hold a party accountable for code violations and safety concerns at the property. After a property has become significantly troubled, the city has the ability to seize and demolish it, but this process takes time during which the property continues to negatively impact the community and costs accrue to the city. According to a 2005 study of municipal costs associated with foreclosure, the costs associated with the seizure and demolition of a vacant, unsecured foreclosed property with criminal activity can exceed \$13,000 per property. For some vacant properties that lack clear ownership and have to be demolished, these costs can exceed \$19,000 per property, and if there is a fire at the property, costs can exceed \$34,000 per property.<sup>8</sup>

A recent report issued by the Government Accountability Office (GAO) attempted to quantify the scale of such troubled properties. The report estimated that between 14,500 and 34,600 such charge offs occurred between January 2008 and March 2010 in the U.S. with the majority occurring in urban areas in rust belt Midwestern states.<sup>9</sup> The GAO estimated that there were 860 such properties in Chicago.<sup>10</sup> The report also found that the level of distress associated with each property is affected by the timing of the charge off. If the charges off takes place before foreclosure proceedings are initiated, occupants may be more likely to continue to occupy and maintain the property. If the charge off occurs after foreclosure proceedings are initiated, it is much more likely that occupants will have left the property and the odds that the property will become vacant and abandoned increase dramatically.<sup>11</sup>

---

<sup>5</sup> Theologides, Stergios. *Servicing REO Properties: The Servicer's Role and Incentives*. Boston: Federal Reserve Banks of Boston and Cleveland and the Federal Reserve Board, 2010.

<sup>6</sup> Ibid.

<sup>7</sup> *Mortgage Foreclosures: Additional Mortgage Servicer Actions Could Help Reduce the Frequency and Impact of Abandoned Foreclosures*. Washington, D.C.: United States Government Accountability Office, 2010.

<sup>8</sup> Apgar, William, Mark Duda, and Rochelle Nawrocki Gorey. *The Municipal Cost of Foreclosures: A Chicago Case Study*. Minneapolis, MN: Homeownership Preservation Foundation, 2005.

<sup>9</sup> United States Government Accountability Office, op. cit.

<sup>10</sup> This number combines 499 charge offs that took place after a foreclosure was filed and 361 charge offs that took place without a foreclosure being filed.

<sup>11</sup> United States Government Accountability Office, op. cit.

## Data

The following analysis brings together data from different sources in an attempt to better understand the relationship between foreclosure and vacant properties in the City of Chicago. Data on vacant properties were taken from the City of Chicago's index of vacant and troubled buildings. Part of this dataset comes from properties registered by property owners under the City's vacant building ordinance. A second part of the vacant buildings data comes from properties not registered by owners but, rather, flagged by police, fire, and building departments as potentially vacant buildings.<sup>12</sup> Data on foreclosures comes from Record Information Services. These data are based on court records generated by new foreclosure filings and by records from foreclosure auction houses that are generated when a foreclosure auction is completed. Data on auction results also include information on the buyer of the property at auction and whether the property became REO. Property transfer information, such as the name of the buyer and seller and the dates on which the transfer was executed and recorded, were provided by the Cook County Recorder of Deeds.<sup>13</sup>

Using data from these different sources, a dataset was assembled to accomplish three purposes:

- **Identify the number of properties on the City's vacant buildings index associated with a foreclosure filing.** These were properties where:
  1. A foreclosure has been filed between 2006 and the first half of 2010; and,
  2. The property was on the City's vacant buildings index as of September, 2010.
- **Identify "red flag" vacant properties.** There were properties where:
  1. A foreclosure has been filed between 2006 and the first half of 2010; and,
  2. There was no clear outcome after the filing identified such as a completed foreclosure auction or property transfer to a new owner;
  3. The property was on the City's vacant buildings index as of September, 2010.
- **Identify likely vacant single family REO properties where the servicer may not be in compliance with local vacant building regulations.** These were properties where:
  1. A foreclosure auction has been completed between 2006 and the first half of 2010;
  2. The property became REO;
  3. There has been no subsequent transfer to a new owner identified; and,
  4. The property was NOT on the City's vacant buildings index as of September, 2010.

---

<sup>12</sup> This analysis looks only at vacant properties on the City of Chicago's vacant buildings index. This list is not comprehensive of all vacant properties in the City, and there are vacant properties not on this list that were not able to be considered. However, the City's vacant buildings index represents the best source of address-level vacant buildings data available. Analyses of these data offer an opportunity to better understand the relationship between foreclosures and vacant properties for a segment of the universe of vacant properties. These lessons can be applied to a larger universe of vacant properties.

<sup>13</sup> Foreclosure data were matched with a property transfer on address, however roughly 15 percent of property transfer records had addresses recorded by the County as "unknown." Additionally, property transfer recording can be delayed. Therefore, the authors identify REO inventory as "likely REO."

## Analysis

Findings of an analysis of these data show:

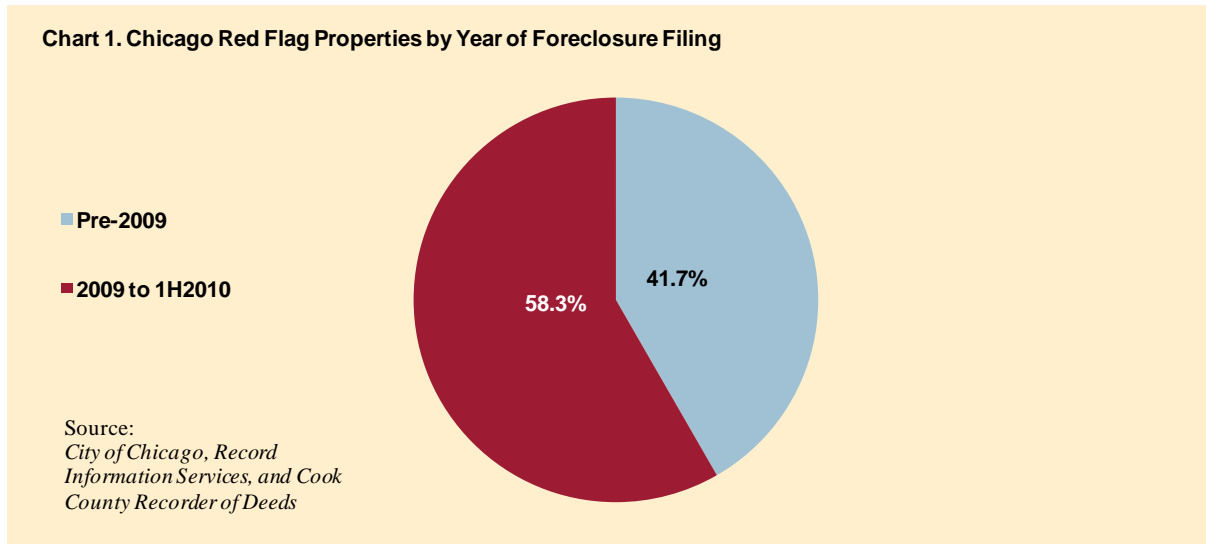
**Foreclosures make up a significant portion of properties on the City’s vacant buildings index.** Table 1 shows that there were 18,320 properties on the City’s vacant buildings index as of September, 2010. Of these, 12,674, or 69.2 percent, were associated with a foreclosure filed between 2006 and the first half of 2010. Of these 12,674 properties, 10,778 were related to a foreclosure filing which was linked to a subsequent outcome such as a completed foreclosure auction or a property transfer such as a short sale. For 1,896 properties on the vacant buildings index, however, there was a foreclosure filing with no subsequent outcome. These vacant properties with a foreclosure filing but no clear outcome to the foreclosure process are referred to here as “red flag” properties. Based on their presence on the vacant buildings index and their uncertain status in the foreclosure process, there are significant concerns about who, if anyone, has oversight over these properties, and these properties seem to be at high risk of becoming significantly troubled.<sup>14</sup>

**Table 1. Composition of City of Chicago’s Vacant Buildings Index by Relationship to a Foreclosure Filing.**

	Properties	Share
Non-Foreclosure Related	5,646	30.8%
Foreclosure Related - With Outcome	10,778	58.8%
Foreclosure Related - No Outcome	1,896	10.3%
Total Properties on Vacant Buildings Index	18,320	100.0%

**Red flag properties are of significant concern to City officials and communities, particularly if they sit vacant for extended periods of time.** The amount of time a vacant property has been in the foreclosure process is an indication of the level of distress the property might be in as well as the possible intent a servicer might have for its disposition. Chart 1 examines red flag properties from Table 1 and breaks them out based on the year in which the foreclosure on the property was filed. Red flag properties associated with a foreclosure filed in 2010 or even 2009 may still be at some point in the foreclosure process, however, because they are vacant, there are concerns about who, if anyone, is actively maintaining the property. Red flag properties associated with a foreclosure filed prior to 2009 are less likely to be entangled in the foreclosure process and are more likely candidates to be considered servicer charge offs or walkaways. Both types of properties, however, lack clear oversight and are at a high risk of falling into disrepair and becoming blighted. As Chart 2 indicates, 58.3 percent, or 1,106, of red flag properties were associated with a foreclosure filed in 2009 or 2010 and 41.7 percent, or 790, were associated with foreclosures filed prior to 2009.

<sup>14</sup> There were 5,646 properties from the City’s vacant building index that were not associated with a foreclosure filed between January 1, 2006 and June 30, 2010. Although these properties were not tied to a foreclosure filed during this period, it is likely that some longer term vacancies were associated with a foreclosure filed prior to 2006, and other properties were charged off by servicers prior to a foreclosure being filed.

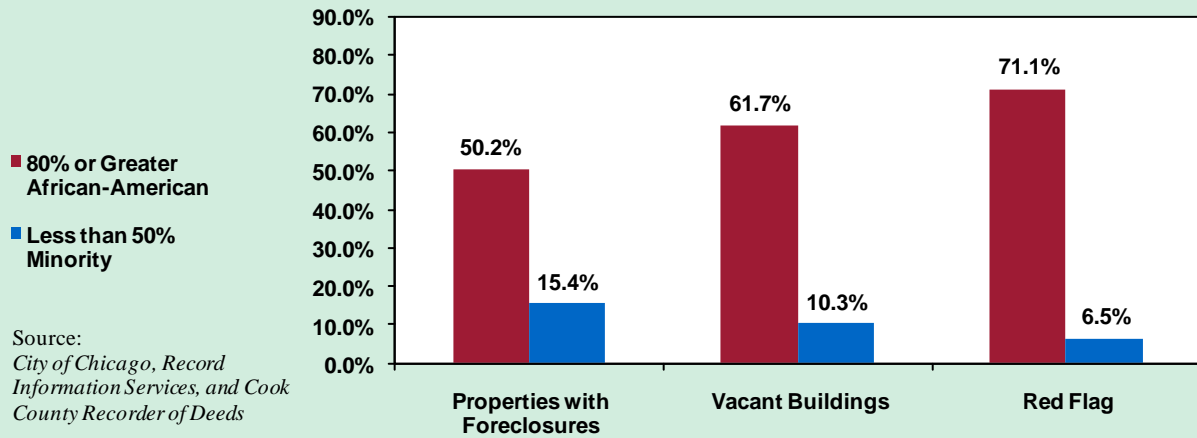


**Red flag foreclosures are disproportionately concentrated in Chicago’s African American communities.** Woodstock Institute research has shown that the Chicago region’s communities of color have been disproportionately impacted by the housing and foreclosure crisis. These communities, particularly African American communities, have seen a disproportionate share of overall foreclosure activity, and REO properties in these communities sit vacant for far longer prior to sale to a third party than do properties in predominantly white communities.<sup>15</sup> Similarly, vacant properties are significantly concentrated in Chicago’s African American communities. The concentration of red flag vacant properties in communities of color, however, is even greater than the concentration of typical foreclosure filings or other vacant properties. Chart 2 shows that 50.2 percent of the properties with a foreclosure filing in the City of Chicago between 2006 and the first half of 2010 were in communities that are 80 percent or greater African American compared to 15.4 percent in communities that are less than 50 percent minority. When looking just at properties on the City’s vacant buildings index, 61.7 percent were in communities that are at least 80 percent African American while 10.3 percent were in communities that are less than 50 percent minority. However, 71.1 percent of the City’s red flag vacant properties were in highly African American communities compared to 6.5 percent in majority white communities.

---

<sup>15</sup> Smith, Geoff and Sarah Duda. *Roadblock to Recovery: Examining the Disparate Impact of Vacant Lender-Owned Properties in Chicago*. Chicago, IL: Woodstock Institute, 2009.

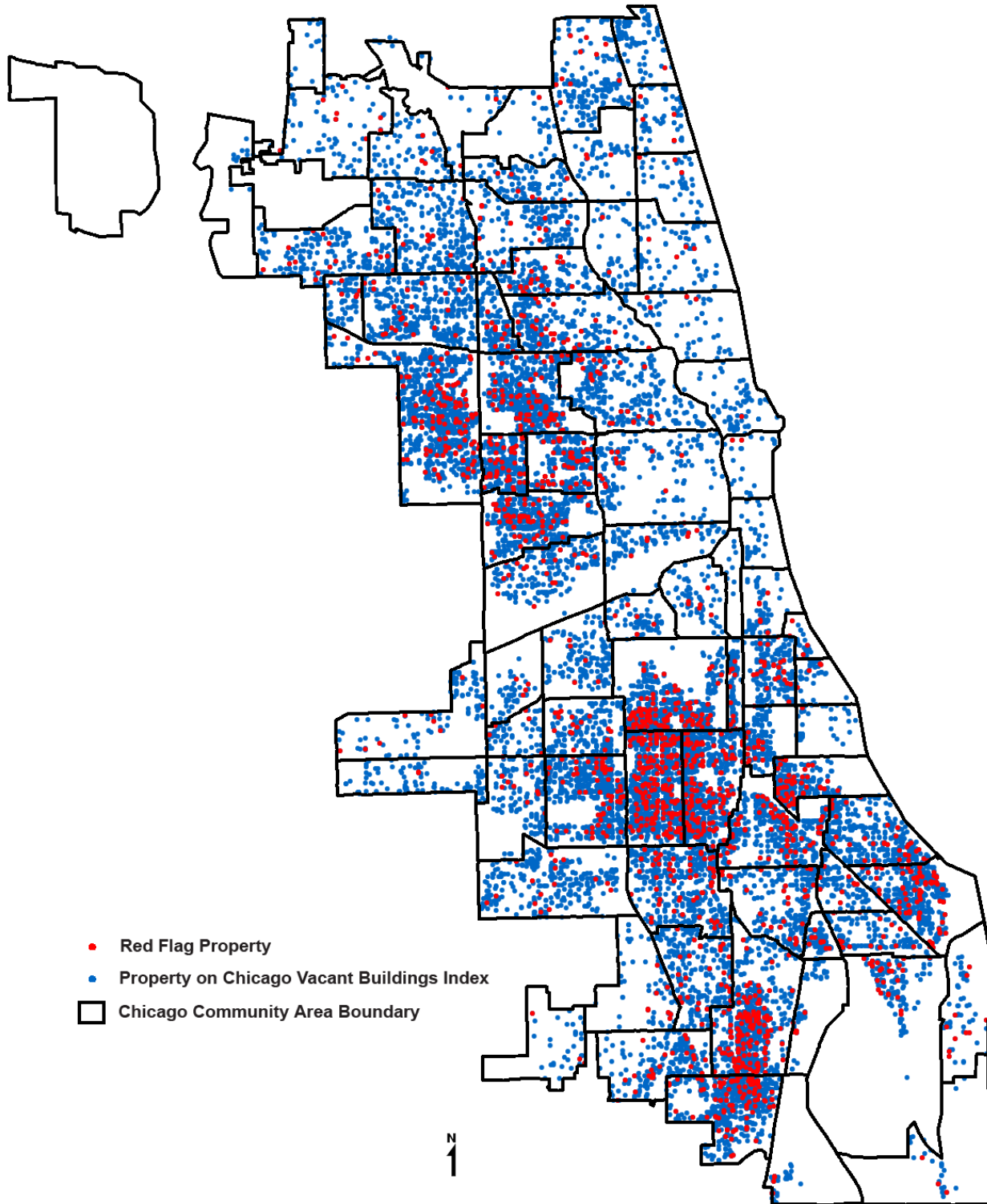
Chart 2. Distribution of Different Types of Properties by Racial/Ethnic Composition of Community



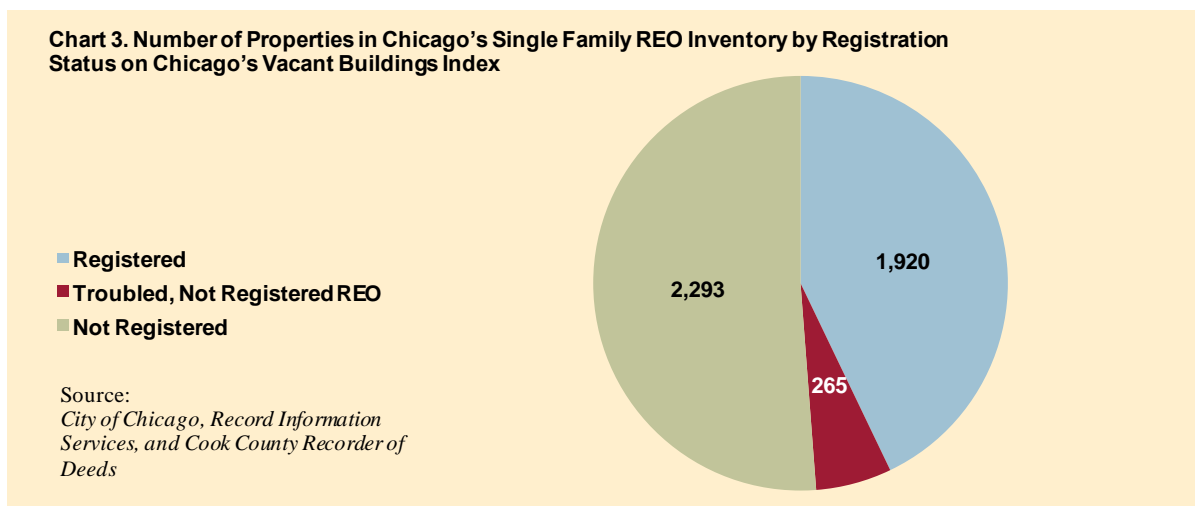
**Vacant properties and red flag properties are highly concentrated in specific communities and often clustered on troubled blocks.** Map 1 illustrates the distribution of properties on the City’s vacant buildings index and red flag properties across the City of Chicago. It shows that both types of properties are highly concentrated in communities of color on the City’s South and West Sides. Communities with the largest number of red flag properties include West Englewood (176 properties), Roseland (137), Englewood (137), and Austin (110). A detailed breakout of red flag properties by City of Chicago community area and ward can be found in the Appendices.

**There are a substantial number of properties in the citywide inventory of likely REO properties that are not registered with the City as vacant properties.** In 2008, the City of Chicago strengthened its vacant building ordinance in response to the growing number of vacant properties. The current vacant building ordinance requires owners of properties that are vacant over 30 days to register their properties with the City and pay a \$250 registration fee. Every six months the property sits vacant, it must be re-registered. The longer a building is vacant, the more extensive are the requirements for securing it. For example, after six months, plywood is no longer sufficient for securing windows and doors. Owners are required to replace plywood with commercial-grade steel security panels or with secure doors, glazed windows, and a 24-hour burglar alarm system with a third-party security company. There are concerns, however, that many owners of vacant properties are not registering their properties in order to avoid the compliance costs associated with the ordinance. If a vacant property is not registered, it is likely not secured up to the standards defined by the City and, should the building become significantly troubled, it is difficult for the City to track down an accountable party.

**Map 1. Distribution of Vacant Properties and Red Flag Properties in the City of Chicago, as of September, 2010.**



It is highly likely that REO properties, unless they are multifamily, sit vacant until they are purchased by a third party and returned to productive use.<sup>16</sup> Chart 3 characterizes the inventory of single family REO properties in Chicago based on whether or not they are registered with the City as vacant. Of the estimated 4,478 single family properties still in the REO inventory in Chicago at the end of the third quarter of 2010, 2,558, or 57.1 percent, were not registered with the City as vacant buildings.<sup>17</sup> These unregistered REO properties include properties where foreclosures were completed, the property became lender-owned, and no subsequent property transfer to a third party could be found. Of these 2,558 unregistered REO properties, 265 were on the City’s vacant buildings index as “suspected vacant properties,” meaning they were identified as potentially vacant by a member of the City’s police, fire, or buildings department, and not registered as vacant by the building’s owner. A detailed breakout of unregistered REO properties in the City of Chicago by community area and ward can be found in the Appendices.



## Conclusion and Recommendations

The above analysis illustrates the relationship between foreclosures and vacant properties in Chicago by examining properties on the City of Chicago’s vacant buildings index that have at some point been part of a foreclosure. Many of these properties have a foreclosure filed against them, but no clear outcome to the foreclosure process has been identified. Because these red flag properties are vacant and, in many cases, likely in an advanced state of disrepair, there is a good chance that mortgage servicers have chosen to charge off, or walk away from, these properties if they have not done so already. These properties are highly concentrated in Chicago’s communities of color, often on highly distressed blocks. In addition to red flag properties, there are a significant number of likely vacant, lender-owned REO properties in the City of Chicago that are not registered with the City in compliance with its vacant building ordinance. Properties that are not registered likely are not secured up to the standards required by the City. By not registering these properties, servicers reduce their compliance costs associated with maintaining and securing the property up to the standards set by the City’s vacant building ordinance, but create troubled properties that are a risk to community stability and more difficult for the City to monitor.

The foreclosure crisis has destabilized many communities and the rise in distressed, vacant properties tied to foreclosure devastates already hard hit neighborhoods. Mortgage servicers need to be held more accountable for the outcomes of properties in their portfolios even if they choose to charge them off, and local governments need better tools to respond to concerns about vacant properties. Some key ways to address problems associated with vacant buildings and foreclosures include:

<sup>16</sup> Servicers are required to allow tenants of multifamily properties in foreclosure to stay until the end of their lease or beyond.

<sup>17</sup> The REO inventory for this report is defined as single family properties that entered REO status between January 1, 2006, and June 30, 2010, and had not exited that status by being sold to a third party as of October 31, 2010.

**Keep properties occupied** – For occupied properties, servicers should more aggressively pursue loan modifications that would allow owners to stay in their homes. In situations where loan modifications are not possible, servicers should allow occupants to remain in the property for a defined period of time so that the property remains occupied and does not become blighted. Servicers could also incent occupants to maintain the property so that it does not fall into disrepair. As the GAO recommends, prior to a foreclosure filing, servicers should evaluate whether they plan to charge off a property and not file for foreclosure if the ultimate outcome is expected to be charging off the mortgage on the property.

**Hold servicers accountable** – Where appropriate, state and federal regulatory agencies should hold servicers accountable for their property disposition strategies. Regulators should monitor whether servicers are complying with local vacant building regulations. Regulators should also ensure that servicers have developed and are implementing strategies to ensure that charged-off properties do not become blighted. Servicers should also be monitored to ensure that they are providing timely information both to city departments and the current property owner when they choose to charge off a loan on a property. For a city, knowing the locations of such properties would help it more appropriately respond to problems arising at these properties and allow city officials to develop strategies for dealing with these types of properties. Providing property owners with such information may help them make decisions on whether to keep the property occupied and maintained.

**Increase the ability of cities to enforce existing vacant building regulations** – Local governments should be given more authority to ensure that mortgage servicers maintain vacant properties up to required standards. Such authority might include making financial institutions with a legal interest in the property responsible for property upkeep and any violations of local building codes and ordinances that might occur at a property even when the owner of record cannot be found or is no longer willing to maintain the property. Increasing the levels of servicer accountability for the outcomes of properties could work to shift internal cost-benefit analysis in favor of loss mitigation efforts, such as loan modifications, that would keep properties occupied.

**Improve data sharing to increase information on vacant buildings** – Many vacant building ordinances, including the City of Chicago's, place the onus of registering a vacant property on its owner because a city has a limited capacity to catalog and keep current an index of all vacant properties. However, other entities already collect and update such data and could provide assistance to city governments. For example, the United States Postal Service already reports data to the U.S. Department of Housing and Urban Development on addresses postal carriers have identified as being vacant. These data are publicly reported at an aggregated level, but having such data available at the address level for certain types of properties, such as long-term vacancies, would better identify potential troubled buildings and vacancy hotspots. Other entities such as utility companies also collect data on usage and may be able to provide information on properties where power or electrical service has been shut off.

Appendix I – Troubled Foreclosed Single Family Properties by Chicago Community Area

CA#	Community Area	Properties on Vacant Buildings Index	Foreclosure-Associated Vacant Properties	Red Flag Vacant Properties	Inventory of SF REO Properties	Registered REO Properties	Unregistered REO Properties	
							#	%
1	Rogers Park	91	35	1	14	7	7	50.0
2	West Ridge	187	100	11	37	12	25	67.6
3	Uptown	48	11	3	8	3	5	62.5
4	Lincoln Square	56	25	3	8	1	7	87.5
5	North Center	54	24	2	13	7	6	46.2
6	Lake View	75	21	4	7	2	5	71.4
7	Lincoln Park	62	19	4	8	3	5	62.5
8	Near North Side	71	6	1	1	1	0	0.0
9	Edison Park	15	12	0	6	3	3	50.0
10	Norwood Park	77	60	8	42	22	20	47.6
11	Jefferson Park	74	56	4	40	21	19	47.5
12	Forest Glen	31	25	3	13	6	7	53.8
13	North Park	36	22	1	18	6	12	66.7
14	Albany Park	120	80	7	22	12	10	45.5
15	Portage Park	284	230	14	130	67	63	48.5
16	Irving Park	170	125	15	52	19	33	63.5
17	Dunning	215	188	16	114	61	53	46.5
18	Montclare	72	53	6	37	15	22	59.5
19	Belmont Cragin	417	357	23	177	68	109	61.6
20	Hermosa	158	131	12	47	26	21	44.7
21	Avondale	161	112	20	33	13	20	60.6
22	Logan Square	300	204	29	41	25	16	39.0
23	Humboldt Park	718	517	68	124	45	79	63.7
24	West Town	343	137	26	41	18	23	56.1
25	Austin	1,118	855	110	231	98	133	57.6
26	West Garfield Park	397	284	42	40	20	20	50.0
27	East Garfield Park	334	205	43	27	13	14	51.9
28	Near West Side	190	62	14	20	8	12	60.0
29	North Lawndale	638	393	61	49	20	29	59.2
30	South Lawndale	251	179	20	57	23	34	59.6
31	Lower West Side	116	47	6	14	7	7	50.0
32	Loop	21	3	2	0	0	0	-
33	Near South Side	34	0	0	0	0	0	-
34	Armour Square	10	1	0	0	0	0	-
35	Douglas	78	32	6	17	8	9	52.9
36	Oakland	31	16	4	6	3	3	50.0

Appendix I – Troubled Foreclosed Single Family Properties by Chicago Community Area (cont'd)

CA#	Community Area	Properties on Vacant Buildings Index	Foreclosure-Associated Vacant Properties	Red Flag Vacant Properties	Inventory of SF REO Properties	Registered REO Properties	Unregistered REO Properties	
37	Fuller Park	141	69	11	13	4	9	69.2
38	Grand Boulevard	235	102	23	30	14	16	53.3
39	Kenwood	45	18	4	13	4	9	69.2
40	Washington Park	177	80	15	11	6	5	45.5
41	Hyde Park	56	4	1	6	2	4	66.7
42	Woodlawn	328	198	48	32	14	18	56.3
43	South Shore	429	284	34	81	32	49	60.5
44	Chatham	281	214	28	84	37	47	56.0
45	Avalon Park	112	79	9	47	13	34	72.3
46	South Chicago	588	430	74	95	42	53	55.8
47	Burnside	88	59	9	24	10	14	58.3
48	Calumet Heights	149	112	17	57	27	30	52.6
49	Roseland	879	591	137	214	90	124	57.9
50	Pullman	82	58	7	35	16	19	54.3
51	South Deering	146	103	24	55	18	37	67.3
52	East Side	61	44	10	30	10	20	66.7
53	West Pullman	720	501	94	199	85	114	57.3
54	Riverdale	35	19	5	12	4	8	66.7
55	Hegewisch	31	23	3	10	6	4	40.0
56	Garfield Ridge	114	95	9	65	24	41	63.1
57	Archer Heights	54	46	4	31	12	19	61.3
58	Brighton Park	152	122	7	54	21	33	61.1
59	McKinley Park	73	35	5	15	11	4	26.7
60	Bridgeport	75	43	6	8	4	4	50.0
61	New City	764	576	103	107	49	58	54.2
62	West Elsdon	73	63	5	41	19	22	53.7
63	Gage Park	201	171	17	90	38	52	57.8
64	Clearing	89	68	2	49	27	22	44.9
65	West Lawn	167	143	12	110	43	67	60.9
66	Chicago Lawn	646	536	61	220	90	130	59.1
67	West Englewood	1,189	893	176	254	98	156	61.4
68	Englewood	973	712	137	153	58	95	62.1
69	Greater Grand Crossing	554	393	69	136	54	82	60.3
70	Ashburn	298	237	16	157	72	85	54.1
71	Auburn Gresham	548	444	59	181	84	97	53.6
72	Beverly	65	44	8	28	12	16	57.1

Appendix I – Troubled Foreclosed Single Family Properties by Chicago Community Area (cont'd)

CA#	Community Area	Properties on Vacant Buildings Index	Foreclosure-Associated Vacant Properties	Red Flag Vacant Properties	Inventory of SF REO Properties	Registered REO Properties	Unregistered REO Properties	
73	Washington Heights	290	228	28	119	52	67	56.3
74	Mount Greenwood	33	25	3	19	12	7	36.8
75	Morgan Park	248	160	22	90	39	51	56.7
76	O'Hare	10	2	0	1	1	0	0.0
77	Edgewater	68	23	5	8	3	5	62.5
	City of Chicago	18,320	12,674	1,896	4,478	1,920	2,558	57.1

Appendix II – Troubled Foreclosed Single Family Properties by Ward

Ward	Properties on Vacant Buildings Index	Foreclosure-Associated Vacant Properties	Red Flag Vacant Properties	Inventory of SF REO Properties	Registered REO Properties	Unregistered REO Properties	
						#	%
1	219	113	17	26	13	13	50.0
2	285	123	29	23	10	13	56.5
3	591	295	52	72	30	42	58.3
4	169	68	14	35	12	23	65.7
5	328	186	21	48	24	24	50.0
6	677	495	85	184	78	106	57.6
7	617	446	84	133	50	83	62.4
8	561	402	51	187	73	114	61.0
9	684	469	101	189	74	115	60.8
10	385	271	45	79	37	42	53.2
11	198	103	14	26	15	11	42.3
12	180	131	11	46	20	26	56.5
13	302	258	16	189	81	108	57.1
14	237	198	23	111	45	66	59.5
15	913	712	112	230	91	139	60.4
16	1,106	856	156	183	77	106	57.9
17	1,081	841	158	251	108	143	57.0
18	475	386	40	224	103	121	54.0
19	165	119	18	75	37	38	50.7
20	711	448	87	88	28	60	68.2
21	541	417	49	205	84	121	59.0
22	193	138	17	48	17	31	64.6
23	195	163	12	107	46	61	57.0
24	842	558	87	77	34	43	55.8
25	157	62	8	18	10	8	44.4
26	323	205	31	54	27	27	50.0
27	550	332	45	70	26	44	62.9
28	770	540	79	101	46	55	54.5
29	366	292	30	118	52	66	55.9
30	279	211	22	80	26	54	67.5
31	276	224	16	112	43	69	61.6
32	112	34	6	19	5	14	73.7
33	152	97	10	32	13	19	59.4
34	1,240	840	166	344	155	189	54.9
35	200	138	24	33	18	15	45.5
36	316	258	26	159	76	83	52.2
37	626	493	61	117	54	63	53.8
38	250	211	17	126	59	67	53.2
39	122	91	6	42	22	20	47.6
40	123	70	6	19	5	14	73.7
41	102	73	7	44	24	20	45.5
42	76	7	3	0	0	0	-
43	36	13	2	3	2	1	33.3

Appendix II – Troubled Foreclosed Single Family Properties by Ward (cont'd)

Ward	Properties on Vacant Buildings Index	Foreclosure-Associated Vacant Properties	Red Flag Vacant Properties	Inventory of SF REO Properties	Registered REO Properties	Unregistered REO Properties	
44	41	11	4	3	0	3	100.0
45	168	128	9	77	42	35	45.5
46	41	3	1	4	1	3	75.0
47	50	24	2	16	8	8	50.0
48	45	13	4	7	3	4	57.1
49	91	34	1	11	6	5	45.5
50	153	74	11	33	10	23	69.7
City of Chicago	18,320	12,674	1,896	4,478	1,920	2,558	57.1