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Highlights

Highlights of GAO-11-93, a report to the Chairman, Subcommittee on Economic Policy, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

November 2010

MORTGAGE FORECLOSURES

Additional Mortgage Servicer Actions Could Help Reduce the Frequency and Impact of Abandoned Foreclosures

Why GAO Did This Study

Entities responsible for managing home mortgage loans—called servicers—may initiate foreclosure proceedings on certain delinquent loans but then decide to not complete the process. Many of these properties are vacant. These abandoned foreclosure—or "bank walkaway"—properties can exacerbate neighborhood decline and complicate federal stabilization efforts. GAO was asked to assess (1) the nature and prevalence of abandoned foreclosures, (2) their impact on communities, (3) practices that may lead servicers to initiate but not complete foreclosures and regulatory oversight of foreclosure practices, and (4) actions some communities have taken to reduce abandoned foreclosures and their impacts. GAO analyzed servicer loan data from January 2008 through March 2010 and conducted case studies in 12 cities. GAO also interviewed representatives of federal agencies, state and local officials, nonprofit organizations, and six servicers, among others, and reviewed federal banking regulations and exam guidance.

What GAO Recommends

Among other things, GAO recommends that the Federal Reserve and Office of the Comptroller of the Currency (OCC) require servicers they oversee to notify borrowers and communities when foreclosures are halted and to obtain updated valuations for selected properties before initiating foreclosure. The Federal Reserve neither agreed nor disagreed with these recommendations. OCC did not comment on the recommendations.

View GAO-11-93 or key components.
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What GAO Found

Using data from large and subprime servicers and government-sponsored mortgage entities representing nearly 80 percent of mortgages, GAO estimated that abandoned foreclosures are rare—representing less than 1 percent of vacant homes between January 2008 and March 2010. GAO also found that, while abandoned foreclosures have occurred across the country, they tend to be concentrated in economically distressed areas. Twenty areas account for 61 percent of the estimated cases, with certain cities in Michigan, Ohio, and Florida experiencing the most. GAO also found that abandoned foreclosures most frequently involved loans to borrowers with lower quality credit—nonprime loans—and low-value properties in economically distressed areas.

Although abandoned foreclosures occur infrequently, the areas in which they were concentrated are significantly affected. Vacant homes associated with abandoned foreclosures can contribute to increased crime and decreased neighborhood property values. Abandoned foreclosures also increase costs for local governments that must maintain or demolish vacant properties. Because servicers are not required to notify borrowers and communities when they decide to abandon a foreclosure, homeowners are sometimes unaware that they still own the home and are responsible for paying the debt and taxes and maintaining the property. Communities are also delayed in taking action to mitigate the effects of a vacant property.

Servicers typically abandon a foreclosure when they determine that the cost to complete the foreclosure exceeds the anticipated proceeds from the property's sale. However, GAO found that most of the servicers interviewed were not always obtaining updated property valuations before initiating foreclosure. Fewer abandoned foreclosures would likely occur if servicers were required to obtain updated valuations for lower-value properties or those in areas that were more likely to experience large declines in value. Because they generally focus on the areas with greatest risk to the institutions they supervise, federal banking regulators had not generally examined servicers' foreclosure practices, such as whether foreclosures are completed; however, given the ongoing mortgage crisis, they have recently placed greater emphasis on these areas.

GAO identified various actions that local governments or others are taking to reduce the likelihood or mitigate the impacts of abandoned foreclosures. For example, community groups indicated increased counseling could prevent some borrowers from vacating their homes too early. Some communities are requiring servicers to list properties that become vacant properties on a centralized registry as a way to identify properties that could require increased attention. In addition, by creating entities called land banks that can acquire properties from servicers that they otherwise cannot sell, some communities have provided increased incentives for services to complete instead of abandon foreclosures. However, these actions can require additional funding, have unintended consequences, such as potentially encouraging servicers to walk away from properties before initiating foreclosure, and may not be appropriate for all communities.