

The Cost of Delay

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Organization

- Introduction
- Data
- Results



Implications of the Foreclosure Crisis

Extent of foreclosure crisis

- 11.2% mortgages past due, 6.9% seriously delinquent (SD) with 53% SD > 1 yr. (McDash)
- 23% of mortgages have negative equity (CoreLogic)
- 8.3-10.4 million foreclosures forecast (Goodman (2011))
- REO timelines now a record 716 days, 869 in judicial foreclosure states



Implications of the Foreclosure Crisis (continued)

The foreclosure crisis in the U.S. is a microeconomic phenomenon with severe macroeconomic consequences. Calomiris and Higgins (2010) describe four:

1. Foreclosure delays inject uncertainty into the consumer balance sheet, which leads to unnecessary and economically damaging delays in consumption.
2. Delaying foreclosures impedes new housing construction, which will not be established until the market is cleared of delinquent homes.
3. Delaying foreclosures creates uncertainty in banks' balance sheets, potentially blocking channels of credit and undermining lending.
4. Delinquent homes that are heading to foreclosure have been shown to exacerbate neighborhood blight, creating negative externalities.



Implications of the Foreclosure Crisis (continued)

But we add two more:

5. Add one: House prices will not bottom until foreclosures peak (Goodman)
6. Another: Declining house prices further increase consumer debt burden



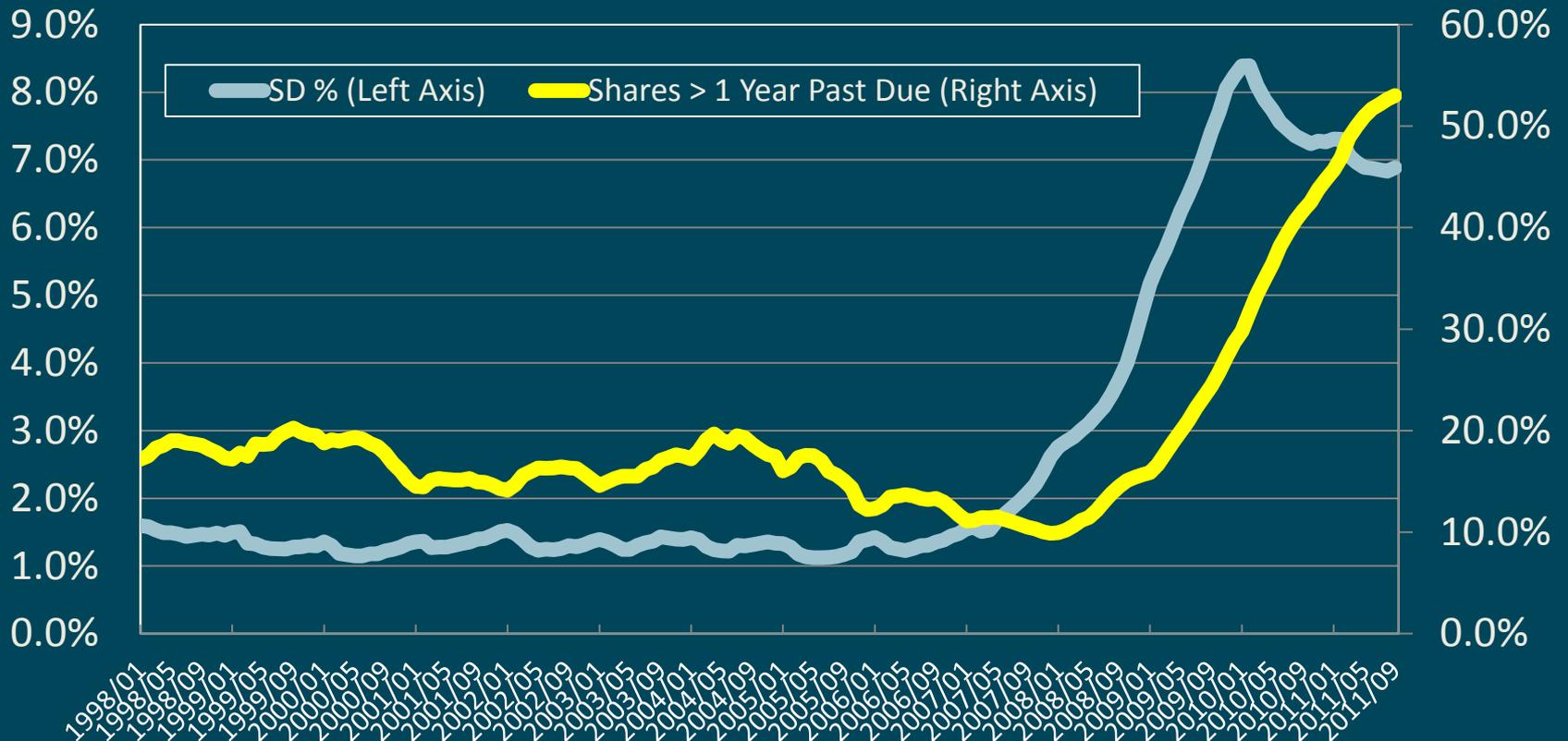
Implications of the Foreclosure Crisis (continued)

Resolving the foreclosure crisis is therefore critical to resolving the housing crisis and reviving consumer spending, investment, and GDP growth.

Problem: Calomiris and Higgins (2010) cite few empirical studies that can measure these effects.



Delinquencies Are Declining but Deeply Delinquent Loan Shares Are at Record Highs



Note: SD = seriously delinquent, defined as 90 or more days past due or in foreclosure

Source: LPS (Lender Processing Services Inc.) and Federal Reserve Bank of Philadelphia RADAR Group



Introduction

The myriad of state foreclosure laws and different remedies to the recent foreclosure crisis by U.S., state, and local governments give us a unique opportunity to examine how these policies are affecting the resolution of delinquent mortgages.

We have amassed a database of over 3 million involuntary terminations over a 14-year period (1998-2011) across many economic and regulatory scenarios.

Our paper makes a small initial contribution by examining the extraordinary extensions of timelines in recent years due to regulatory, legal, and operational changes in mortgage servicing practices.



Major Conclusions

- We document that timelines are now at all-time highs—and still rising.
 - By August 2011, foreclosure timelines were a record 692 days in judicial states, 519 days in statutory states, 567 days overall.
 - REO timelines are a record 888 days in judicial states, 680 days in statutory states, 739 days overall.
- The biggest effects on the record lengthening of timelines come from existing foreclosure laws and changes in the regulatory and legal environment.



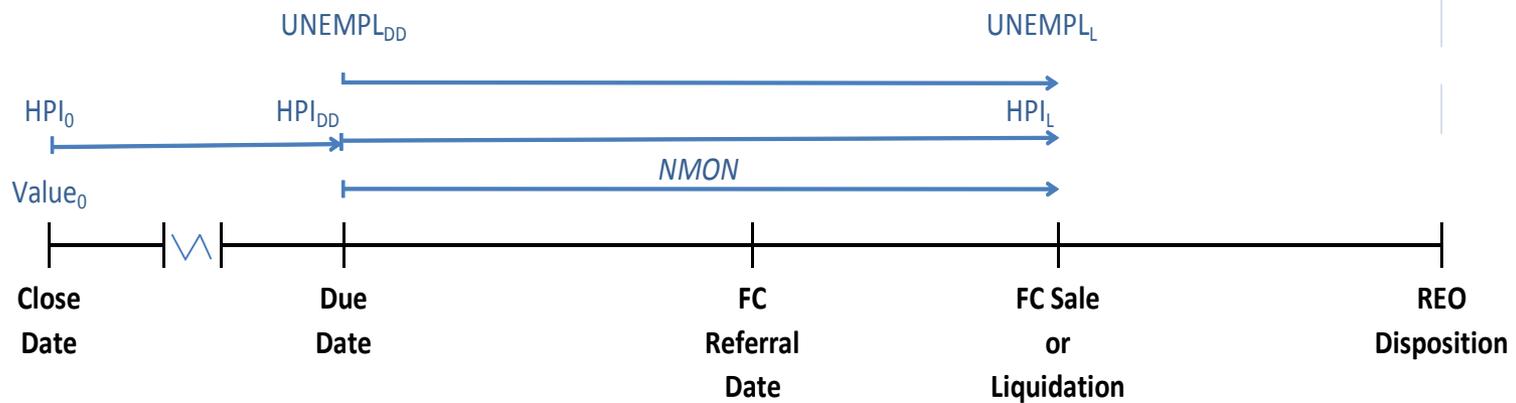
Definitional Items

- Judicial FC state (22 states)—requires judicial proceedings to execute foreclosure
- Statutory FC state (29)—does not require judicial proceedings
- Redemption state (9)—has post-foreclosure sale right of redemption provisions



Defining Timelines

Foreclosure/REO Timelines



Note: This figure displays the various "event dates" as loans go through the foreclosure and REO process and also displays timelines for variables calculated and used in our modeling. The closing date is when the loan terms are finalized between borrowers and lenders. The due date is the latest monthly due date of the mortgage and reflects the start date of the delinquency and the date when lost interest arrears start accruing. The foreclosure referral date starts the legal process when the lender makes a claim on the mortgage collateral, continuing through foreclosure sale, when borrowers' right of title is terminated. The REO disposition date is when the property is finally disposed of.

Source: LPS (Lender Processing Services Inc.) and Federal Reserve Bank of Philadelphia RADAR Group



Timelines Driven Primarily by Legal Rules

Analysis of Foreclosure and REO Timelines (Jan. 1998-Aug. 2011)

Analysis by State Foreclosure Laws

State Foreclosure Law	N	Days from due date to FC end or liquidation	Days from FC start to FC end	Days from REO start to REO end*	Days from due date to REO end*
Judicial States	885,631	535	375	246	718
Statutory States	2,185,279	379	205	240	551
Redemption States	412,786	362	199	305	616
Highest - New Jersey	31,937	646	490	281	868
Lowest - Michigan	195,808	310	145	343	599
Overall (All States)	3,070,910	424	254	241	600

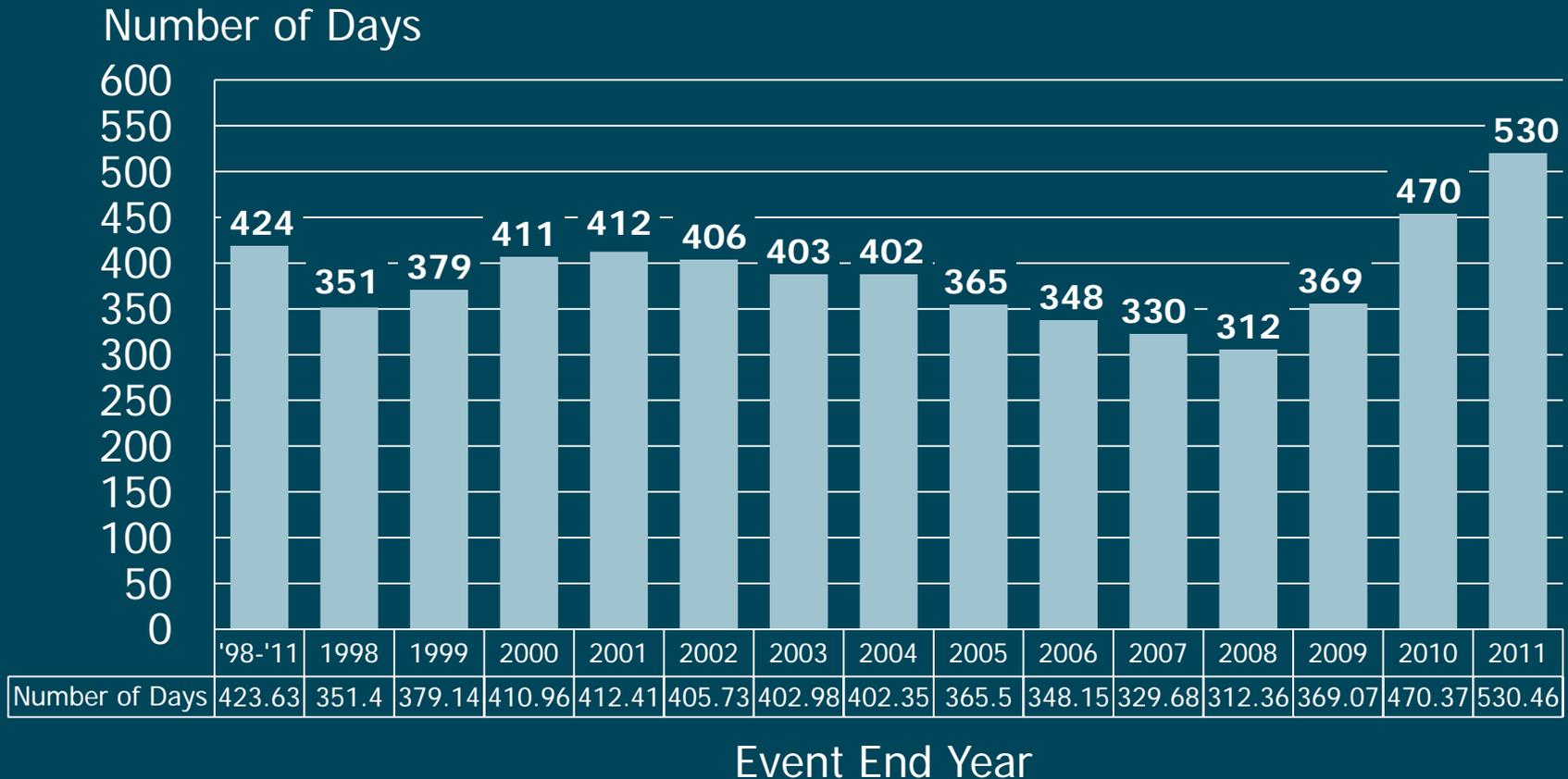
Note: This table computes various timelines associated with the foreclosure process for loans that involuntarily terminated in the LPS data sample by the state foreclosure laws. Timelines are described in Figure 1, while lost interest expense is calculated using Equation 1. FC = Foreclosure, REO = real estate owned.

Source: Lender Processing Services, Inc., and Federal Reserve Bank of Philadelphia RADAR Group



Foreclosure Timelines at Record Highs

Average Number of Days from Foreclosure End and Due Date
By Event End Year, National Average, First Liens

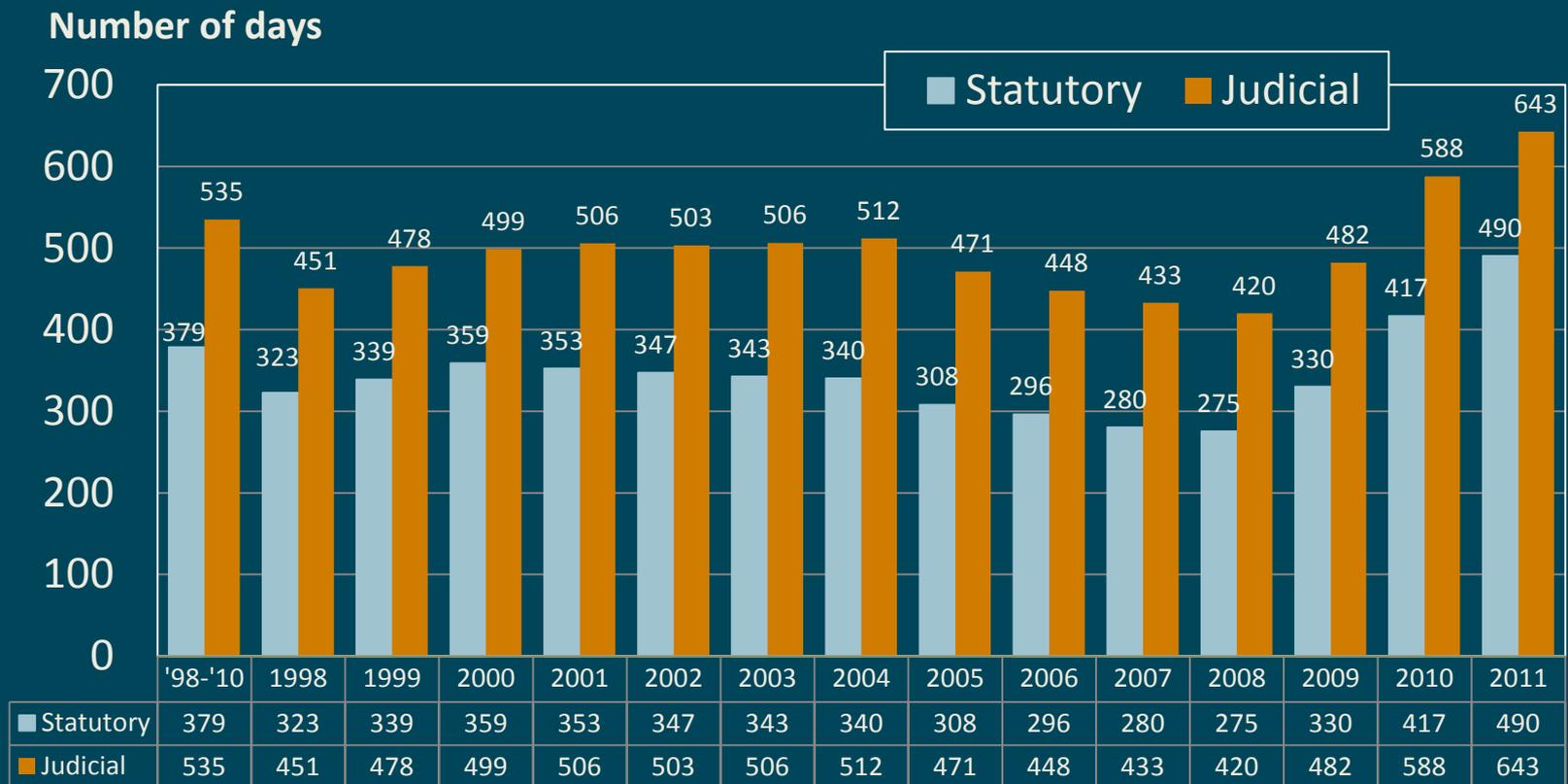


Source: LPS (Lender Processing Services Inc.) and Federal Reserve Bank of Philadelphia RADAR Group



Foreclosure Timelines at Record Highs

Average Number of Days from Foreclosure End and Due Date
By Year of Termination, National Average, Statutory vs. Judicial States



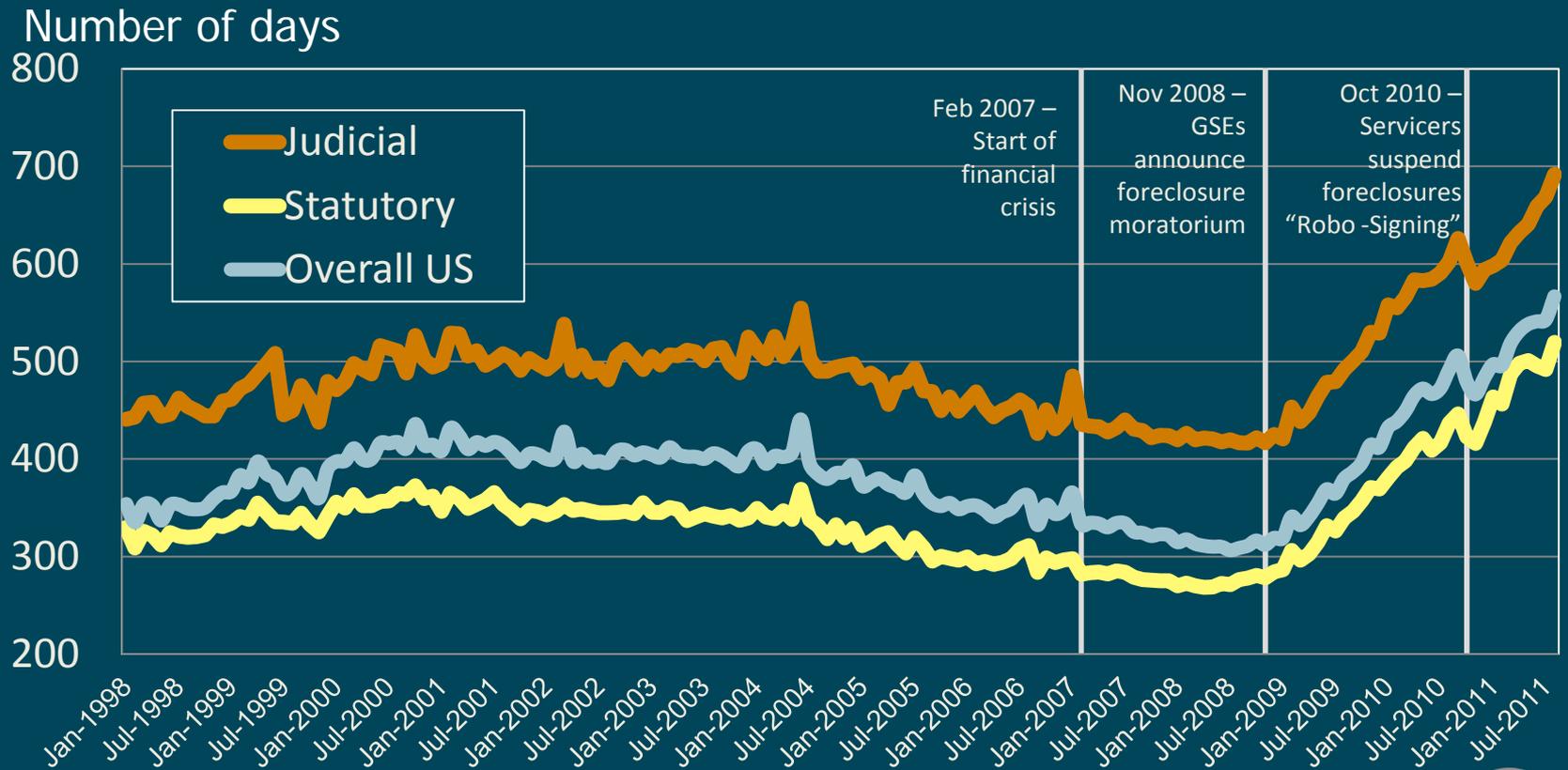
Source: LPS (Lender Processing Services Inc.) and Federal Reserve Bank of Philadelphia RADAR Group



Average Number of Days Between Foreclosure End and Due Date

By Event End Year-Month

National Average, First Liens, Statutory, Judicial vs. Overall U.S.



Source: LPS (Lender Processing Services Inc.) and Federal Reserve Bank of Philadelphia RADAR Group

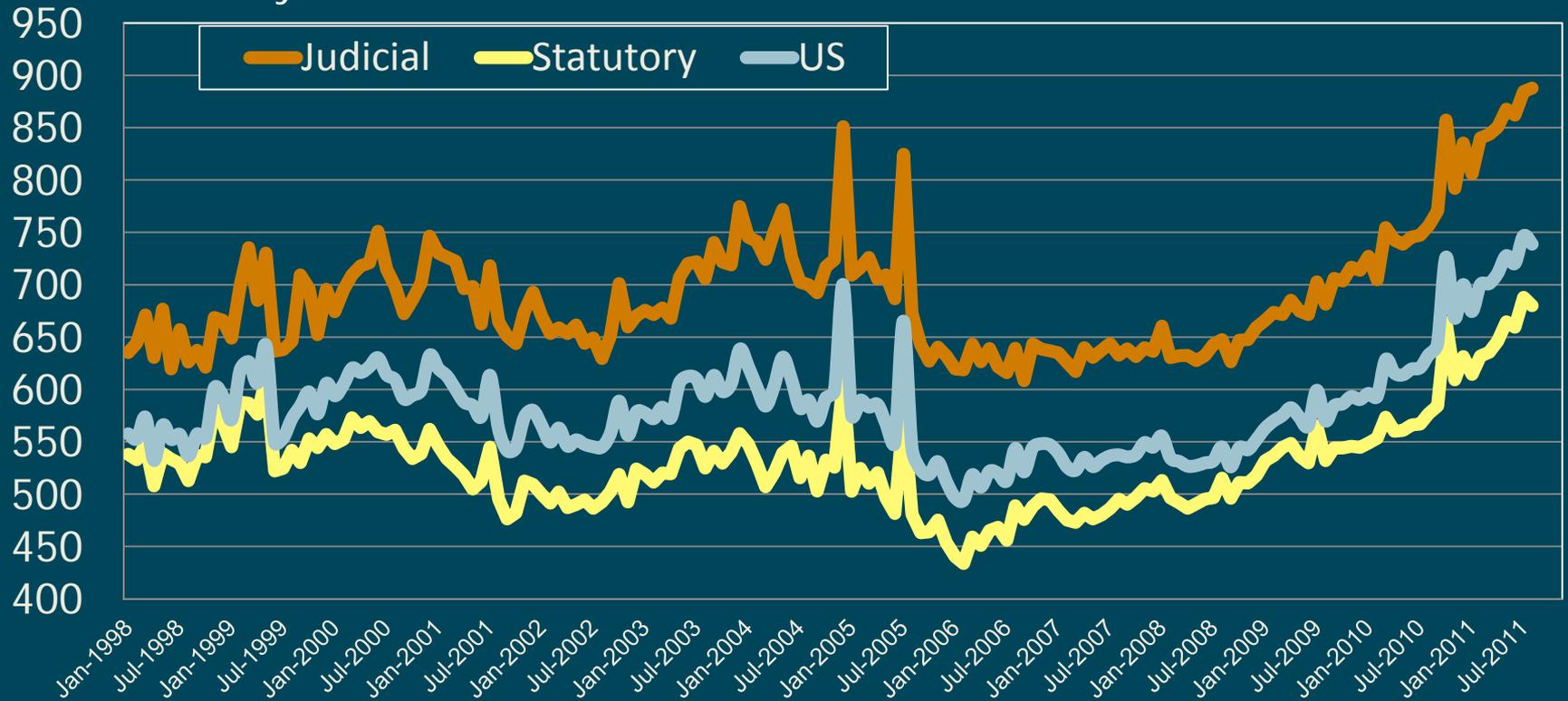


Average Number of Days Between REO End and Due Date

By Event End Year-Month

National Average, First Liens, Statutory, Judicial, Redemption

Number of days

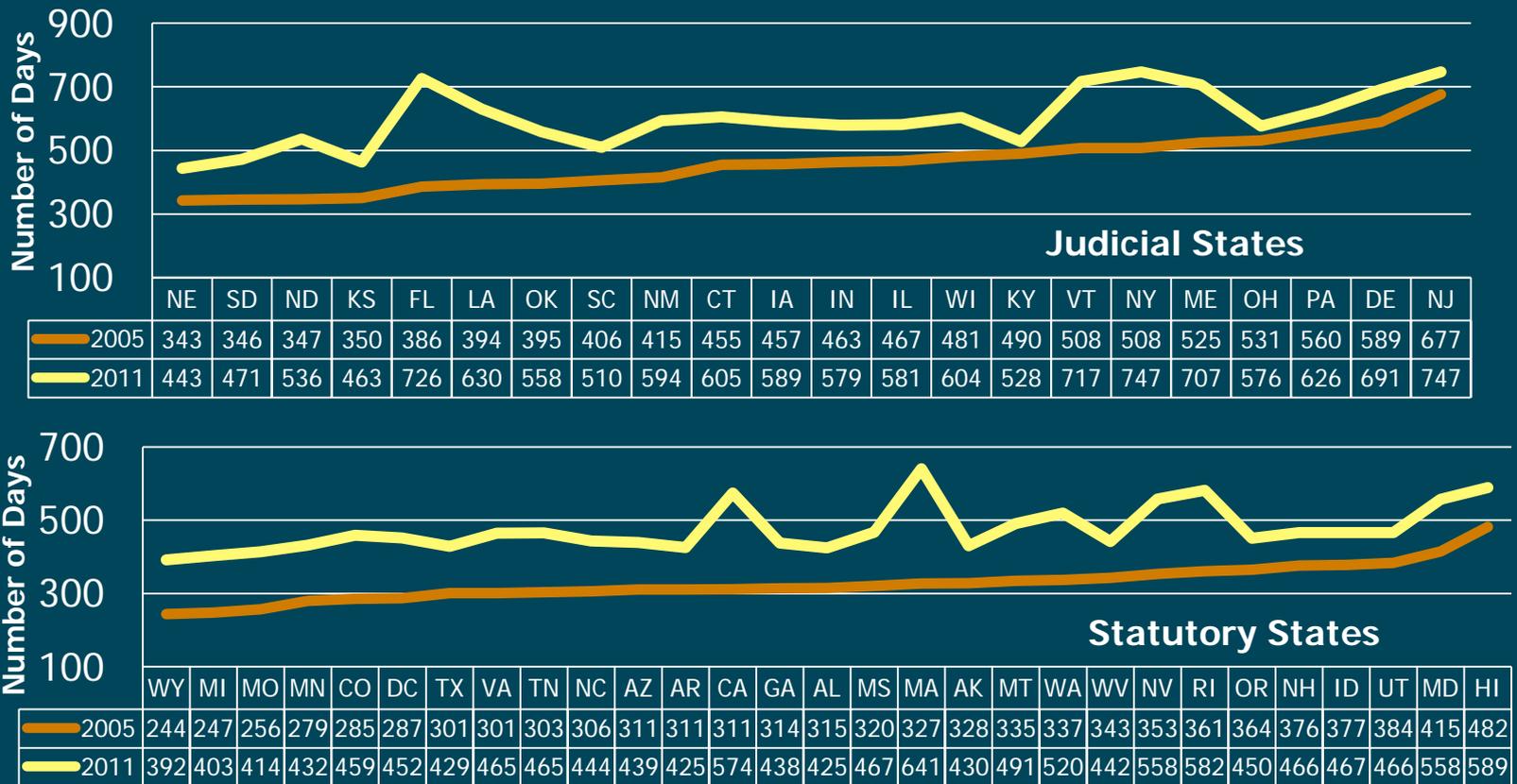


Source: LPS (Lender Processing Services Inc.) and Federal Reserve Bank of Philadelphia RADAR Group



Foreclosure Timelines Extending Nationwide

Foreclosure Timelines by Event End Year by State Comparison of timelines for 2005 vs. 2011



Source: LPS (Lender Processing Services Inc.) and Federal Reserve Bank of Philadelphia RADAR Group

