

# Federal Reserve Board Questions and Answers on Other Real Estate Owned (OREO) Properties

July 13, 2012

*Organized by the Federal Reserve Board*

The **Connecting Communities**<sup>®</sup> audio conference series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The audio conference series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.

# Welcome

Thank you to everyone for joining this session.

For today:

- This call is being recorded.
- An archived recording of this session will be available on the **Connecting Communities**<sup>®</sup> web site shortly after the session has taken place:  
[www.stlouisfed.org/connectingcommunities/](http://www.stlouisfed.org/connectingcommunities/)
- We will be taking questions via email during this session. Please direct your questions to [communities@stls.frb.org](mailto:communities@stls.frb.org). These questions may be part of the recorded archive for this session.
- In connection with this session, several of our Reserve Bank offices have posted links to a variety of additional resources on this topic. We encourage you to browse through this list and to contact your regional office if you would like additional information on any of these items.

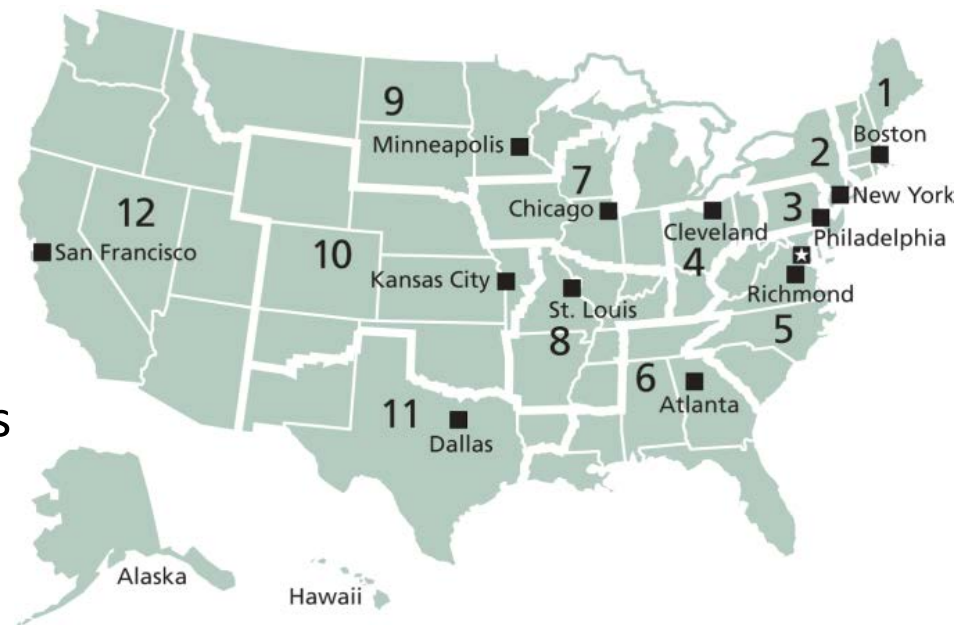
# Legal Notices and Disclaimer

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.

# Community Affairs

Community affairs programs at the Federal Reserve Board and the 12 Federal Reserve Banks support economic growth by promoting community development and fair access to credit.

Community affairs offices at the Board and Reserve Banks engage in a wide variety of activities to help financial institutions, community-based organizations, government entities, and the public understand and address financial services issues that affect low- and moderate-income people and geographic regions.



# Community Affairs (continued)

- Each office responds to local needs in its district and establishes its own programs to:
  - Foster depository institutions' active engagement in providing credit and other banking services to their entire communities, particularly traditionally underserved markets
  - Encourage mutually beneficial cooperation among community organizations, government agencies, financial institutions, and other community development practitioners;
  - Develop greater public awareness of the benefits and risks of financial products and of the rights and responsibilities that derive from community investment and fair lending regulations
  - Promote among policy makers, community leaders, and private-sector decision makers a better understanding of the practices, processes, and resources that result in successful community development programs

# Today's Presenters and Agenda

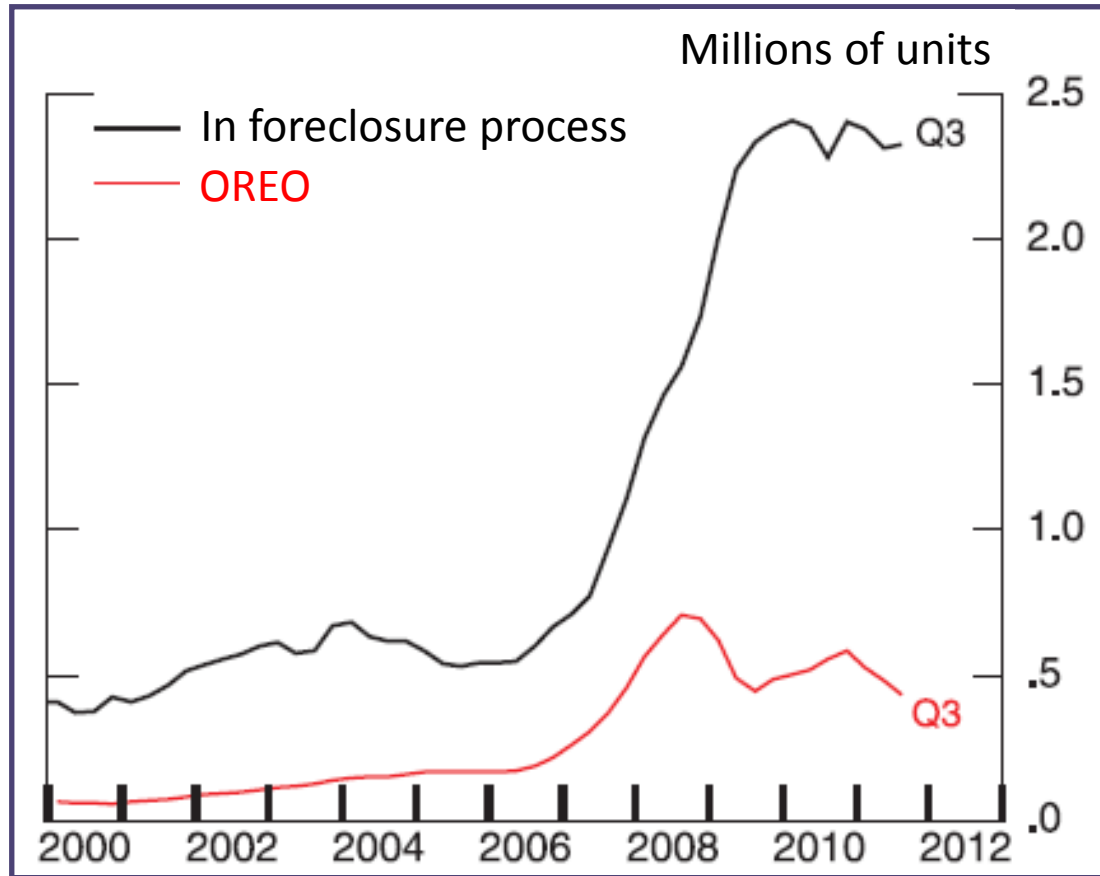
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# Session Purpose

- During the recent financial crisis, banking institutions have experienced a rise in OREO property.
- In light of these extraordinary conditions, the Federal Reserve Board recently reminded banking institutions and examiners (under Board supervision) of the regulations and policies associated with the management and disposition of OREO property.
- The session will convey the purpose for these policies and discuss implementation issues to ensure that institutional practices do not adversely impact consumers and communities.

# Elevated Inflows of Residential OREO Continue

## Foreclosure and OREO Inventory



Source: Staff estimate from Mortgage Bankers Association for foreclosure inventory and CoreLogic for OREO



# Policy Goals and Supervisory Expectations

- Federal Reserve goals in issuing guidance on residential OREO include:
  - Clarifying existing regulation with respect to management and disposition of OREO for banks, examiners, and the public
  - Reducing risk for holders and sellers of OREO
  - Demonstrating the similar interests of stakeholders
  - Encouraging stabilization of neighborhoods and housing markets

# General Expectations With Respect to Managing and Disposing of OREO

- OREO asset holders should have a clear and effective approach for management and disposition of OREO, including:
  - Comply with all federal, state, and local laws and regulations.
  - Implement effective property maintenance standards and third-party vendor oversight.
  - Consider practices that support neighborhood stabilization.
- If OREO is rented, asset holders should follow the provisions of the Federal Reserve Policy Statement on Rental of Residential OREO Properties.

# Neighborhood Stabilization and Other Disposition Considerations

- Selling OREO properties to owner/occupants or donating them to groups involved in neighborhood stabilization efforts can help financial institutions receive credit under the Community Reinvestment Act (CRA).
- Many institutions have implemented “first look” programs that give prospective homeowners a brief, exclusive opportunity to purchase bank-owned properties in certain neighborhoods. These homes can be rehabilitated, rented, resold, or demolished.
- An institution should ensure that its policies and procedures governing the marketing, sale, and disposition of OREO properties comply with applicable laws, including the Fair Housing Act and the Equal Credit Opportunity Act (if the institution makes or facilitates credit).

# Federal Reserve's OREO to Rental Policy Statement: April 2012

- Background to the policy statement:
  - Serious delinquencies and foreclosures have meant a substantial inflow of OREO to lenders; speedy resales by creditors have contributed to home price declines.
  - Price signals suggest renting may be a useful element of the orderly disposition process in some local markets.
  - OREO at most supervised institutions is subject to a maximum legal holding period, which varies by entity type, and a requirement to show good-faith efforts for disposition.

# Federal Reserve's OREO to Rental Policy Statement: April 2012 (continued)

- Main elements of the policy statement:
  - In these extraordinary market conditions, rental can fulfill the Federal Reserve's expectation of "good-faith efforts."
  - OREO rental of properties that meet the definition of community development can receive favorable CRA consideration.
  - Certain overall risk management considerations apply to all institutions renting residential OREO, including compliance with landlord/tenant, registration, and all other applicable [federal, state, and local] laws/regulations.
  - Specific supervisory expectations apply for institutions with large-scale OREO rentals, including with regard to oversight of third-party property managers.

# Landlord-Tenant and Anti-Discrimination Protections

- Institutions should have controls in place to comply with all federal, state, and local laws related to protecting the rights of tenants, including:
  - The Protecting Tenants at Foreclosure Act of 2009 (CA letter 09-5)
  - The Servicemembers Civil Relief Act (CA letter 05-3)
  - The Fair Housing Act
  - The ADA

Do you have questions?  
E-mail us at:  
[communities@stls.frb.org](mailto:communities@stls.frb.org)

# Wrap-up/Closing

Thank you to today's presenters and to all participants for joining this session.

## Next steps:

- All session materials are available on our web site and in the next few days we will be posting an audio file of today's session
- Additional Federal Reserve System resources related to this topic can be found on our web site along with links to your local Federal Reserve Community Development office
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at [communities@stls.frb.org](mailto:communities@stls.frb.org)
- Information about future sessions will be posted on our website along with archived materials from past sessions: [www.stlouisfed.org/connectingcommunities/](http://www.stlouisfed.org/connectingcommunities/)