

# The Economic Importance of Being Educated

**INSIDE:**

Early Childhood Education

Consumer Finance

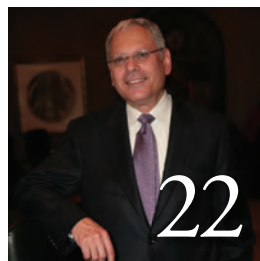
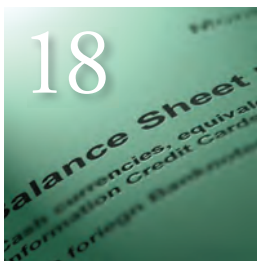
Mortgage Counseling

**PLUS:**

Q&A with Laurence Meyer

# Forefront

New Ideas on Economic Policy from the FEDERAL RESERVE BANK  
of CLEVELAND



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Forefront  
Federal Reserve Bank of Cleveland  
PO Box 6387  
Cleveland, OH 44101-1387

forefront@clev.frb.org  
clevelandfed.org/forefront

FALL 2010

Volume 1 Number 3

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**President and CEO:** Sandra Pianalto

**Editor-In-Chief:** Mark Sniderman,  
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**Managing Editor:** Robin Ratliff

**Editor:** Doug Campbell

**Associate Editors:** Amy Koehnen, Michele Lachman

**Art Director:** Michael Galka

**Designer:** Natalie Bashkin

**Web Managers:** Stephen Gracey, David Toth

**Contributors:**

Dan Littman	Anne O'Shaughnessy
April McClellan-Copeland	Andrea Pescatori
Filippo Occhino	Jennifer Ransom

**Editorial Board:**

Ruth Clevenger, Vice President, Community Development  
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## Battling the Next Phase of the Housing Crisis



**Anne O'Shaughnessy,**  
Community Development  
Project Manager

The foreclosure crisis is breeding a new one: a crushing load of REO, or real-estate-owned, properties. These are the foreclosed homes that banks and other lenders have on their books after failing to sell them at sheriff's auctions. In weak housing markets, including many in the Fourth District, these unsold houses too often stand vacant and neglected.

A new volume published by the Federal Reserve Banks of Cleveland and Boston and the Federal Reserve Board of Governors highlights the latest research and on-the-ground efforts to attack the REO problem on several fronts. The collection of articles, *REO & Vacant Properties: Strategies for Neighborhood Stabilization*, was released in September to coincide with a summit hosted by the Federal Reserve in Washington. The summit aimed to help communities and practitioners find the most promising practices for addressing neighborhood stabilization and the disposition of REO properties across the country.

Among the Cleveland-area contributors to the volume were researchers at Case Western Reserve University. The researchers reported a worsening scope to the problem in northeast Ohio, offering new evidence of how REO properties further drag down communities.

In "REO and Beyond: The Aftermath of the Foreclosure Crisis in Cuyahoga County, Ohio," Claudia Coulton, Mike Schramm, and April Hirsh found:

- Since 2007, *almost all* properties in Cuyahoga County (home to Cleveland) that come out of foreclosure sales have ended up as REOs.
- The number of REOs in the county peaked in 2008 at just over 10,000 properties and had declined to about 7,300 by late 2009.
- REOs are disproportionately concentrated in lower-income communities.
- From 2004 to 2008, the percentage of properties on Cleveland's east side that sold out of REO at extremely distressed prices—\$10,000 or less—shot up from 4 percent to almost 80 percent.

What does this mean for the area's already-battered neighborhoods? REOs are often vacant and subject to vandalism and further devaluation. Their presence lowers the values of neighboring properties and destabilizes neighborhoods.



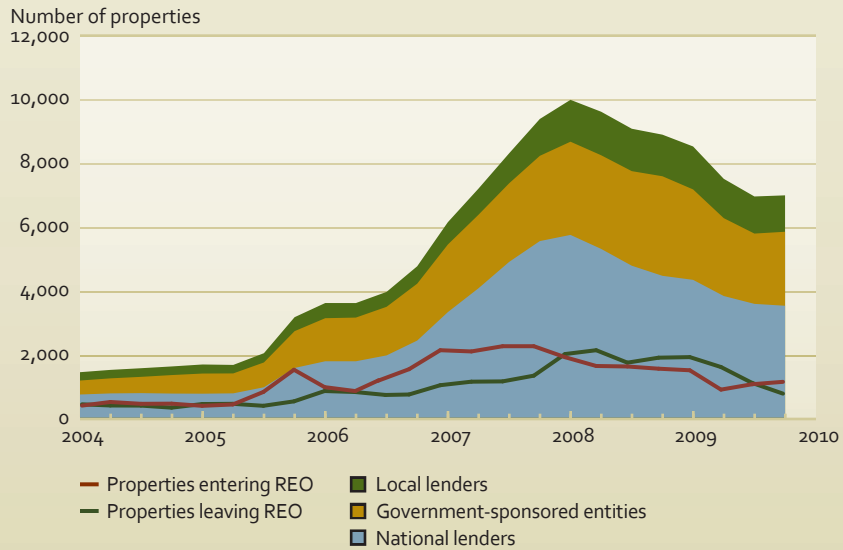
The authors' findings also indicate that most REO properties in the county are owned by national lenders, some with no local branches. Buyers include many out-of-state investors, who may purchase these properties sight unseen and take a let-it-sit-I'll-wait-till-the-market-rebounds approach. They tend not to make any improvements, and maintenance suffers.

By 2009, REO properties on Cleveland's east side were *selling at just 13 percent of their pre-foreclosure market value*. Given already-low housing prices and the large volume of REO transactions, the authors wrote, "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."

Though solutions are hard to come by, one promising local effort is the Cuyahoga County Land Bank. That's the subject of Federal Reserve Bank of Cleveland economist Tom Fitzpatrick's article in the REO publication. Fitzpatrick explores how modern land banks have developed into powerful tools: Communities acquire REO properties as a way to stabilize, and in some cases revitalize, at-risk neighborhoods. Modern land banks tend to have broader geographic coverage and to wield wider powers to acquire, deconstruct, demolish, and rehabilitate inventory, and keep dedicated revenue streams—all improvements on traditional land banks.

## Rising Tide

### Properties Entering and Leaving REO in 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.

Other approaches highlighted in the volume, such as the public-private partnership spearheaded by Boston Community Capital in specific neighborhoods of the city, show the distinct ways that communities deal with the challenge of their REOs.

The REO volume represents the Federal Reserve's effort to listen to stakeholders, analyze various policy options for dealing with important public problems, and then make information available. ■

#### Related link



**REO & Vacant Properties: Strategies for Neighborhood Stabilization**, the name of both a national summit and its companion publication, focuses on how policymakers and community development practitioners can help stabilize the neighborhoods most at risk for decline. The publication contains 17 articles that shed light on the scope of the problem in specific areas of the country and showcases some methods for dealing with the challenge of vacant and REO properties.

[www.clevelandfed.org/Community\\_Development/publications/REO/index.cfm](http://www.clevelandfed.org/Community_Development/publications/REO/index.cfm)