



# Protecting Communities on the Road to Recovery

Why Strong Standards are Critical for the  
Distressed Asset Stabilization Program

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By Sarah Edelman, Michela Zonta, and Shiv Rawal     June 2016



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# Introduction and summary

More than 778,000 homeowners with loans backed by the Federal Housing Administration, or FHA, and the two government-backed mortgage corporations—Fannie Mae and Freddie Mac—are at serious risk of foreclosure.<sup>1</sup> A full housing recovery in the fragile neighborhoods where many of these loans are located largely hinges on how well agencies and investors are able to help these homeowners stay in their homes. And in those cases where foreclosure is unavoidable, it is important to ensure that vacant properties are well-maintained and do not further erode home values in a neighborhood.

In 2012, the FHA launched the Distressed Asset Stabilization Program, or DASP, to sell seriously delinquent single-family loans and vacant properties facing near-certain foreclosure through regular auctions to private investors—mostly private equity firms and hedge funds.<sup>2</sup> Sales of nonperforming loans through programs such as DASP are often called “note sales,” as notes refer to the promissory record documenting that a borrower owes money to a lender.<sup>3</sup> Thus far, the note sales through DASP appear to have helped the FHA reduce the costs and legal risks associated with maintaining and selling foreclosed properties.<sup>4</sup>

However, DASP needs additional protections to ensure that note purchasers handle the assets they purchase responsibly. Moreover, DASP in its current form appears to shift some of the costs associated with foreclosures from the federal government to neighborhoods and local governments. Stronger standards—for loss mitigation, a process that can help borrowers avoid foreclosure; for how investors deal with vacancies; and for neighborhood stabilization—would better ensure that homeowners get a fair chance to stay in their homes when their properties are sold through DASP. These improvements also could control vacancies, which put a drag on local economies, and bolster FHA finances over the long term.

In May, *The New York Times* reported that the U.S. Department of Housing and Urban Development, the federal agency that houses the FHA, would soon announce improvements to DASP.<sup>5</sup> Further improvements would be a critical step in the right direction, and the FHA should continue efforts to quickly

finalize the improvements. Unfortunately, some investors and members of Congress oppose such moves. Senate Banking Committee Chairman Sen. Richard Shelby (R-AL) and House Financial Services Committee Chairman Rep. Jeb Hensarling (R-TX) wrote to the FHA in March, arguing that changes would hurt private market participation in DASP and should be rejected.<sup>6</sup> Improvements to DASP, though, are unlikely to reduce private-sector participation and would improve neighborhood stabilization efforts.

Those who oppose changes to DASP may argue that protections for homeowners, neighborhoods, and local governments are unnecessary because investors' economic incentives are well-aligned with the needs of homeowners and therefore are likely to guide business in ways that benefit all parties. This report challenges claims that relying on investor market incentives alone is a sufficient strategy to protect vulnerable communities, underscoring the importance of strong standards for DASP.

The Center for American Progress' analysis shows that relying on assumptions about investor market incentives without accounting for the range of companies buying assets, or the characteristics of the assets sold and the markets in which they are located, is a dicey approach that could put taxpayers and neighborhoods at greater risk. Private-sector investors may not always have a strong economic incentive to offer long-term, sustainable loan modifications or to invest in the maintenance, demolition, or rehabilitation of properties. Moreover, firm incentives may vary depending on the characteristics of the market in which an asset is located, and purchased assets located in distressed communities may be at greater risk of neglect.

In preparing this report, CAP analyzed more than 70,000 loans across the national pools of mortgages sold through DASP in six national auctions from April 2012 to June 2014.<sup>7</sup> The analysis shows that about two-thirds of the notes are located in ZIP codes suffering from higher-than-average rates of negative equity, a term that means a homeowner owes more on a home than it is worth. A staggering 83.5 percent of notes in the report sample are in ZIP codes with a higher concentration of people of color than the national median.<sup>8</sup> In short, the majority of nonperforming loans are attached to properties located in communities particularly hard hit by the housing crisis or that are home to racial and ethnic groups that have lost a disproportionate share of wealth throughout the foreclosure crisis.<sup>9</sup>

At the same time, a significant share of notes in the sample is located in ZIP codes that may be on the road to recovery. Overall, 60 percent of notes are located in ZIP codes with negative equity levels that, although higher than the national



average, are improving, and 66 percent of the notes are located in ZIP codes that experienced job gains from 2010 to 2013. These trends suggest that assets sold through DASP tend to be located in struggling communities but that many of these communities are experiencing improvements in their housing markets and local economies. If investors handle the notes responsibly, they can help push improving communities toward recovery. On the flip side, if investors do not treat homeowners fairly or do not adequately maintain foreclosed properties, they could undermine or delay a full recovery in these communities.

The FHA should take additional steps to ensure that note buyers are offering sustainable loan modifications and handling foreclosed or vacant properties responsibly. And policymakers should not obstruct such improvements, which are critical to ensure that DASP does not derail communities still very much on the road to recovery. By increasing loss mitigation standards<sup>10</sup> and creating stronger requirements for how investors handle foreclosures and vacant properties, the FHA can signal a critical step forward in DASP that can help ensure positive outcomes for homeowners, neighborhoods, and ultimately the FHA itself.

# Background: The Distressed Asset Stabilization Program

In 2012, the Federal Housing Administration launched the Distressed Asset Stabilization Program, a strategy for managing the high volume of FHA-insured single-family mortgages that were heading to foreclosure.<sup>11</sup>

Each quarter or so, the FHA sells pools of nonperforming loans via auction through DASP. For a loan to be eligible for the program, the FHA servicer should exhaust all of the FHA's loss mitigation requirements.<sup>12</sup> In other words, the auction sale should be a last resort for these loans before they go through foreclosure. During the auction, investors—including private equity firms, hedge funds, and nonprofits—submit bids for a pool of loans, and the FHA awards the pool to the highest bidder.<sup>13</sup> Freddie Mac created a similar auction program in 2014, followed by Fannie Mae in early 2015.<sup>14</sup>

CAP published a report in 2014 that describes the opportunities and risks associated with DASP.<sup>15</sup> As noted in the report, the program has the potential to be a win-win approach for the FHA—which is able to move distressed assets off of its books and get back to the business of promoting access to mortgage credit—and the distressed homeowner, who gets an additional chance to avoid foreclosure. However, the report also expressed CAP's concern that without establishing strong standards for the companies purchasing loans from federal agencies, loan buyers could further destabilize some of the very communities that the FHA seeks to support. As CAP warned, communities are put at risk when a loan buyer offers unsustainable loan modifications or decides to flip the loans it purchases to an unscrupulous investor.

With that report, CAP issued several recommendations to the FHA for improving the note sale program, including more guidance to buyers about loss mitigation protocol, more neighborhood stabilization requirements, and better reporting standards, among other suggestions. In April 2015, the FHA announced a series of changes to DASP that showed a commitment to improving the program.<sup>16</sup> These changes include provisions to allow nonprofits and governmental entities to have

the “first look,” or the first option to purchase vacant properties; to strengthen reporting standards; to establish a nonprofit-only auction; and to require buyers to evaluate whether homeowners would qualify for the Home Affordable Modification Program, or HAMP, or a similar loss mitigation program.<sup>17</sup>

The FHA’s April 2015 changes represent an important step forward for DASP, but the program requires additional improvements to minimize risks for homeowners, their communities, and their local governments. This report shows what is at stake through DASP by looking at the communities attached to notes sold through the program. CAP’s analysis seeks to illuminate why and how the FHA should build on its progress through additional steps that ensure loan purchasers who participate in DASP handle the loans they purchase responsibly.

## How DASP works<sup>18</sup>

**Step 1:** A mortgage servicer decides to sell a loan through DASP. In order to be eligible, the loan should be at least six months delinquent, and the servicer should have exhausted a suite of loss mitigation options required by the FHA.<sup>19</sup>

**Step 2:** The FHA pays the unpaid principal balance of the loan along with certain fees and expenses, and payment ultimately goes to the entity that owns the loan.<sup>20</sup>

**Step 3:** The FHA purchases the loan. Once it does, the homeowner is notified that the loan has been sold.<sup>21</sup>

**Step 4:** The FHA groups such loans into pools and sells these pools through quarterly auctions. There are two types of auctions. National auctions pool loans together from across the country. NSO auctions tend to be focused geographically in metropolitan areas especially affected by the foreclosure crisis.<sup>22</sup>

Within a given pool purchased through an NSO auction, investors must achieve certain outcomes for at least 50 percent of the loans within 48 months of the last settlement date. These outcomes include:<sup>23</sup>

- Achieving reperformance of the mortgage loan, which means the borrower has resumed making mortgage payments<sup>24</sup>
- Selling the property to the owner-occupant
- Holding the property as rental
- Gifting the loan or the property securing the loan to a land bank or to a state or local government



- Selling the property to a neighborhood stabilization program grantee or subgrantee, a nonprofit, or a joint venture with a nonprofit
- Having the borrower pay the mortgage loan
- Accomplishing an alternative NSO approved by the U.S. Department of Housing and Urban Development

**Step 5:** The purchaser of a loan through DASP either self-services the loan or hires a new mortgage servicer for this function.<sup>25</sup>

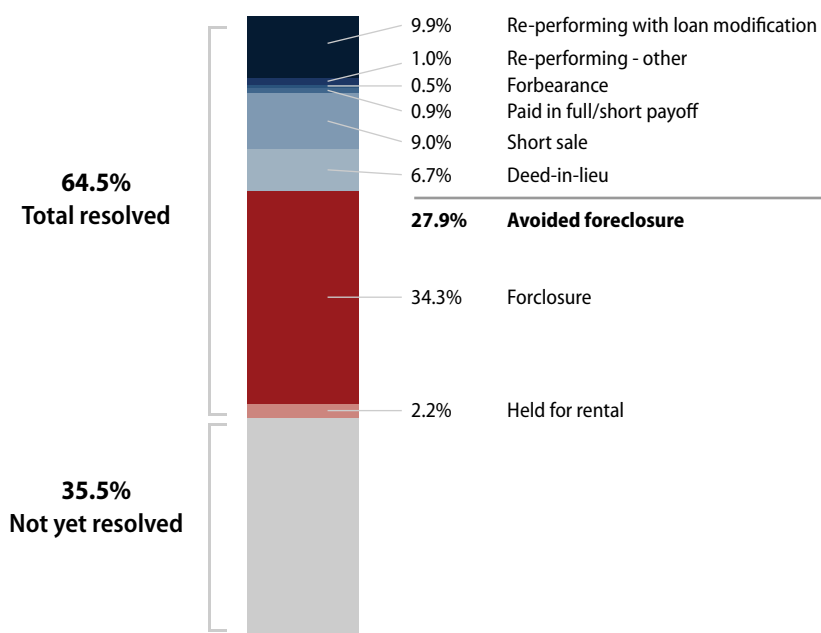
**Step 6:** The purchaser of a loan must fulfill any requirements that the FHA specifies and report regularly to the FHA on the loan's status.<sup>26</sup>

## Performance of notes purchased through DASP

The FHA's performance data show that only a portion of loans get resolved—meaning that they no longer go through delinquent servicing—through DASP. More than 35 percent of loans sold through DASP have not been resolved.<sup>27</sup> Without more data, it is unclear why these loans have not been resolved. The loans could be unresolved because the new owners are taking significant time to try to work out a deal with a homeowner. It is also possible that foreclosures are underway but stuck in a slow pipeline or that the buyers have essentially walked away from properties prior to foreclosure—resulting in what are sometimes termed “zombie foreclosures.”<sup>28</sup> These latter two possibilities can pose significant harm to communities that are struggling to recover or that are on the cusp of recovering from the housing crisis.

To be sure, about 16.8 percent of resolved loans are reperforming,<sup>29</sup> which means the homeowner has resumed mortgage payments.<sup>30</sup> The fact that almost 17 percent of resolved loans are reperforming is encouraging—if these loans truly were headed to foreclosure and if they are likely to reperform for the long term. However, it is not known whether these homeowners were offered affordable, sustainable loan modifications or unsustainable modifications. Moreover, consumer attorneys and news outlets have reported examples of loan modifications offered through DASP with unsustainable terms such as a high upfront payment or five-year, interest-only modification agreements that sometimes require a large balloon payment at the end of the term.<sup>31</sup>

**FIGURE 1**  
**Historical outcomes of loans sold through DASP**



Note: This data includes loans sold in Single Family Loan Sale 2010 through Single Family Loan Sale 2015-1, which means the data includes loans sold through the pilot program FHA resumed in 2010.

Source: Federal Housing Administration, *Report to the Commissioner on Post-Sale Reporting FHA Single Family Loan Sale Program* (U.S. Department of Housing and Urban Development, 2016), Exhibit 8, available at <http://portal.hud.gov/hudportal/documents/hud-doc?id=rprt.12616.pdf>.

Albeit limited in scope, the FHA's performance data on DASP suggests that the FHA needs to strengthen its rules to ensure that companies responsibly handle the notes they purchase. For example, instituting stronger loss mitigation standards and preventing investors from walking away from low-value properties could decrease the share of unresolved loans.

# Characteristics of communities where DASP notes are sold

This report's analysis of more than 70,000 notes auctioned from 2012 to 2014 through Distressed Asset Stabilization Program national auctions shows that most notes are sold in areas that are still recovering from the economic crisis. Most notes, for example, are attached to properties located in communities with higher-than-average negative equity rates, meaning that those communities have a significant concentration of borrowers who owe more on their mortgage than their home is worth. To be sure, a significant portion of the loans is located in strong neighborhoods with low negative equity rates. The prevalence of notes in localities still recovering from high negative equity rates, however, underscores that the Federal Housing Administration and investors can have a marked impact on vulnerable communities through how they handle the notes.

From 2012 to 2014, notes auctioned through DASP national auctions spanned dozens of states and metropolitan areas with varying housing market conditions. The analysis presented here is based on data obtained from the Legal Aid Society of Southwest Ohio LLC through a Freedom of Information Act request to the U.S. Department of Housing and Urban Development. The sample includes notes contained in the national pools of mortgages sold at six separate auctions from April 2012 to June 2014. Of the original 76,561 notes, 74,065, or 97 percent, were successfully geocoded.<sup>32</sup> Of these, 19 percent were assigned the geographic coordinates of the ZIP code centroid in absence of a valid street address. Further, notes located in Puerto Rico and any duplicates<sup>33</sup> were omitted from the sample. The final sample contains 71,764 notes, to which ZIP-code-level data were added for the analysis. Loans sold through the FHA's neighborhood stabilization outcome auctions, which have stronger standards for buyers, are not included in this sample.

Six states with the largest numbers of auctioned notes account for half of the final sample: Florida at 15 percent; New Jersey at 12 percent; New York at 8 percent; Illinois at 6 percent; Ohio at 5 percent; and Pennsylvania at 4 percent. The metropolitan statistical areas, or MSAs, with the largest number of notes include the

New York-Northern New Jersey-Long Island MSA, the Chicago-Joliet-Naperville MSA, and the Philadelphia-Camden-Wilmington MSA. Further, more than 6,000 notes, or 9 percent, were auctioned in metropolitan areas located in Florida.

Top findings from CAP analysis of the data are as follows:

- About two-thirds of distressed assets were sold in areas with high negative equity rates that are still in various stages of the housing and economic recovery.<sup>34</sup>
- A significant share of loans was sold in neighborhoods with positive economic indicators: About one-third of loans were sold in neighborhoods featuring low and decreasing negative equity rates; about one-fourth of notes were sold in ZIP codes with a robust housing market; and about two-thirds of notes were sold in ZIP codes experiencing job gains.
- Whether a market is weak or strong, home prices are rising in most ZIP codes where distressed assets were sold.
- Pools typically include loans from strong and weak markets. On average, a pool includes loans drawn from 31 states.

The table below breaks down the characteristics of the ZIP codes that house the loans in the report’s data analysis and provides a snapshot of housing, labor, and race and ethnicity characteristics of these ZIP codes. The table illustrates that notes tend to be sold in ZIP codes with higher-than-average negative equity rates, unemployment, and concentrations of nonwhite populations.

**TABLE 1**  
**Percentage distribution of auctioned notes by selected zip code characteristics**

Zip code characteristics	Percent of auctioned notes	
	Housing	
Percentage underwater mortgages	As much as 8%	10%
	8% - 14%, or the national average	27%
	More than 14%	63%
	14% - 20%	27%
	More than 20%	36%

Zip code characteristics		Percent of auctioned notes
Negative equity levels and trends	Lower than or equal to national average of 14% and decreasing	34%
	Lower than or equal to national average and increasing	2%
	Higher than national average and decreasing	60%
	Higher than national average and increasing	4%
Percentage vacant units	As much as 7%	29%
	7% - 12%, or the national median	38%
	More than 12%	33%
	12% - 22%	26%
	More than 22%	7%
Housing price index	Bottom quartile, or weak market	41%
	2nd quartile	22%
	3rd quartile	14%
	Top quartile, or strong market	24%
Home price trends, 2010-2014	Increasing	77%
	Decreasing	23%
Percentage of renter-occupied units	As much as 15%	8%
	15%-23%	19%
	23%-33%	28%
	More than 33%	45%
Labor		
Job market trends, 2010-2013	Job gain	66%
	Job loss	34%
Percentage unemployed	As much as 8%	31%
	More than 8%	69%
Race and ethnicity		
Percentage minority population	As much as 11%, or the national median	16%
	More than 11%	84%
	11% - 32%	34%
	More than 32%	49%

Note: All percent ranges listed in the table above refer to the numbers greater than the first number and less than or equal to the second number. For example, the category of "7%-12%" under "Percentage of vacant units" refers to the ZIP codes where more than 7 percent and less than or equal to 12 percent of the units are vacant.

Sources: CAP analysis of data from U.S. Department of Housing and Urban Development, *Single Family Loan Sale: 2012-2, 2012-3, 2013-1, 2013-2, 2014-1, and 2014-2*, provided by the Legal Aid Society of Southwest Ohio LLC. Data received in 2015; Zillow, "Additional Data Products: Negative Equity," 2015, second quarter, available at <http://www.zillow.com/research/data/#additional-data> (last accessed January 2016); Bureau of the Census, 2010–2014 American Community Survey (U.S. Department of Commerce, 2015), available at <http://www.census.gov/programs-surveys/acs/data/summary-file.2014.html>; U.S. Census Bureau, "County Business Patterns, 2010–2013," available at <http://www.census.gov/programs-surveys/cbp/data/datasets.html> (last accessed January 2016); U.S. Federal Housing Finance Agency, "House Price Index Datasets," 2010–2014, available at <http://www.fhfa.gov/DataTools/Downloads/Pages/House-Price-Index-Datasets.aspx> (last accessed January 2016).

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## Notes come from housing markets in various stages of recovery

The analysis shows that the majority of notes, 63 percent, are located in ZIP codes with high negative equity rates that exceed the national average of 14 percent. More than one-third of the notes are located in ZIP codes with very high negative equity rates—more than 20 percent—compared with the national average. Such high negative equity rates signify that a full housing recovery has not yet taken place in these communities. Furthermore, a significant share of the assets is located in ZIP codes with other indicators that suggest a lack of recovery. For instance, 8 percent of loans were sold in ZIP codes with very low home prices and where prices are dropping further. One-third of loans were sold in ZIP codes with vacancy rates higher than the national median of 12 percent. About 9 percent of notes sold through the program were themselves associated with vacant properties. And about 69 percent of notes were located in communities with high unemployment rates.

### *Neighborhoods that are hard hit and slowly improving*

Sixty percent of assets are located in ZIP codes where negative equity rates are higher than the national average of 14 percent but have declined over the past year. Many of these ZIP codes have experienced population growth and job gains since the depths of the foreclosure crisis, which may help support the housing market moving forward.<sup>35</sup> CAP's analysis shows that a vast majority of notes—77 percent—are located in ZIP codes with increasing home prices. Moreover, 66 percent of notes are in communities experiencing job gains.

These positive trends, though, are met with persistent unemployment: About 69 percent of loans come from ZIP codes with unemployment rates of more than 8 percent. And although negative equity rates may be decreasing in ZIP codes with high unemployment rates, a majority of notes are located in ZIP codes with negative equity levels that are dangerously high. While these ZIP codes are experiencing improvements in negative equity rates and increases in home prices, they still may have a long road to full economic recovery due to high negative equity rates, high unemployment, and high vacancy rates. For instance, more than 25,000 notes were auctioned in ZIP codes with negative equity rates of more than 20 percent. Some of the note sales in metropolitan areas with higher negative equity rates include Jacksonville, North Carolina, at 40 percent; Flint, Michigan, at 32 percent; and Hartford, Connecticut, at 62 percent, among others.



### *Neighborhoods that are hard hit and getting worse*

About 6,000 notes were auctioned in areas with very low home prices<sup>36</sup> and areas that have experienced some housing depreciation in the past five years. These areas include Dayton, Ohio; Mobile, Alabama; Rockford, Illinois; and Tallahassee, Florida.

### *Robust housing markets*

About one-third of the notes are located in ZIP codes with negative equity rates that are below the national average and are continuing to decline. Ten percent of notes were auctioned in areas with very low negative equity rates. For example, in the Portland and Dallas MSAs, notes were auctioned in ZIP codes with an average negative equity rate of 7 percent. Further, 24 percent of the notes were auctioned in areas in the top quartile of the House Price Index.<sup>37</sup>

### *Neighborhoods with large concentrations of people of color*

Notes were auctioned in neighborhoods with varying racial and ethnic characteristics. About 40 percent of notes were sold in ZIP codes featuring above average percentages of African Americans, and nearly 30 percent of notes were auctioned in neighborhoods with above average percentages of Hispanics. And about 84 percent of notes in the sample were sold in ZIP codes with a higher concentration of people of color than the national median.

### *Neighborhoods with vacancy rates higher than the median*

About one-third of notes in this analysis are located in ZIP codes with higher percentages of vacant units than the typical ZIP code—12 percent. Roughly 5,000 notes were auctioned in ZIP codes where more than 22 percent of the housing stock is vacant. These include ZIP codes such as the one described in Figure 2 below, located in Newark, New Jersey.

All in all, notes sold through DASP tend to be in areas with high negative equity rates and higher-than-average unemployment rates. These trends suggest that communities where notes are located are still very much in the process of recovering. A substantial share of notes also happens to be in neighborhoods with large concentrations of people of color, who lost a disproportionate amount of wealth during the crisis.

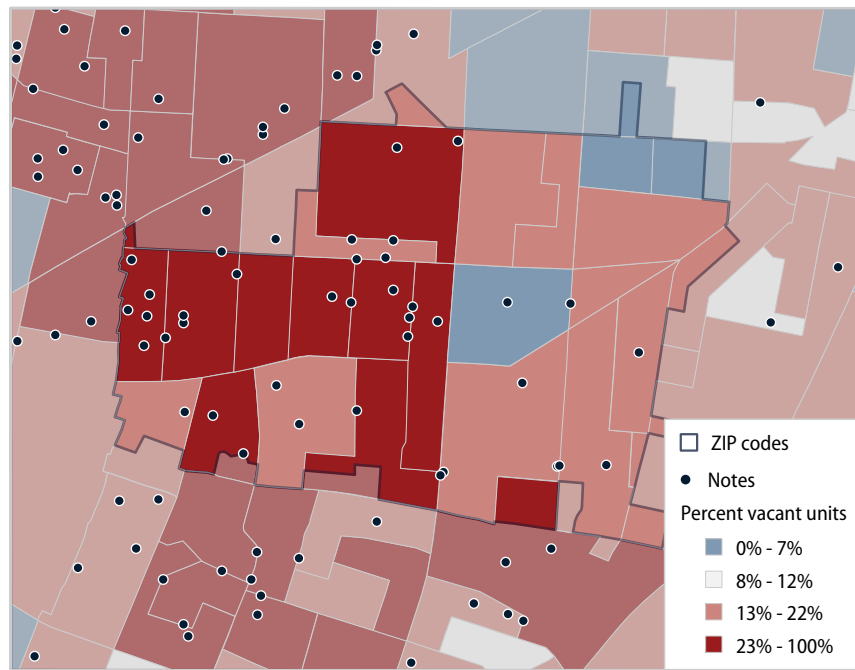
### *Auctions include vacant properties in addition to distressed mortgages*

About 9 percent, 4,818, of the notes for which occupancy status information is available—51,146—are associated with properties that were vacant at the time of the auction. While there is no statistically significant correlation between vacant properties and high vacancy rates at the ZIP code level in the report sample, vacant properties sold through distressed-note auctions tended to be located in areas with high negative equity. This concentration suggests that vacant properties may be more likely to be in close proximity to underwater homeowners, who could experience further losses to home equity if the property is not well-maintained.

As an example, the Newark, New Jersey, ZIP code area illustrated in Figure 2 below features one of the several clusters of auctioned notes in the New York-Northern New Jersey-Long Island MSA. The ZIP code represents one of the areas with a very high vacancy rate—24 percent. As the map shows, vacant units are concentrated in the western part of the ZIP code, where notes also tend to cluster. The ZIP code appears to be distressed along several measures: Only 20 percent of households own their homes; 42 percent of homeowners are underwater; 40 percent of the population lives below the federal poverty line; nearly 30 percent of the civilian labor force is unemployed; and 56 percent of households cannot afford their homes. Further, reflecting the racial and ethnic composition of the surrounding area, the ZIP code is characterized by a 90 percent black population.

FIGURE 2

Auctioned notes and vacancy rates in a Newark, New Jersey, ZIP code

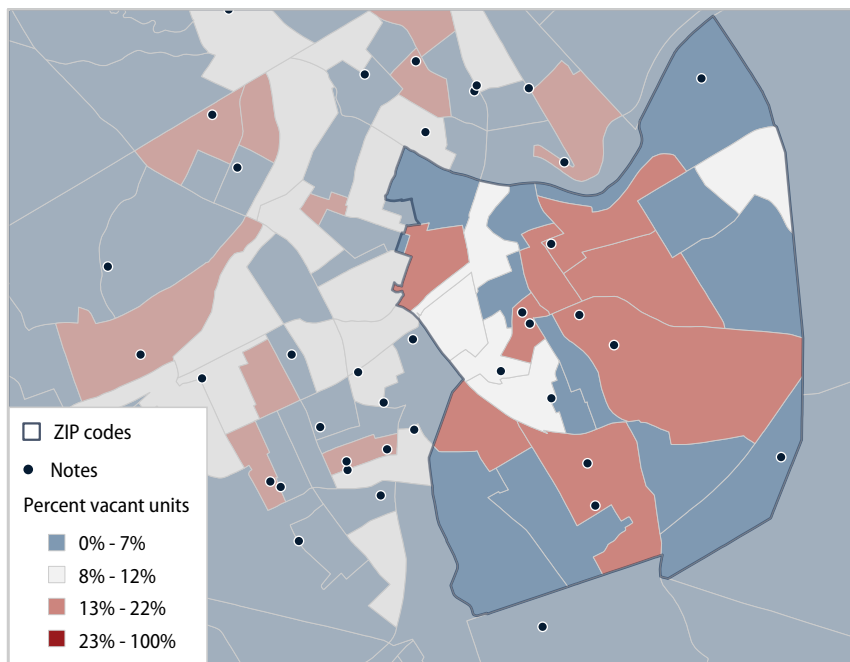


Sources: CAP analysis of data from U.S. Department of Housing and Urban Development, *Single Family Loan Sale: 2012-2, 2012-3, 2013-1; 2013-2; 2014-1, and 2014-2*, provided by the Legal Aid Society of Southwest Ohio LLC. Data received in 2015; Bureau of the Census, 2010–2014 American Community Survey (U.S. Department of Commerce, 2015), available at <http://www.census.gov/programs-surveys/acs/data/summary-file.2014.html>.

It is important to note that even in ZIP codes with relatively small percentages of vacant units, auctioned notes tend to be clustered in block groups with higher-than-average vacancy rates. In the Boston MSA ZIP code illustrated in Figure 3 below, for example, 8 percent of units are vacant. However, several of the block groups in the ZIP code feature vacancy rates higher than 8 percent. Notes tend to be clustered in these block groups. Vacant properties have been associated with higher crime, larger costs, and a higher risk to public health and welfare for communities.<sup>38</sup> Vacant properties also bring down the property values of the homes neighboring them.<sup>39</sup> This means that when located in areas with high negative equity rates, vacancies can lead to already underwater homeowners experiencing even further equity loss for their properties.

FIGURE 3

**Auctioned notes and vacancy rates in a  
Boston, Massachusetts, ZIP code**



Sources: CAP analysis of data from U.S. Department of Housing and Urban Development, *Single Family Loan Sale: 2012-2, 2012-3, 2013-1, 2013-2, 2014-1, and 2014-2*, provided by the Legal Aid Society of Southwest Ohio LLC. Data received in 2015; Bureau of the Census, 2010–2014 American Community Survey (U.S. Department of Commerce, 2015), available at <http://www.census.gov/programs-surveys/acs/data/summary-file.2014.html>.



TABLE 2

## Percentage distribution of auctioned notes by selected ZIP code characteristics

Pool 117, 2014-1 (N=1,351)

Zip code characteristics		Percent of auctioned notes
<b>Housing</b>		
Percentage of underwater mortgages	As much as 8%	6%
	8%-14%, or the national average	23%
	More than 14%	72%
	14%-20%	29%
	more than 20%	43%
Negative equity levels and trends	Lower than or equal to the national average, or 14%, and decreasing	27%
	Lower than or equal to the national average and increasing	1%
	Higher than the national average and decreasing	67%
	Higher than the national average and increasing	6%
Percentage of vacant units	As much as 7%	26%
	7%-12%, or the national median	39%
	More than 12%	35%
	12%-22%	29%
	more than 22%	6%
Housing price index	Bottom quartile, or weak market	21%
	2nd quartile	44%
	3rd quartile	22%
	Top quartile, or strong market	14%
Home price trends, 2010-2014	Increasing	74%
	Decreasing	26%
Percentage of renter-occupied units	As much as 15%	9%
	15%-23%	17%
	23%-33%	26%
	More than 33%	48%
<b>Labor</b>		
Job market trends, 2010-2013	Job gain	63%
	Job loss	37%
Percentage unemployed	As much as 8%	27%
	More than 8%	73%



Zip code characteristics		Percent of auctioned notes
Race and ethnicity		
Percentage minority population	As much as 11%, or the national median	14%
	More than 11%	86%
	11%-32%	33%
	More than 32%	53%

Note: All percent ranges listed in the table above refer to the numbers greater than the first number and less than or equal to the second number. For example, the category of "7%-12%" under "Percentage of vacant units" refers to the ZIP codes where more than 7 percent and less than or equal to 12 percent of the units are vacant.

Sources: CAP analysis of data from U.S. Department of Housing and Urban Development, *Single Family Loan Sale: 2012-2, 2012-3, 2013-1, 2013-2, 2014-1, and 2014-2*, provided by the Legal Aid Society of Southwest Ohio LLC. Data received in 2015; Zillow, "Additional Data Products: Negative Equity," 2015, second quarter, available at <http://www.zillow.com/research/data/#additional-data> (last accessed January 2016); Bureau of the Census, 2010–2014 American Community Survey (U.S. Department of Commerce, 2015), available at <http://www.census.gov/programs-surveys/acs/data/summary-file.2014.html>; U.S. Census Bureau, "County Business Patterns," 2010–2013, available at <http://www.census.gov/programs-surveys/cbp/data/datasets.html> (last accessed January 2016); U.S. Federal Housing Finance Agency, "House Price Index Datasets," 2010–2014, available at <http://www.fhfa.gov/DataTools/Downloads/Pages/House-Price-Index-Datasets.aspx> (last accessed January 2016).

# Standards needed for DASP to benefit homeowners and communities

The report's analysis shows that the communities represented most heavily in Distressed Asset Stabilization Program sales are those that have been most affected by the foreclosure crisis or that have not yet fully recovered from the crisis. Due to certain indicators such as job gains and decreasing trends in negative equity, many of these neighborhoods are also beginning to experience glimmers of a housing recovery as their local economies strengthen. The way in which distressed assets are managed on the blocks of these neighborhoods will help determine the pace of the housing recovery in these communities. If managed carefully, the Federal Housing Administration and investors could help communities stabilize and move closer to economic and housing recovery. Poor management that does not handle foreclosures and vacancies properly, however, risks destabilizing already vulnerable communities and complicating their opportunities for recovery.

It is important to consider some of the possible underlying economic motivations of firms purchasing these assets and how their choices may affect homeowners and, in some cases, increase costs to neighborhoods and local governments. Such a review suggests that the FHA cannot rely on assumptions about economic incentives alone to ensure that firms deal with the notes they purchase in a way that is beneficial for recovering communities.

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## Strong postsale loss mitigation standards can help homeowners avoid foreclosure

DASP needs clear standards for loss mitigation, which refers to a process meant to minimize harm to the FHA's insurance fund by allowing lenders to help homeowners who are delinquent on their mortgages avoid foreclosure.<sup>40</sup> Improved loss mitigation standards are critical to ensure that homeowners get a fair deal when their loans are sold at a discount to private investors through DASP. Without

these standards, investors may offer homeowners unsustainable loan modifications or send homeowners through an otherwise avoidable foreclosure. In fact, there are already indications that without these rules in place, loan buyers do not treat all borrowers fairly. Consumer attorneys have provided examples of loan buyers not always respecting a loan modification that the homeowner was in the process of negotiating when the loan was sold.<sup>41</sup> Some buyers offered loan modifications to homeowners with unsustainable terms or that seemed only designed for short-term success.<sup>42</sup>

Some experts and government officials have argued that strong postsale loss mitigation standards are not needed because investors have a strong economic incentive to help homeowners reperform and avoid foreclosure.<sup>43</sup> Their theory is that since loan buyers can earn significantly more money when homeowners reperform on their mortgages than they can through foreclosure, the economic incentive is strong for investors to provide homeowners with sustainable loan modifications whenever possible. While this theory may hold true in some instances, it is risky public policy to rely too heavily on assumptions about market forces to protect homeowners and, ultimately, communities.

Economic incentives do not stay fixed across all companies, assets, and markets. Economic incentives also can change over time as the housing market changes. A buyer's primary goal often is to deliver to investors the highest profit as quickly as possible. A company's strengths and business lines, the assets that it has purchased, and the markets in which the assets are located can influence the way that a company delivers results. These factors suggest that different companies' evaluations of and responses to economic incentives can vary, and their strategies may not always prioritize homeowner reperformance.

For example, a company that has built a high-performing, in-house servicing operation would likely have a different set of economic incentives than a company focused on building an inventory of single-family rental homes. It is difficult to predict the most profitable strategy for a company without knowing in detail its full business operation.

A buyer's economic incentives also may change depending on the size of an asset and the type of market in which the asset is located. For instance, a company may not have a strong economic incentive to invest in the rehabilitation of a low-value foreclosed property in a distressed market, since the resale value will be low. In some instances, it may cost the company the same amount of money or possibly

more to invest in high-quality mortgage servicing than it would cost to release the lien on a property or abandon a foreclosed property. On the other hand, in some hotter markets, the resale value of a property could exceed the profit a company could earn by selling a reperforming loan, possibly reducing a company's economic incentive to invest in a sustainable loan modification.

It is also important for policymakers to understand the extent to which how a company finances its operations also may affect its economic incentive to provide strong loan modifications. Some investors may package the distressed assets they purchase into short-term, low-yield bonds sold to institutional investors, where bondholders are paid primarily through the revenue generated by foreclosures. *The New York Times* reported that one of the largest buyers of FHA distressed assets engages in these types of transactions.<sup>44</sup> The terms of these bond deals are not broadly available to the public and are beyond the scope of this report. However, policymakers should be aware that these financing mechanisms could shape the economics of managing nonperforming loans in important ways and possibly influence investor behavior on the ground.

Finally, it is also possible that home price increases may affect investor incentives. In the report sample, 75 percent of the FHA distressed loans sold from 2012 to 2014 were located in ZIP codes where home prices are currently rising. With foreclosure inventory down and home prices rising, there may be significant market demand among cash buyers for foreclosed properties. A company purchasing a pool of distressed loans in an environment where prices are declining may have more economic incentive to invest in reperformance than it does in an environment where rising prices offer more foreclosure disposition options.

The FHA should not rely on assumptions about well-aligned economic incentives alone to protect homeowners. Clear metrics and standards for loss mitigation can help manage the risks associated with underperforming investors—those not working to achieve reperformance—and allow higher-performing investors the flexibility to offer loan modifications that are better than the minimum standard.

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## Strong neighborhood stabilization standards are key for hard-hit communities

Investors are in a position to reinforce market dynamics in the communities where they purchase loans.<sup>45</sup> When they responsibly invest in acquired properties, investors can contribute to home appreciation in surrounding communities. In contrast, when they opt out of investment, they can fuel a further downward spiral in struggling communities.<sup>46</sup> If foreclosed and vacant properties are not handled responsibly and in a timely fashion, it may take a very long time for recovering areas to rebound fully. Neglected properties in neighborhoods push down property values and could increase rates of negative equity for surrounding homeowners.<sup>47</sup> DASP needs strong standards that prioritize neighborhood stabilization across all auctions, not simply the neighborhood stabilization outcome auctions, as a way to prevent hard-hit neighborhoods from being worse off after the note sale process.

If the trends in DASP performance observed in the past continue, about half or more of the assets sold at auction are likely to end up in foreclosure. Throughout the foreclosure crisis, private investors purchased distressed assets in the form of foreclosed properties,<sup>48</sup> either through bulk sales or on the courthouse steps. Research about private investor behavior across different markets helps explain why the economic incentives at play when investors purchase distressed assets in bulk may not prioritize the stabilization of struggling communities.

In 2011, the Harvard Joint Center for Housing Studies commissioned case studies in Atlanta, Las Vegas, Cleveland, and Boston to better understand the relationship between distressed asset purchases and neighborhood stabilization. The study looked at the types of foreclosed properties investors acquired; the operation scale of investors; the strategies investors pursued with these properties; whether investors engaged in the rehabilitation of properties; and, ultimately, the effect that investor activities had on the surrounding community.<sup>49</sup> Results indicate that investor behavior varies significantly depending on the characteristics of the markets linked to purchased properties.<sup>50</sup> In particular, the study found that distressed property buyers in weaker markets were more likely to make their money by the so-called milking of properties—renting them while neglecting proper maintenance or rehabilitation and often failing to pay local taxes.<sup>51</sup> The study also found that investors would sometimes simply release their liens and walk away from low-value, often vacant properties obtained as part of a broader pool of properties.<sup>52</sup>

The degree to which investors are willing to undertake investments and prudently manage distressed assets is heavily influenced by the economic incentives that market conditions provide. Most pools likely contain loans located in both strong and weak markets, and more than 40 percent of the notes in CAP's analysis were located in weak markets. While profit-motivated private investors may have an economic incentive to rehabilitate and resell the homes acquired through auctions in stronger markets, they may be less inclined to do so in weaker markets. In the absence of strong economic incentives, investors may neglect their properties in weaker markets.

It is also possible that some investors purchasing pools of loans will sell the properties once they go through foreclosure to cash buyers who may milk or simply walk away from the properties. While the percentage of cash buyers across the country has receded since the height of the crisis, cash buyers still have a significant presence in some market areas,<sup>53</sup> meaning that there probably will not be any shortage of cash buyers to purchase distressed properties in bulk anytime soon.

Some purchasers of foreclosed properties have been selling the homes they obtain through contracts for deed, a type of seller-financing arrangement that does not transfer ownership of the home to the buyer until they complete the final payment.<sup>54</sup> According to *The New York Times*, thousands of the properties sold through contracts for deed were previously homes that went through foreclosure by Fannie Mae,<sup>55</sup> and contracts for deed have become more prevalent, as banks tightened credit standards after the financial crisis.<sup>56</sup> Contracts for deed can trap borrowers in large amounts of debt and require significant repairs on the property, and they rarely transfer a title to the borrower.<sup>57</sup> As with contracts for deed, economic incentives can motivate investors to pursue strategies that are good for making a profit but predatory toward homeowners.

The trends show that the economic incentives for note purchasers are nuanced, and they can differ based on the market where a particular note is located. These nuances make economic incentives too uncertain to rely upon for strong NSOs. The FHA needs strong neighborhood stabilization standards in order to ensure that DASP supports hard-hit communities.



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## Local governments pay the tab when asset buyers fail to maintain foreclosed properties

Proper maintenance will be critical to avoid a situation in which the local government is shouldering the financial burden of caring for vacant properties. Further, since the neighborhoods where assets are sold tend to have a high concentration of FHA homeowners,<sup>58</sup> proper maintenance is also important for the long-term health of the FHA mortgage insurance fund, which may suffer if conditions further deteriorate in FHA neighborhoods.

Foreclosures and vacant properties pose severe costs to local governments. Foreclosures, for instance, may drive declines in tax revenues,<sup>59</sup> a critical resource for local governments. Local government budgets also are strained by the direct costs associated with foreclosures and the management and disposition of vacant and abandoned properties.<sup>60</sup> These costs include inspections, court actions, police and fire department efforts, potential demolition, unpaid water and sewage, and trash removal.<sup>61</sup> Ultimately, when local governments experience tight budgets, they could transfer some of these costs to local taxpayers. In addition, growing numbers of neglected or abandoned properties in a neighborhood increase the likelihood that other area homeowners will experience a foreclosure, creating further pressure on local budgets.<sup>62</sup>

On the other hand, when foreclosed properties are handled responsibly and either demolished or rehabilitated, neighboring homeowners may benefit. One analysis in the Atlanta metropolitan area showed that when a local nonprofit invested \$2.3 million to rehabilitate 53 homes, the effort contributed to a \$14.6 million increase in values for surrounding properties.<sup>63</sup> By better ensuring that investors do not abandon vacant properties and strengthening its standards for loss mitigation, the FHA would help more homeowners stay in their homes and avoid foreclosure, thereby helping local governments avoid the costs of foreclosure. Encouraging sales to nonprofits that seek to sustain homeownership and stabilize communities also could prevent foreclosures and their accompanying costs.

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## Strong neighborhood outcomes could mean a stronger FHA insurance fund

Strong neighborhood stabilization outcomes are not only good for struggling communities, but they also can improve the health of the overall FHA Mutual Mortgage Insurance Fund. The neighborhoods where loan sales are taking place are areas where other FHA homeowners reside. Therefore, the outcomes at the local level—whether positive or negative—may affect the FHA insurance fund down the road. From 2012 to 2014, the FHA insured nearly one-third, or 29 percent, of new loans made in the ZIP codes where notes are located.<sup>64</sup> In New York-North New Jersey; Chicago; and Philadelphia-Camden, the three metropolitan areas with the greatest number of notes sold, FHA insured about 23 percent, 28 percent, and 29 percent of new loan originations in the ZIP codes where notes are located, respectively.<sup>65</sup> If investors handle foreclosures and vacant properties poorly, it can affect the property value and equity of neighboring homeowners who may be FHA insured. The economic distress caused by foreclosures and vacancies then can influence the ability of neighboring FHA-insured homeowners to make their payments. If these homeowners slip, they have a negative effect on the overall FHA fund. A responsible disposition of distressed assets in these neighborhoods, therefore, can contribute to the health of the FHA Mutual Mortgage Insurance Fund.

# Recommendations for strengthening DASP

Recently, the Federal Housing Administration indicated to the press that it may be pursuing additional improvements to the Distressed Asset Stabilization Program, raising hopes that additional safeguards would be put in place to ensure that DASP is a win-win for the FHA, homeowners, and neighborhoods.<sup>66</sup> Policymakers should support the FHA in making further improvements to DASP, and FHA should act swiftly.

In April 2016, the Federal Housing Finance Agency, or FHFA, which regulates Fannie Mae and Freddie Mac, announced a suite of new standards for the note sales that the two mortgage entities coordinate.<sup>67</sup> These new standards require that buyers consider some borrowers for principal reduction—a process that reduces the balance on a borrower’s loan when that borrower owes much more on a home than it is worth—prohibit buyers from walking away from vacant properties, and forbid buyers from using a handful of predatory loan modification terms.<sup>68</sup> The FHA should build upon these changes to strengthen its own note sale program through DASP. Such improvements would create a stronger floor of standards and ensure that DASP does not rely on assumptions about economic incentives alone to ensure that buyers handle notes responsibly.

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## Ensure that loans sold through DASP have exhausted all FHA loss mitigation options

Over the past year, the FHA claims it has created a more rigorous screening process to make sure servicers are only sending eligible loans through the program.<sup>69</sup> The FHA should continue this work and consider providing notice to homeowners when their loans are about to be sold through DASP, giving them one last chance to raise their hands if they believe their loans were sold before all loss mitigation was exhausted or if they are in the middle of a modification application.

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## Strengthen and clarify postsale loss mitigation standards

In April, the FHFA mandated that Fannie Mae and Freddie Mac consider certain borrowers for principal reduction in order to help struggling homeowners avoid losing their homes through foreclosure.<sup>70</sup> Lowering the balance on an underwater borrower's loan is a powerful tool for retaining homeownership, and the FHA should build upon the FHFA's policy by requiring that note purchasers in DASP provide all underwater borrowers who are still living in their homes with principal reduction down to a loan-to-value ratio of 115 percent or below.

In 2015, the FHA announced that DASP buyers must follow "HAMP-like" guidelines when servicing notes they purchase through the program.<sup>71</sup> Presumably, this means they must first pursue home retention and foreclosure prevention before foreclosing on a property. This also may mean that buyers must follow HAMP-like guidelines when offering loan modifications, which could mean that they need to offer an affordable, sustainable loan modification.

The FHA should clarify this standard, especially since the Home Affordable Modification Program expires at the end of 2016.<sup>72</sup> The standard should make it clear that loan modifications should include principal reduction, be affordable and reduce a homeowner's monthly payment, and not include a balloon payment or reset to an unaffordable loan modification.

Setting reasonable loss mitigation standards should not keep good buyers from coming to the table. The FHFA requires companies buying notes through sales by Fannie and Freddie to participate in HAMP,<sup>73</sup> and the requirement does not seem to have dissuaded investors from participating in the sales.<sup>74</sup> Moreover, there are likely some companies buying notes from the FHA that already offer sustainable loan modifications that include principal reduction. Setting strong minimum standards helps reward companies that are already doing the right thing and prevents other companies from being able to purchase notes without investing in high-quality loss mitigation.

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## Minimize the number of vacant properties in bulk note auctions and establish maintenance standards for real-estate-owned properties

CAP emphasizes its 2014 recommendation that the FHA develop a separate set of requirements for vacant properties.<sup>75</sup> Allowing mortgage servicers to load vacant properties into a program with requirements focused mainly on keeping homeowners in their homes undermines the core thrust of DASP and makes it hard for entities interested in modifying delinquent loans to trust the quality of the pools they are buying. Investors also may have little economic incentive to maintain vacant properties in weak markets. The FHA should limit the number of vacant properties sold through bulk note auctions, as they pose a greater risk to neighborhoods.

More than 50 percent of loans resolved through DASP have gone to foreclosure, yet there are no clear standards in place to ensure that these properties are maintained at least to the FHA maintenance standard for real-estate-owned, or REO, properties.<sup>76</sup> The FHA's REO properties are those that the agency owns after paying a claim to a lender for the property. Usually, the lender owned the property before the FHA due to the borrower defaulting on the property's mortgage.<sup>77</sup> The FHA should require buyers of notes to properly maintain any properties that go through foreclosure or become vacant after purchase.

In addition, CAP echoes recommendations made by the National Community Stabilization Trust that the FHA reconsider whether it is appropriate to sell low-value assets, which are at the greatest risk of being abandoned, through its auction platform.<sup>78</sup>

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## Strengthen reporting standards

Although the FHA releases a program performance report twice each year, the reports would be more useful if they included information at a more granular level. Currently, the FHA shares information at the auction level instead of the pool level. Information at the auction level is of limited use, since there are often many pools sold in one auction. The FHFA recently announced that it, Fannie, and Freddie will begin to report on borrower outcomes at the pool level.<sup>79</sup> The FHA should follow the FHFA's lead and share information at the pool level, which would help the public better understand how particular companies are perform-

ing. The FHA could pair this information with characteristics about the pools so that the public is better positioned to compare the performance of buyers. The FHA also should consider including details about the types of loan modifications offered and postforeclosure outcomes by pool. Finally, the FHA should make clear that reporting requirements travel with all notes, not only those sold through neighborhood stabilization outcome auctions. Public transparency can help encourage better servicing.

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### Reward buyers that prioritize neighborhood stabilization

Not all note buyers are created equal. The FHA should take steps to reward buyers that do a better job of promoting home retention and stabilizing neighborhoods. Several organizations—including CAP, Americans for Financial Reform, the National Council of La Raza, the Urban Institute, and the Alliance of Californians for Community Empowerment—have indicated support for the FHA to either prioritize or reward note purchasers that accomplish positive outcomes for homeowners and communities.<sup>80</sup> One way to accomplish this is by allowing a bidder to receive extra points for a bid—perhaps a specific dollar amount—for committing to certain NSOs. Agencies can encourage and reward behavior that will strengthen neighborhoods and reduce costs for local taxpayers, which may require additional buyer investment.<sup>81</sup>

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### Expand NSO auctions

As the analysis in this report shows, there are thousands of assets located in fragile communities that are sold through the DASP national auction, which lacks neighborhood stabilization standards. The FHA committed to improving the NSO auctions, which set higher standards for how investors handle assets, and it should follow through with this commitment.<sup>82</sup> Assets in distressed neighborhoods should be sold primarily through NSO auctions.



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## Engage with local agencies in areas where clusters of notes are sold

It is important to seek input from local agencies with a stake in the neighborhoods where notes are clustered in order to maximize the chance that distressed properties will serve as assets, not liabilities, for the communities in which they are located. Providing data to local governments about assets sold through DASP can help them better target code enforcement efforts. Better coordinating with local governments also can help the FHA ensure that it effectively implements DASP guidelines providing nonprofits and government entities the first look at vacant properties.

Buyers that manage distressed assets responsibly are unlikely to be seriously burdened by additional program standards. In fact, investor demand for loans sold through DASP has been strong for both national auctions with limited requirements and NSO auctions.<sup>83</sup> It is possible that in some instances, stronger standards could marginally reduce the amount investors are willing to pay for the nonperforming loans, as responsible management of loans and distressed properties may require more resources and result in a slightly lower bid price. However, policymakers must consider the benefits that stronger standards could yield for homeowners, local governments, and the FHA insurance fund over the long term. They also should consider the risks posed by unaccountable buyers.

# Conclusion

The Federal Housing Administration launched the Distressed Asset Stabilization Program as a way to help manage a high volume of nonperforming loans and distressed properties. With limited funding from Congress to encourage neighborhood stabilization, and with the FHA's mortgage servicers often failing to provide robust loss mitigation options to homeowners,<sup>84</sup> the FHA created a new tool to try to reduce the number of loans on its books, to give homeowners another shot at loss mitigation, and to stabilize neighborhoods.<sup>85</sup>

A CAP analysis of more than 70,000 notes contained in the national pools of mortgages sold at six auctions from April 2012 to June 2014 shows that most notes are located in communities still in the process of recovering from the housing crisis. For instance, notes tend to be attached to properties in communities with high rates of negative equity and high unemployment rates. Agencies and investors can have a significant effect, be it positive or negative, on these communities based on how they manage notes.

This report emphasizes the urgent need for the FHA to continue its work to optimize DASP, which has thus far helped improve FHA's finances,<sup>86</sup> and which, if strengthened, could prevent homeowners from losing their homes and help steady vulnerable communities. Without proper standards in place, DASP may fall short of its goals of protecting homeowners and stabilizing neighborhoods.

Strategic improvements to DASP—including principal reduction for underwater borrowers, strong rules on how investors deal with vacant properties, strong reporting, and neighborhood stabilization standards—can prove critical to vulnerable communities still in recovery, while also improving the long-term health of the FHA's mortgage insurance fund.

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## About the authors

**Sarah Edelman** is the Director of Housing Policy at the Center for American Progress. Her work focuses on foreclosure prevention, single-family rental, and promoting access to affordable housing. Edelman's publications have been cited by *The Financial Times*, MSNBC, and Bloomberg, among others, and have been used as a resource by numerous advocacy and community groups across the country. Prior to joining the Center, Edelman worked in the areas of community development, community organizing, and consumer protection at Public Citizen, Community Legal Services, the office of Sen. Sherrod Brown (D-OH), and the Federal Deposit Insurance Corporation Division of Consumer Protection. Edelman holds a master's degree from the University of Maryland School of Public Policy and a bachelor's degree from The George Washington University.

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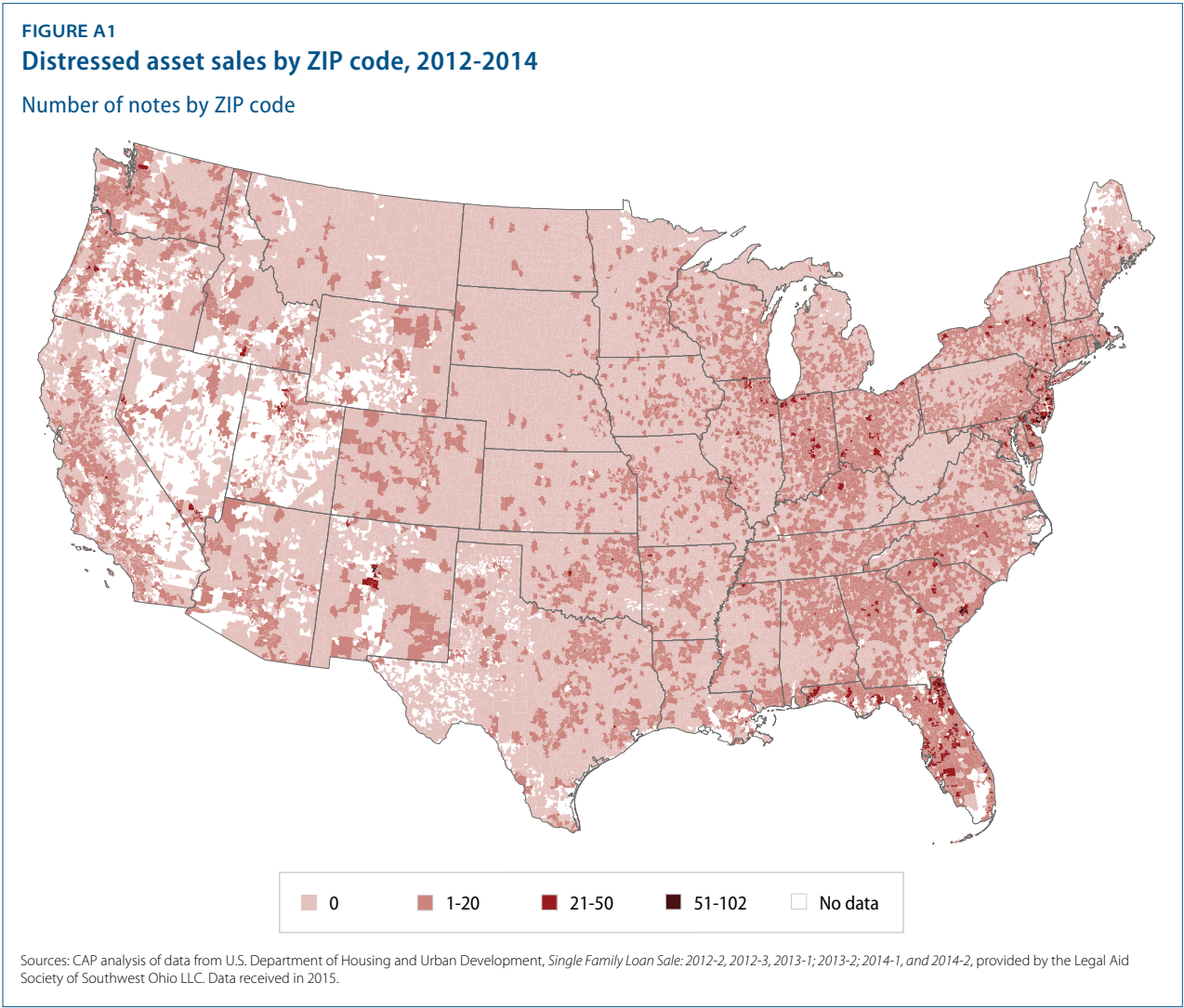
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## Acknowledgments

The authors thank Gerardo Sanz for his research assistance on this report.

# Appendix

Figure A1 shows the geographic distribution of the more than 70,000 notes in this report’s data analysis of Distressed Asset Stabilization Program national auctions from April 2012 to June 2014.



Figures A2, A3, and A4 provide a visual representation of the relationship between where notes are sold through DASP and rates of negative equity in three metropolitan statistical areas across the country: Cleveland, New York City, and Seattle.

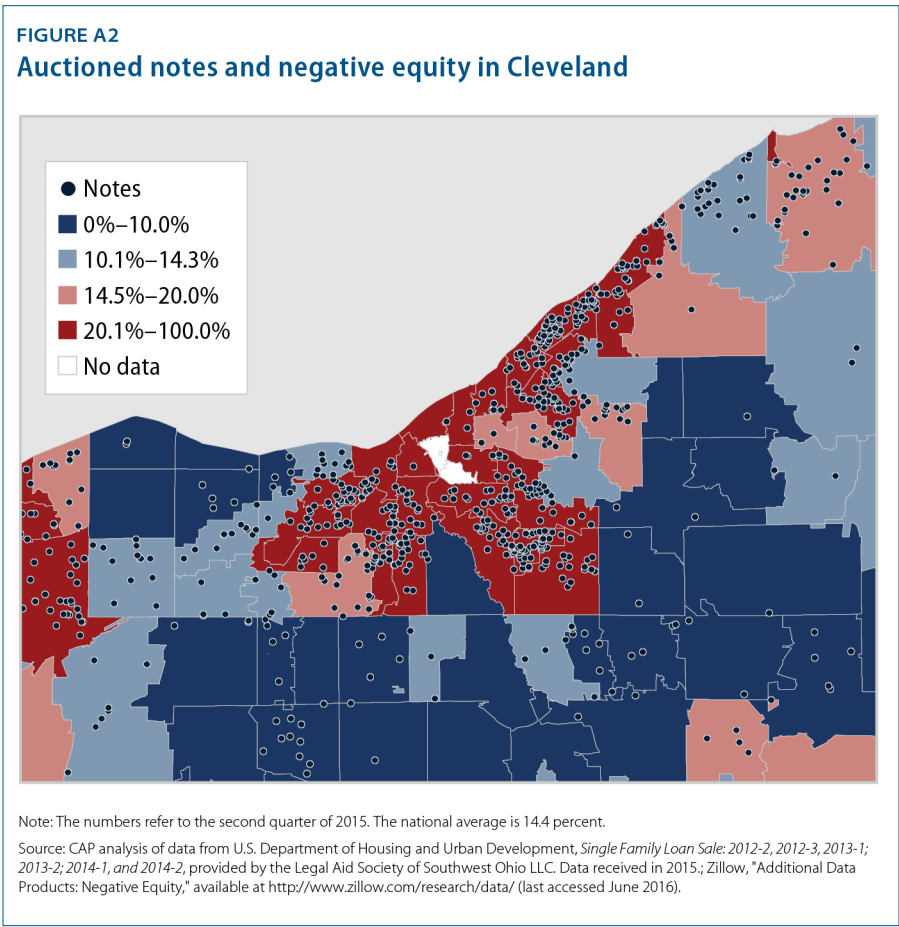
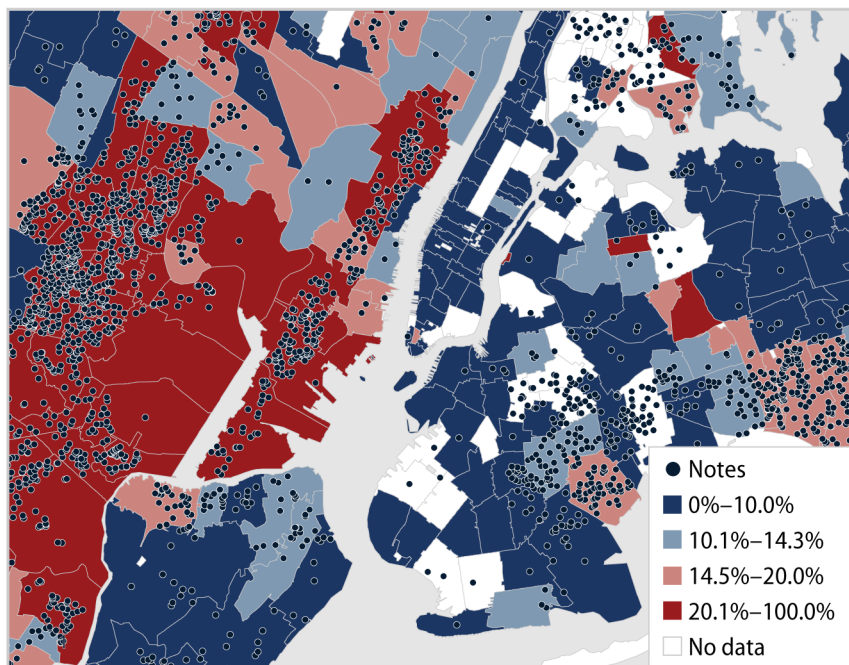


FIGURE A3

### Auctioned notes and negative equity in New York City

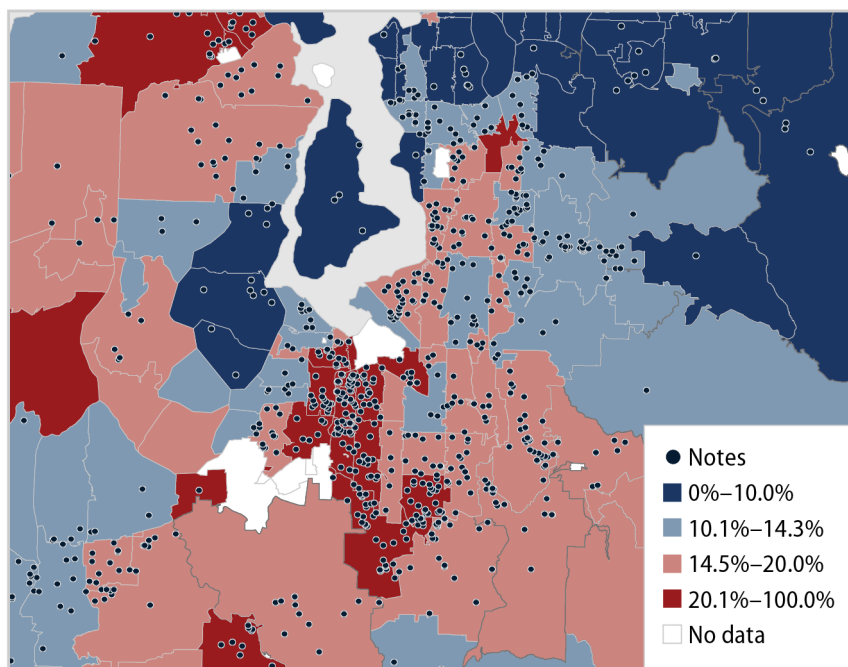


Note: The numbers refer to the second quarter of 2015. The national average is 14.4 percent.

Source: CAP analysis of data from U.S. Department of Housing and Urban Development, *Single Family Loan Sale: 2012-2, 2012-3, 2013-1, 2013-2, 2014-1, and 2014-2*, provided by the Legal Aid Society of Southwest Ohio LLC. Data received in 2015; Zillow, "Additional Data Products: Negative Equity," available at <http://www.zillow.com/research/data/> (last accessed June 2016).

FIGURE A4

### Auctioned notes and negative equity in Seattle



Note: The numbers refer to the second quarter of 2015. The national average is 14.4 percent.

Source: CAP analysis of data from U.S. Department of Housing and Urban Development, *Single Family Loan Sale: 2012-2, 2012-3, 2013-1; 2013-2; 2014-1, and 2014-2*, provided by the Legal Aid Society of Southwest Ohio LLC. Data received in 2015; Zillow, "Additional Data Products: Negative Equity," available at <http://www.zillow.com/research/data/> (last accessed June 2016).



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## Endnotes

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- 32 "Geocoded" notes refer to those that were successfully assigned latitude and longitude based on their address or ZIP code.
- 33 Data on certain properties were included more than once in the original data sample; any repeats or duplicates were eliminated from the final sample of notes used in this report's analysis.
- 34 Our analysis indicates that note sales occurred in 5,153 ZIP codes with lower-than-average and decreasing negative equity rates across the country. The remaining notes were auctioned in 4,804 ZIP codes with higher-than-average but decreasing negative equity rates, 554 ZIP codes with lower-than-average but increasing negative equity rates, and 1,760 ZIP codes with higher-than-average and increasing negative equity rates.
- 35 Examples of these types of ZIP codes are in Middleburg, Florida, and Albuquerque, New Mexico. ZIP code 32068 is located in the Jacksonville metropolitan statistical area and featured a negative equity rate of 23 percent in the third quarter of 2015, down from 31 percent in the third quarter of 2014. The ZIP code, in which a total of 120 notes were auctioned, has experienced population and job gains, both signs of economic recovery despite the still above average percentage of underwater homeowners. ZIP code 87121, located in the Albuquerque MSA, represents a similar example. Here, a total of 130 notes were auctioned. The negative equity rate in this ZIP code was 30 percent in 2015, down from 35 percent in 2014. The decline in the percentage of underwater homeowners also has been accompanied by population growth and job gains.
- 36 A weak market is defined here as an area with a House Price Index at the bottom quartile of the national distribution.
- 37 Examples of these areas include Washington, D.C.; Tampa, Florida; San Jose, California; Houston, Texas; Boston, Massachusetts; and Dallas, Texas, among others.
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