

SERVICING GAME-CHANGER

HOW FANNIE MAE'S DECISION TO REIMBURSE FOR POLYCARBONATE BOARDING IN PRE-FORECLOSURE COULD REVERSE DECADES OF BLIGHT

INTRODUCTION

For decades, the only choice servicers had when securing a vacant or abandoned property was plywood. Boarding up windows and doors with plywood was supposed to keep the asset safe, but the effect was often the opposite – the boarded-up home advertised vacancy, which invited looting and other criminal activity.

This unsightly plywood fix was bad enough in normal housing cycles, but it devastated whole communities after the financial crisis. As a tidal wave of foreclosures swept through neighborhoods across the nation, it left behind a mass of vacant and abandoned properties boarded with plywood.

Even one plywood-boarded house on a street lowers property values around it, but during the foreclosure crisis, neighborhoods in the hardest hit areas saw dozens of houses boarded with plywood. Property values in these areas plummeted, leading to more losses and more abandoned properties.¹

Although foreclosures are now back to pre-crisis levels in many cities, the number of plywood-boarded houses that remain continues to depress home values and stall economic recovery in many areas.

A new alternative to plywood – polycarbonate boarding – promises to reverse the cycle of blight while better securing properties. The clear industrial-grade sheet material was developed by SecureView in 2010 and has been adopted by servicers across the country. However, because polycarbonate boarding costs more on the front end, many servicers have continued to use plywood.

But in late 2016 the battle against blight got a huge shot in the arm as Fannie Mae announced that it would reimburse servicers for installing polycarbonate boarding in pre-foreclosure.² This one action could prove to be a game-changer for communities throughout the nation, reversing decades of blight.



THE SCOPE OF THE PROBLEM

Foreclosures hit a high in 2010, when filings peaked at 2.9 million properties nationwide.³ By 2012 that number was down to 1.8 million homes, and by the end of 2015 the total was 1.1 million properties.

But while there has been a definite decrease in new

foreclosures, millions of homes are still sitting vacant across the country, pulling down property values for whole neighborhoods.

Consider the number of vacant residential properties in these 10 metro areas in the third quarter of 2016:⁴

Top 10 Most Vacant U.S. Cities, Q3 of 2016

MSA	ALL Residential Properties	Vacant Properties	Vacancy Rate
Flint, MI	153,197	10,865	7.1%
Youngstown-Warren-Boardman, OH-PA	156,785	7,135	4.6%
Detroit-Warren-Dearborn, MI	1,519,160	64,209	4.2%
Beaumont-Port Arthur, TX	125,365	4,872	3.9%
Mobile, AL	135,587	5,019	3.7%
Port St. Lucie, FL	174,657	6,070	3.5%
Atlantic City-Hammonton, NJ	113,458	3,918	3.5%
Montgomery, AL	119,260	4,034	3.4%
Toledo, OH	203,384	6,757	3.3%
Birmingham-Hoover, AL	345,670	11,155	3.2%

(Source: RealtyTrac)

Vacant homes present a huge problem nationwide. Las Vegas and unincorporated Clark County still had more than 13,000 vacant houses in May 2016, and the city boards an average of 100 additional homes each year.⁵ In Chicago there were 600 abandoned buildings in one district alone in April 2016.⁶ In Trenton, New Jersey, roughly one out of every five homes has been foreclosed on since 2006 and the overall housing vacancy level has remained consistent at 13% to 15%.⁷

Thousands of vacant properties spell disaster for hard-hit communities and the people who live in them. These homes aren't just an eyesore — they are magnets for criminal activity.

In Las Vegas, for example, police received at least 4,458 squatter-related service calls in 2015, which was an increase of 24% from 2014, 69% from 2013 and 169% from 2012. According to Las Vegas planning director Tom Perrigo,

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about 10% to 20% of abandoned homes in that city are “constantly” vandalized. Las Vegas Inc profiled one such property, noting that in one year the police had five calls for service at the property, resulting in a narcotics arrest and finding a deceased person.⁵

The risk of fire increases dramatically for vacant buildings and the buildings that surround them, with the probability of a fire occurring almost double in a vacant property.⁸ The National Fire Protection Association reports that “Fires in vacant buildings have become a matter of increasing concern as the economy has weakened. Fires in vacant buildings are more likely to have been intentionally set than other structure fires. Forty-three percent of reported vacant building fires during this period were intentionally set, compared to 10% of structure fires overall. Vacant buildings accounted for 25% of all intentionally set structure fires.”⁹ The damage caused by intentionally set fires is more than that of accidental fires, costing an estimated \$30,000 in property damage alone.⁸

Boarding with plywood is dangerous for first responders, who have no idea what to expect when they are called out to a vacant property. Fire Rescue Magazine reported in May 2016 that abandoned properties are hardly ever vacant. “In many urban areas, an unoccupied structure is extremely rare. Most structures are occupied by someone for part of the day or night, even if they are not supposed to be there. In many cases, these structures are likely to have fires and trapped individuals,” the magazine stated.¹⁰

The negative effects of vacant, plywood-boarded properties have been demonstrated in numerous studies. One report on the costs of vacant and blighted properties outlined the overall challenge for communities and residents. “The negative effects of vacant properties

tend to take two general forms. First, vacant properties, especially those in poor condition, impose direct service costs on code enforcement units, police departments, fire departments, court systems, and other governmental agencies. Second, vacant properties – especially poorly maintained ones – can impose negative ‘spillover’ costs on nearby neighborhoods, including lower property values and higher crime rates.”¹¹

Specifically, studies looking at Columbus, Ohio, Flint, Michigan, Baltimore, Maryland and Pittsburgh, Pennsylvania, have shown:¹¹

- Vacant properties reduce the price of nearby homes by more than \$4,000
- Each vacant structure within 500 feet of a home reduced the home value by more than 2%
- Violent crimes within 250 feet of a foreclosed home increased by more than 15% once the foreclosed home became vacant, with similar effects on property crime
- Vacant property is among the strongest predictors of assault among a dozen demographic and socioeconomic variables
- Blighted neighborhood environments are strongly tied to firearm violence

Plywood boarding simultaneously advertises vacancy while shielding criminal activity from view. Properties secured with plywood are vulnerable to theft, including that of appliances, metal and copper wiring, as well as fire damage from people squatting inside.

But despite the many negatives associated with plywood boarding, until recently servicers didn’t have a choice: Plywood was the only option. However, a new solution is disrupting the servicing industry by allowing servicers to secure the bank’s asset in a way that preserves the integrity of the neighborhood.

A NEW VISION

Robert Klein founded Safeguard Properties in the 1980s and grew it into the largest mortgage field service company in the industry. As part of its duties to secure assets, the company boarded millions of properties with plywood and Klein saw firsthand how devastating plywood boarding was for surrounding properties and neighborhoods. He set out to find an effective solution that didn't result in community blight.

Klein worked with a partner to develop a clear polycarbonate boarding solution and co-founded SecureView in 2010. The result is a product that looks like glass but is shatterproof and virtually indestructible.

“In the past, we boarded millions of properties with plywood because it was the only choice,” Klein said. “But now we have the technology to secure the property better than plywood ever did, and to do it in a way that doesn't wreck the neighborhood.”

The benefits of using polycarbonate boarding include:

- Securing the property with one install
- Preventing vandalism and vagrancy
- Lowering crime in blighted areas
- Maintaining property values of the secured property and surrounding properties
- Keeping first responders safe

The cost difference between using plywood to board vacant homes and using clear boarding depends on the

size of the home, the number of windows and doors to be covered, etc., but a rough estimate is that clearboarding costs about twice as much as plywood as an up-front cost. But because plywood is easier to breach than clearboarding, costs to reboard one or more windows or doors with plywood also have to be considered.

An in-depth analysis done by former Treasury Department deputy assistant secretary for economic policy, Aaron Klein (no relation to Robert Klein), found that despite its higher up-front cost, clearboarding offered significant savings in the life of the abandoned property, not only in terms of the individual property's value, but also to the surrounding properties and to the city and county it is located in.

“What is clear is that even under the most conservative assumptions plausible, the benefits of switching from plywood to clearboard drastically outweigh the costs. This is true both for the owner of the property and even more so for the community at large that bears the burden of the negative externalities imposed by the vacant building,”⁹ the study states.

Another study found that “Abandonment drives the loss of property value and is the cause of increased crime and likelihood of fire. Within abandoned properties we know that the main driver is the deteriorating condition of the house.”⁸ However, much of that loss can be mitigated by the way a house is secured.

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“A solution that really secured a vacant building and would reduce the characteristics of abandonment, namely blight, would produce tremendous savings. Given that more than \$85,000 of these costs are driven by the property’s status as vacant, a solution that obscured that condition – that is, made the home appear to the external viewer as occupied, would reduce and potentially eliminate those costs. In fact, securing the vacant property is likely to create value itself that could go beyond the costs of being vacant as the building becomes in better condition than it would have been when occupied. In that case, even more savings would be realized. This is especially true when the solution makes the house impenetrable to vagrants and criminals, the costs of crime, policing and fire would be subsequently significantly reduced.”⁸

Communities are recognizing these benefits and a number have passed local ordinances that require polycarbonate boarding for vacant properties. In 2015 Phoenix was the first city to issue a ban on the use of plywood to board vacant properties and the city of Detroit has chosen it to protect their police stations and historic firehouses.¹²

Kent Kroeger, chief of police in Tehachapi, Ohio, noted the increased safety of polycarbonate boarding. “Using this new type of material that allows us to see inside adds to the public and officer safety when we have to deal with problem abandoned homes,” Kroeger said.¹³

For servicers, boarding with SecureView is more cost-effective over time because properties only have to be secured once and aren’t degraded by theft, vandalism or squatting. But clear boarding was only required and reimbursed by Fannie Mae once homes were in post-foreclosure. By that time, properties had often been compromised and lost significant value.

But that all changed with Fannie Mae’s announcement in December that it would reimburse for polycarbonate boarding in pre-foreclosure. Now, servicers can take a proactive approach that lets them better preserve a property’s value, as well as the neighborhood, before damage is done.

“Before Fannie Mae announced it would reimburse in pre-foreclosure, it was a difficult decision for servicers to board with polycarbonate because of the cost,” Klein said. “Today there is no reason not to board with polycarbonate.”

SecureView provides real protection without bringing down property values or blighting neighborhoods. Polycarbonate boarding allows properties to remain safe throughout the foreclosure, rehab and selling process, and reduces days on market.

SecureView offers a true alternative to plywood boarding, benefitting first responders, real estate agents, servicers and communities.

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* Clearboarding produces economic savings on the order of 300% over plywood on the basis of reduced crime and fire costs alone. These savings double if the property is vacant for two years as these costs are calculated on an annual basis, while the cost of boarding is upfront.



ABOUT COMMUNITY BLIGHT SOLUTIONS

Community Blight Solutions is focused on understanding, solving and eliminating the problems associated with the blight that is plaguing communities nationwide. Community Blight Solutions works closely with mortgage servicers, local government officials, legislators and policymakers at the Federal and State level, first responders and other groups to advocate for updates and changes to policy and legislation and an increase in awareness of the issues contributing to community blight.

