
Unresolved Foreclosures: Patterns of Zombie Properties in Cook County



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Unresolved Foreclosures:

Patterns of Zombie Properties in Cook County

Executive Summary

The following report examines the extent to which servicers are walking away from foreclosures in Cook County, Illinois, creating zombie properties, and how that practice may vary by the characteristics of the neighborhood in which the property is located. The report defines a zombie property as a property for which a foreclosure case has been filed but not resolved for more than three years. Because neither the borrower nor the servicer has clear control of the property, neither has a strong incentive to assume responsibility for the property. Zombie properties, therefore, are likely to be poorly maintained or blighted, which threatens the stability of surrounding communities.

The goal of the report is to provide an estimate of the number of residential properties that are zombie properties and which types of neighborhoods are most likely to be at risk for the negative impacts that zombie properties can have on the community. The report found that:

- Almost 60 percent of foreclosures filed between 2008 and 2010 in Cook County were not sold at a foreclosure auction within the period between 2009 and 2012.
- Properties with foreclosure filings in high minority census tracts were more likely to be sold at auction than properties in low minority census tracts.
- Of all foreclosures filed between 2008 and 2010 in Cook County, approximately 8.7 percent (more than 11,700) are zombie properties.
- Zombie properties are disproportionately concentrated in lower-income communities.
- Zombie properties are more likely to occur in racially homogenous communities.
- Eleven Chicago community areas have 15 or more zombie properties per 1,000 properties eligible for conventional mortgages.

The report concludes with policy recommendations to reduce the negative impact of zombie properties on communities in Cook County, including:

- Mortgage servicers should notify borrowers, local governments, and courts when they decide to stop pursuing a foreclosure.
- Mortgage servicers should coordinate with local governments, nonprofits, and land banks to return zombie properties to productive use.
- Municipalities should enact vacant buildings ordinances that hold servicers and mortgagees accountable for maintaining homes, even before taking title to the home.
- Municipalities should seek creative ways to expand or leverage existing code enforcement resources.
- The Federal Housing Finance Agency (FHFA) should withdraw its lawsuit against the City of Chicago's vacant buildings ordinance.
- The Cook County Land Bank Authority (CCLBA) needs a dedicated funding source.
- The National Monitor should more vigorously enforce the anti-blight provisions of the National Foreclosure Settlement.

Statement of the Issue

Servicers initiated 217,035 residential foreclosures in Cook County, Illinois, between 2008 and the end of 2012.¹ Not every foreclosure case filed, however, results in the sale of the property at auction. The servicer may agree to modify or forgive the loan, or the borrower may be able to refinance or cure the default. A third-party purchaser may buy the property,² or the lender³ may accept a deed *in lieu* of foreclosure⁴ before the property is auctioned. Any of those possible outcomes results in a complete resolution of the foreclosure and allows the new or existing owner to return the property to productive use.

Woodstock Institute documented another possible foreclosure outcome in a report, *Left Behind: Troubled Foreclosed Properties and Servicer Accountability in Chicago*, published in January of 2011. That report examined vacant properties in the City of Chicago's index of vacant and troubled buildings to determine whether they were linked to cases where the servicer filed for foreclosure and then failed to pursue the action to completion, leaving the filing on record without a final resolution. A servicer may choose to "walk away" from a foreclosure and property if it determines that the cost of proceeding with the foreclosure and securing and maintaining the property until it can be sold to a third party will exceed its expected return from fees and the sale of the property. This calculation is most likely to lead to a servicer walking away from a property in a neighborhood that is already distressed or where property values are low. A servicer is also more likely to walk away if the property is in disrepair, has been abandoned, or has already been vandalized.⁵

When a servicer walks away from the foreclosure, that action creates a number of potential problems even if the building is still occupied. The foreclosure filing is a cloud on the title, and so the current owner cannot sell the property without the case being resolved. Because the owner is at risk of losing the property if the servicer ever decides to resume prosecuting the pending foreclosure, the owner has little incentive to invest in maintaining or improving the property even if he or she has the resources. The owner may even decide to stop paying property taxes. In many cases, as shown in the *Left Behind* report, the owner moves and abandons the property, leaving it vacant and as a potential source of blight and problems for the neighborhood. The owner may incorrectly believe that the servicer has taken, or will take, title to the property and assume the responsibility for taxes and other legal and financial obligations of ownership, while the owner actually remains liable for all of those expenses. Properties in this situation are sometimes referred to as "zombie properties." In many respects, a zombie property fits within a definition of an abandoned property even when it is still occupied in that there is no person or entity fulfilling the obligations of ownership, including property maintenance and payment of taxes.

This report builds on that earlier research to examine the extent to which servicers are walking away from foreclosures in Cook County, Illinois, creating zombie properties, and how that practice may vary by the characteristics of the neighborhood in which the property is located. The goal is to provide an estimate of the number of residential properties that are zombie properties and which types of neighborhoods are most likely to be at risk for the negative impacts that zombie properties can have on the community.

¹ Illinois is a judicial foreclosure state, which means that all residential foreclosures must be approved by the Circuit Court.

² If the sale is for more than the remaining balance the borrower owes, he or she can simply use the proceeds to pay off the balance and keep the remaining portion of the purchase price. If the sale is for less than the balance owed, it is referred to as a "short sale." In a short sale, the lender usually agrees to accept the sale price in full satisfaction of the balance owed, and so the borrower does not have to pay the difference between the sale price and the balance owed.

³ The lender is the financial institution that loaned money to the borrower. The servicer is the company that is responsible for managing the loan, including processing loan payments and disbursing escrow funds. The servicer also is the party that initiates foreclosure actions if the borrower defaults. The servicer is not necessarily the same company as the lender.

⁴ A deed *in lieu* refers to a transaction in which the borrower transfers title to the lender before the foreclosure is completed, and the lender agrees to accept the title in full satisfaction of the amount owed.

⁵ Theologides, Stergios. *Servicing REO Properties: The Servicer's Role and Incentives*. Boston, MA: Federal Reserve Banks of Boston and Cleveland and the Federal Reserve Board, 2010.

Reinvestment Partners. *Solving the Abandoned Foreclosure Crisis: Remedies and Proposals for Reform*, April 2013. Downloaded from www.reinvestmentpartners.org/info/community-resources.

Background

The foreclosure crisis hit Cook County hard, with 217,035 foreclosure filings and 89,326 properties sold at auction between 2008 and 2012.⁶ As the crisis unfolded and the negative impacts of foreclosures on homeowners and neighborhoods became more clearly understood, community groups and leaders at all levels developed numerous programs to help keep homeowners in their homes, such as the Mortgage Resolution Fund, the Home Affordable Modification Program, the Hardest Hit Fund, and the Cook County Mortgage Foreclosure Mediation Program. Some programs focused on mitigating the impacts of foreclosures on communities, such as the Cook County Land Bank Authority, expanded vacant buildings ordinances in the City of Chicago and Cook County, and the dedicated foreclosure docket for confirmed vacant homes. Other efforts, such as the Home Affordable Foreclosure Alternatives Program, focused on finding alternatives to foreclosure, such as short sales and deeds *in lieu*, that did less harm to the owner's credit rating but which still resulted in the owner losing the home.

The common goal of the programs, whether to prevent or mitigate the negative impact of foreclosure on the homeowner and neighborhood, is to resolve the foreclosure. Properties in the foreclosure process are in a type of legal limbo in which neither the current owner nor the foreclosing servicer has clear ownership and control of the property. The current owner has legal title but knows that the servicer may be able to take the property or have it sold at auction. The servicer is not the title holder and has limited rights to the property until it completes the foreclosure process and acquires the property. Because neither has clear control, neither is as concerned with the long-term condition of the property as an owner who is not in foreclosure. The current owner is unlikely to invest in maintenance because he or she is unlikely to have the resources or to recoup the investment if the property is sold in foreclosure. The servicer may not have the right to maintain the property beyond minimum standards until it obtains title.⁷ As a result, the property is likely to deteriorate, even if the current owner remains in the house. If the owner leaves, the property will be vacant and at even greater risk of vandalism and deterioration, posing an even greater threat to the neighborhood.

Illinois is a judicial foreclosure state, meaning that the state courts must process foreclosures. Even before the foreclosure crisis, the judicial foreclosure process took time. The dramatic increase in the number of foreclosure filings, without a concurrent increase in the capacity of the court system to process cases, led to cases taking even longer to process. Properties remain in the process for many months, with the average time to foreclose in Illinois rising to 815 days in 2013.⁸

One element of the foreclosure picture that is not clear is the extent to which servicers are filing for foreclosure and then not pursuing the case to resolution in Cook County. Deeds *in lieu*, short sales, modifications, cures, and releases resolve some additional percentage of cases. The question this research addresses is: how common is it for servicers to file for foreclosure and then abandon the process without a resolution? The result will be an estimate of the number of homes stuck in the foreclosure process, not because of the inherent delays in the court system, but as a result of the servicer walking away from the case.

Methodology

The data on foreclosure filings and auctions come from Record Information Services based on filing records from the Circuit Court of Cook County, Chancery Division, and from the foreclosure auction reports that are generated when the property is sold at auction. Because the foreclosure process takes significant time to complete, we paired foreclosures initiated between 2008 and 2010 with reported sales at auction between 2009 and 2012. We used the paired datasets to develop a database consisting of properties that had a foreclosure filing between 2008 and 2010 for which there was no sale at auction between 2009 and 2012. Servicers filed for 134,043 foreclosures between

⁶ Data from the Woodstock Institute website, www.woodstockinst.org/content/foreclosure.

⁷ Vacant buildings ordinances in the City of Chicago, Cook County, and other municipalities impose requirements on servicers to maintain homes to certain standards before taking title to the property. These ordinances aim to minimize the negative impact of a lengthy foreclosure process and zombie properties. The goal is to have properties properly secured and maintained until the foreclosure is completed and the title is transferred to a new owner.

⁸ Podmolik, Mary Ellen. New foreclosure filings show big decline, *Chicago Tribune*. January 16, 2014.

2008 and 2010, and 56,009 of those filings resulted in the property being sold at auction between 2009 and 2012, leaving 78,034 filings with no sale at auction within that period.

We then stratified the data on the properties which had not been sold at auction into quintiles based on a weighted income scale of the census tract household income distribution,⁹ as shown on Map 1, and then randomly selected 500 properties in total, drawing from each quintile in proportion to the share of the overall number of properties that were not sold at auction in each quintile. The number of foreclosure filings and the number without an associated sale at auction for each income quintile is shown in Table 1. The data show many more properties in census tracts in the lower-income quintiles had a foreclosure filing and those properties were more likely to be sold at auction than were properties in census tracts in higher-income quintiles.

Table 1: Filings 2008-10, and Associated Sales at Auction, by Income Quintile

| | Quintile 1 | | Quintile 2 | | Quintile 3 | | Quintile 4 | | Quintile 5 | | Total | |
|---------------------|------------|-------|------------|-------|------------|-------|------------|-------|------------|-------|---------|-------|
| Foreclosure filings | 37,531 | | 37,412 | | 27,929 | | 20,421 | | 10,750 | | 134,043 | |
| Sold at auction | 16,109 | 42.9% | 15,775 | 42.2% | 11,837 | 42.4% | 8,381 | 41.0% | 3,907 | 36.3% | 56,009 | 41.8% |
| Not sold at auction | 21,422 | 57.1% | 21,637 | 57.8% | 16,092 | 57.6% | 12,040 | 59.0% | 6,843 | 63.7% | 78,034 | 58.2% |

The resulting sample consisted of 138 properties from the bottom quintile, 137 properties from the second quintile, 103 properties from the middle quintile, 79 properties from the fourth quintile, and 43 properties from the top quintile. For each property in the sample, we then examined records from the Circuit Court and the Recorder of Deeds to determine the resolution, if any, between the date of the foreclosure filing and November 30, 2013, for each property.

Findings

We classified the outcomes into four categories: 1) the case was resolved with the owner still in possession of the property (case dismissed, loan modification, release, or cured); 2) the case was resolved and the owner relinquished title (auction, sale, deed *in lieu*); 3) the case was dismissed and then the servicer filed a new foreclosure against the same owner; and 4) the case was not resolved and is still pending. The last two outcomes are the more problematic because they show properties that are still in the foreclosure process, whether as a result of the original filing or because the owner is either still in default or has re-defaulted.

The results of the record search for the 500 sample properties show that about 15 percent of foreclosure filings that did not result in sales at auction were unresolved, with the original filing still pending after more than three years, with some variation by income quintile. Servicers were more likely to leave cases unresolved for properties in census tracts in the bottom two income quintiles and were more likely to file a new foreclosure action after dismissal of the original filing for properties in the bottom three quintiles, as shown in Table 2. Properties in census tracts in the bottom three income quintiles were more than 10 percent more likely to become zombie properties than were properties in census tracts in the top two quintiles.

⁹ The income distribution for the Chicago six county region was first divided into quintiles to determine the income ranges for each quintile. The income ranges for the quintiles were: Quintile 1: \$0 to \$25,490; Quintile 2: \$25,491 to \$49,013; Quintile 3: \$49,014 to \$77,539; Quintile 4: \$77,540 to \$121,689; Quintile 5: \$121,690 or more. The distribution for each tract was then compared to the regional distribution to determine the percentage of the tract income distribution that fell within each of the regional income quintile ranges. The percentage of the tract income distribution in the lowest quintile of the regional income distribution was multiplied by one, the percentage of the tract income distribution in the second quintile of the regional income distribution was multiplied by two, the percentage in the third quintile by three, the percentage in the fourth quintile by four, and the percentage in the highest quintile by five. The sum of the scores for all five quintiles was the overall score for the census tract. The tracts were then divided into quintiles based on their total score.

Map 1: Census Tract Income Quintiles

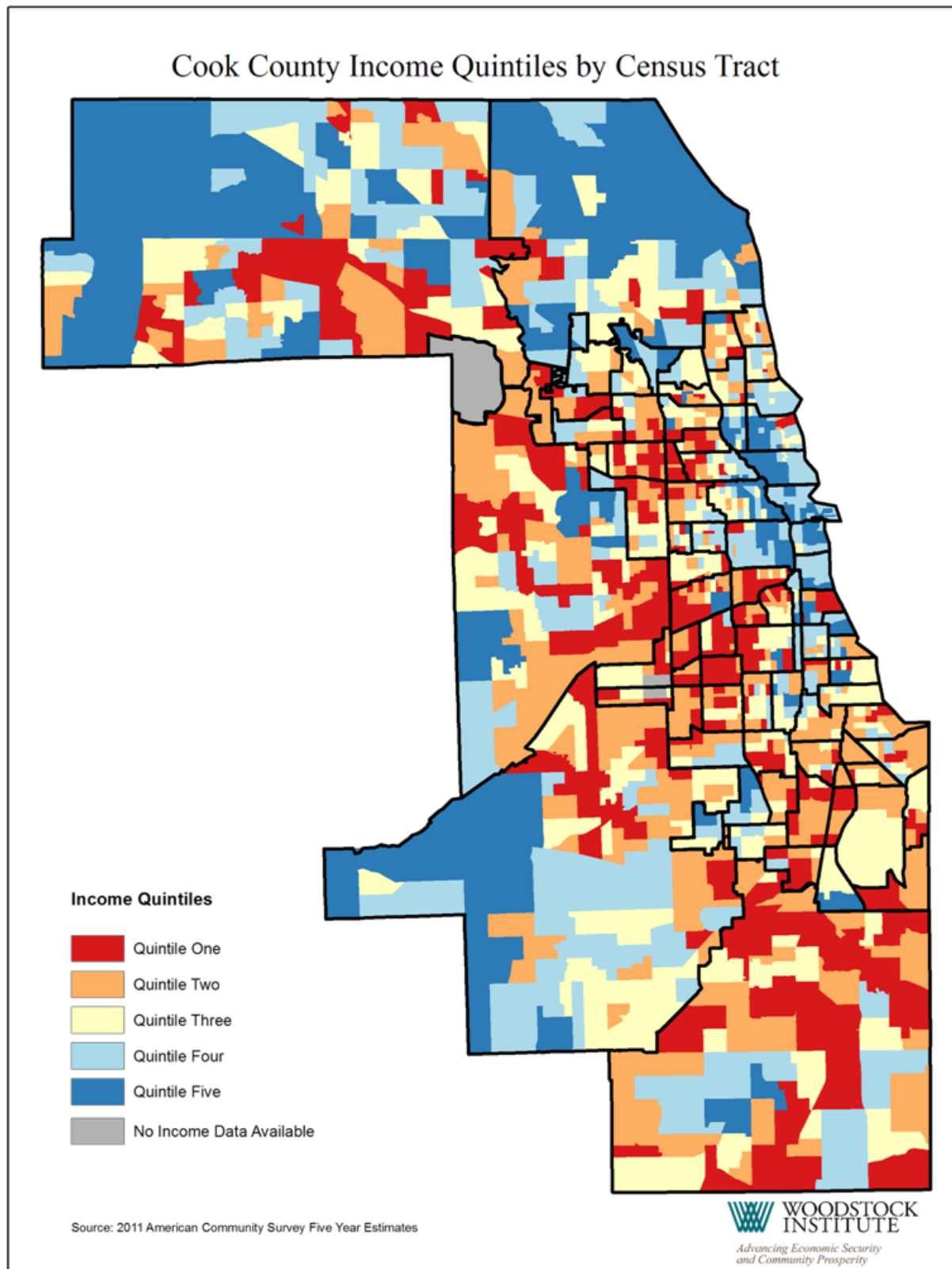


Table 2: Status of Foreclosure Filings in Sample, 2008-10, Not Resulting in Sales at Auction, 2009-11/30/2013, by Income Quintile

| | Quintile 1 | | Quintile 2 | | Quintile 3 | | Quintile 4 | | Quintile 5 | | Total | |
|---|------------|-------|------------|-------|------------|-------|------------|-------|------------|-------|-------|-------|
| Resolved with owner still in possession | 56 | 40.6% | 51 | 37.2% | 40 | 38.8% | 29 | 36.7% | 20 | 46.5% | 196 | 39.2% |
| Title transferred | 45 | 32.6% | 53 | 38.7% | 37 | 35.9% | 34 | 43.0% | 16 | 37.2% | 185 | 37.0% |
| Dismissed and refiled | 16 | 11.6% | 11 | 8.0% | 11 | 10.7% | 5 | 6.3% | 1 | 2.3% | 44 | 8.8% |
| Case still pending | 21 | 15.2% | 22 | 16.1% | 15 | 14.6% | 11 | 13.9% | 6 | 14.0% | 75 | 15.0% |

Combining the data, the probability that a foreclosure filing will not result in the property being sold at auction (Table 1), with the probability that a servicer will walk away from a filing that does not result in a sale at auction (Table 2), shows the relationship between the income quintile of the census tract and the probability that the property will become a zombie property, as shown in Table 3. Overall, servicers leave about 8.7 percent of foreclosure filings unresolved, and the properties most at risk are those in census tracts in the second income quintile.

Table 3: Probability of Becoming a Zombie Property, by Income Quintile

| | Quintile 1 | Quintile 2 | Quintile 3 | Quintile 4 | Quintile 5 | Overall |
|---|------------|------------|------------|------------|------------|---------|
| Probability that the property will not be sold at auction | 57.08% | 57.83% | 57.62% | 58.96% | 63.66% | 58.22% |
| Probability that servicer will walk away | 15.22% | 16.06% | 14.56% | 13.92% | 13.95% | 15.00% |
| Percent of filings that become zombie properties | 8.69% | 9.29% | 8.39% | 8.21% | 8.88% | 8.73% |

While the percentage of foreclosure filings left unresolved is not dramatically different among the quintiles, the estimated number of resulting zombie properties in those different neighborhoods is because of differences in the numbers of properties that had a foreclosure filing. As Table 1 shows, many more properties in census tracts in the bottom two income quintiles had foreclosure filings than properties in the top two income quintiles. The number of zombie properties, therefore, is significantly higher in tracts in the bottom two income quintiles than in tracts in the top two quintiles, as shown in Table 4. Of the estimated 11,709 zombie properties, over 6,700, 57.5 percent, are in tracts in the bottom two income quintiles, while about 2,600, 22.5 percent, are in census tracts in the top two income quintiles.

Table 4: Estimated Number of Zombie Properties from Foreclosure Filings, 2008-10, by Income Quintile

| | Quintile 1 | Quintile 2 | Quintile 3 | Quintile 4 | Quintile 5 | Total |
|--|------------|------------|------------|------------|------------|---------|
| Foreclosure filings | 37,531 | 37,412 | 27,929 | 20,421 | 10,750 | 134,043 |
| Percent of filings that become zombie properties | 8.69% | 9.29% | 8.39% | 8.21% | 8.88% | 8.73% |
| Number of zombie properties | 3,260 | 3,475 | 2,343 | 1,676 | 955 | 11,709 |

Analyzing the outcomes by the racial and ethnic characteristics of the census tract showed that properties in predominantly white census tracts, less than 20 percent minority, were less likely to be sold at auction than properties in more heavily minority census tracts, as shown in Table 5. A property in foreclosure in a tract that is 80 percent or more minority is about eleven percent more likely to be sold at auction than is a property in a tract that is less than 20 percent minority.

Table 5: Filings 2008-10, and Associated Sales at Auction, by Census Tract Demographics

| | Percent Nonwhite Population | | | | | | | | African American | | Hispanic | |
|---------------------|-----------------------------|-------|--------------------|-------|--------------------|-------|------------|-------|--------------------|-------|--------------------|-------|
| | Less than 20 | | 20 to less than 50 | | 50 to less than 80 | | 80 or more | | 80 percent or more | | 50 percent or more | |
| Foreclosure filings | 23,639 | | 47,363 | | 23,629 | | 39,412 | | 32,785 | | 24,924 | |
| Sold at auction | 9,006 | 38.1% | 20,262 | 42.8% | 10,049 | 42.5% | 16,692 | 42.4% | 13,891 | 42.4% | 10,455 | 41.9% |
| Not sold at auction | 14,633 | 61.9% | 27,101 | 57.2% | 13,580 | 57.5% | 22,720 | 57.6% | 18,894 | 57.6% | 14,469 | 58.1% |

Using the same sample of 500 properties used in the analysis by income quintile, the results of the Circuit Court and Recorder of Deeds records search showed that servicers were more likely to leave foreclosures unresolved in census tracts that are more racially homogeneous, either less than 20 percent minority or more than 80 percent minority or African American, and more likely to file a new foreclosure action for properties in tracts that were majority minority, as shown in Table 6. Properties with foreclosure filings that did not result in the property being sold at auction in tracts that were more than 80 percent minority were over 22 percent more likely to become zombie properties than were properties in tracts that were less than 20 percent minority.

Table 6: Status of Foreclosure Filings in Sample, 2008-10, Not Resulting in Sale at Auction, 2009-11/30/2013, by Census Tract Demographics

| | Percent Nonwhite Population | | | | | | | | African American | | Hispanic | |
|---|-----------------------------|-------|--------------------|-------|--------------------|-------|------------|-------|--------------------|-------|--------------------|-------|
| | Less than 20 | | 20 to less than 50 | | 50 to less than 80 | | 80 or more | | 80 percent or more | | 50 percent or more | |
| Resolved with owner still in possession | 32 | 42.7% | 73 | 36.5% | 36 | 37.1% | 55 | 43.0% | 48 | 43.2% | 39 | 37.1% |
| Title transferred | 29 | 38.7% | 85 | 42.5% | 38 | 39.2% | 33 | 25.8% | 25 | 22.5% | 42 | 40.0% |
| Dismissed and refiled | 3 | 4.0% | 13 | 6.5% | 11 | 11.3% | 17 | 13.3% | 16 | 14.4% | 12 | 11.4% |
| Case still pending | 11 | 14.7% | 29 | 14.5% | 12 | 12.4% | 23 | 18.0% | 22 | 19.8% | 12 | 11.4% |

Combining the data, the probability that a foreclosure filing will not result in a sale at auction with the probability that the servicer will leave the case pending, shows that properties in racially homogenous census tracts (either predominantly white or minority) that enter foreclosure are more likely to become zombie properties than are properties in more racially mixed neighborhoods, as shown in Table 7. Based on the sample, properties that enter foreclosure from census tracts that are 80 percent or more white are about four percent more likely to become zombie properties than average, while properties that enter foreclosure from tracts that are 80 percent or more minority are more than 18 percent more likely to become zombie properties than average. Properties entering foreclosure from tracts that are 80 percent or more African American are more than 30 percent more likely to become zombie properties than the average for all properties.

Table 7: Probability of a Filing Becoming a Zombie Property, by Census Tract Demographics

| | Percent Nonwhite Population | | | | African American | Hispanic |
|---|-----------------------------|--------------------|--------------------|------------|--------------------|--------------------|
| | Less than 20 | 20 to less than 50 | 50 to less than 80 | 80 or more | 80 percent or more | 50 percent or more |
| Probability that the property will not be sold at auction | 61.90% | 57.22% | 57.47% | 57.65% | 57.63% | 58.05% |
| Probability that servicer will walk away | 14.67% | 14.50% | 12.37% | 17.97% | 19.82% | 11.43% |
| Percent of filings that become zombie properties | 9.08% | 8.30% | 7.11% | 10.36% | 11.42% | 6.63% |

The estimated number of zombie properties, based on the number of properties with foreclosure filings and the percent of filings that become zombie properties by census tract demographics, is greatest in tracts that are between 20 and 50 percent minority, 80 percent or more minority, and 80 percent or more African American, as shown in Table 8.¹⁰ Over 33 percent of the estimated number of zombie properties are in tracts that are 20 to 50 percent minority, and over 34 percent in tracts that are 80 percent or more minority.

Table 8: Estimated Number of Zombie Properties from Foreclosure Filings, 2008-10, by Census Tract Demographics

| | Percent Nonwhite Population | | | | African American | Hispanic |
|--|-----------------------------|--------------------|--------------------|------------|--------------------|--------------------|
| | Less than 20 | 20 to less than 50 | 50 to less than 80 | 80 or more | 80 percent or more | 50 percent or more |
| Foreclosure filings | 23,639 | 47,363 | 23,629 | 39,412 | 32,785 | 24,924 |
| Percent of filings that become zombie properties | 9.08% | 8.30% | 7.11% | 10.36% | 11.42% | 6.63% |
| Number of zombie properties | 2,146 | 3,930 | 1,680 | 4,083 | 3,745 | 1,654 |

Finally, we analyzed the data by Chicago community area based on the income level of the census tracts comprising each neighborhood. Overall, 20 of the 77 community areas are estimated to contain more than 100 zombie properties, and 11 of the 77 have 15 or more zombie properties per 1,000 mortgageable properties. The data for the five community areas with the highest and lowest estimated percentage of zombie properties is shown in Table 9, with the full results displayed in Appendix A.

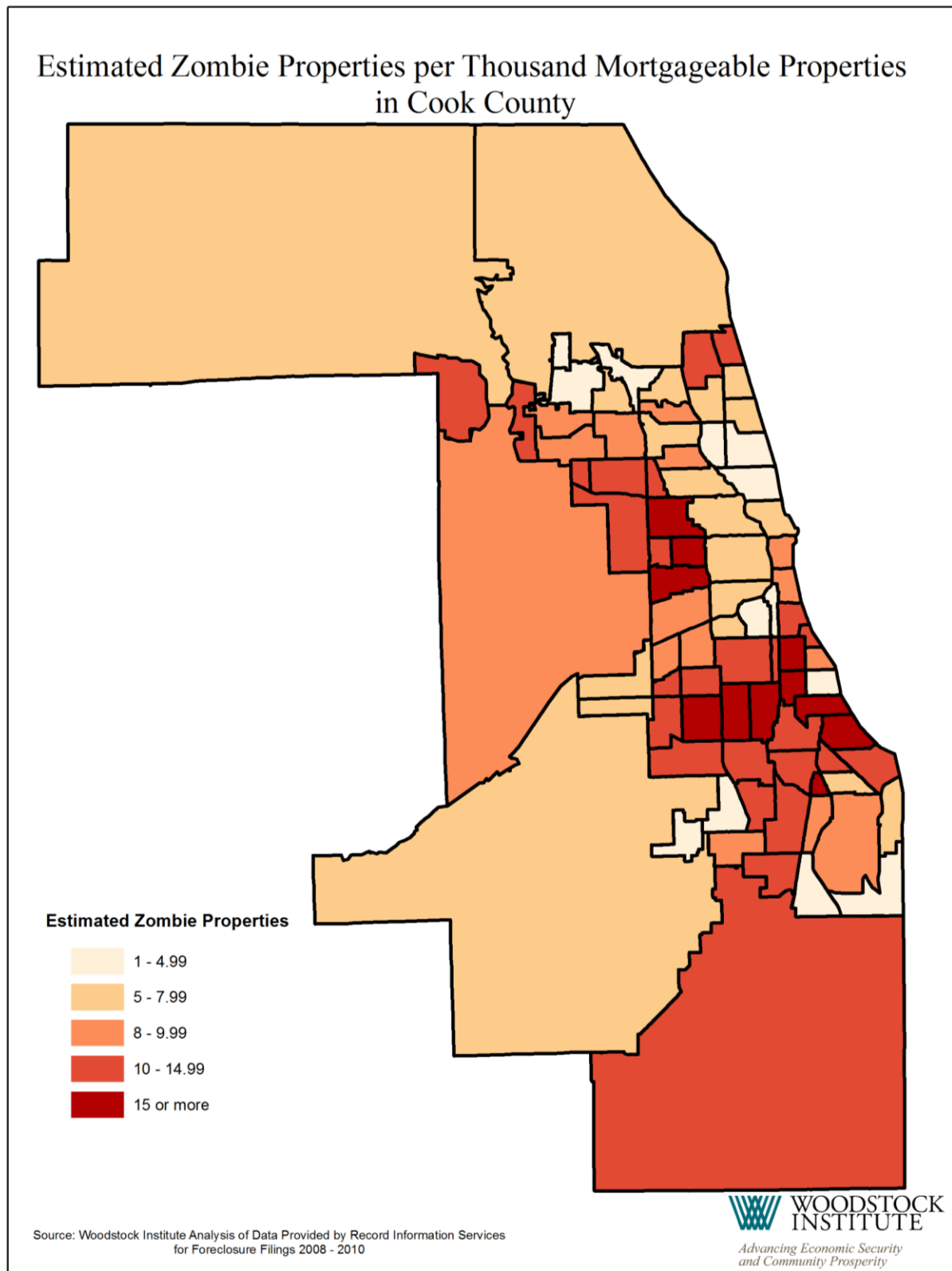
¹⁰ The total estimated number of zombie properties is higher than the estimate based on income quintiles because the data were not stratified by race when the sample was selected. The sample, therefore, may have contained a disproportionate number of properties in census tracts in which properties in foreclosure were more likely to become zombies when the sample was classified by the racial characteristics of the census tract.

Table 9: Estimated Lowest and Highest Percentage of Zombie Properties, by Community Area

| Community Area | Total Zombies Properties | Zombies per 1,000 Mortgageable Properties |
|--------------------|--------------------------|---|
| Armour Square | 3 | 1.10 |
| North Center | 27 | 2.70 |
| Lincoln Park | 46 | 2.73 |
| Edison Park | 11 | 2.81 |
| Lakeview | 75 | 3.22 |
| East Garfield Park | 66 | 17.35 |
| Englewood | 126 | 17.90 |
| Woodlawn | 91 | 19.98 |
| Grand Boulevard | 86 | 22.03 |
| Washington Park | 37 | 27.42 |

Based on the estimates generated from the data, we estimate that foreclosure filings between 2008 and 2010 have resulted in over 11,700 zombie properties in Cook County, including over 5,800 in Chicago. If the trend continues for filings in 2011 and 2012, there will be over 7,200 additional zombie properties in Cook County, including nearly 3,200 additional zombie properties in Chicago, as a result of those filings by the end of 2015.

Map 2: Estimated Zombie Properties per 1,000 Mortgageable Properties, by Community Area



Conclusion and Recommendations

Zombie properties present a difficult series of issues for local governments and neighborhoods. One issue is that zombie properties may have very different impacts depending on the neighborhood conditions. For example, servicers may be more likely to maintain properties still in the foreclosure process in neighborhoods that are in predominantly affluent or white compared with properties in neighborhoods that are predominantly poor or non-white.¹¹ Zombie properties that are poorly maintained and become blighted threaten the desirability and stability of the surrounding neighborhood. The estimates show that less affluent neighborhoods are more likely to have higher numbers of zombie properties than more affluent neighborhoods. Lower-income neighborhoods, therefore, face a more serious threat of being negatively impacted by poorly maintained zombie properties than higher-income neighborhoods. Neighborhoods that are 20 to 50 percent non-white or 80 percent or more non-white may face a similar risk.

Another issue is that the legal owner may have moved away and have little interest in what happens to the property. The servicer does not own or want to take title to the property. The community must address the potential threat that a zombie property poses by having some party accept responsibility for maintaining the property and returning it to productive use.

Some ways to mitigate the impact of zombie properties include:

Mortgage servicers should be required to notify borrowers, local governments, and courts when they decide to stop pursuing a foreclosure. Many of the issues arising from zombie properties relate to lack of property maintenance. Notifying affected parties increases the likelihood that some person or entity will take responsibility for the property. Notification could encourage the borrower to remain in the property (particularly if the servicer releases the lien), enable a local government to be on the alert for potential code violations, or help a land bank develop a plan for the home. The Consumer Financial Protection Bureau should include a provision in its servicing rules requiring servicers to provide such notice when servicers release liens.

Mortgage servicers should coordinate with local governments, nonprofits, and land banks to return zombie properties to productive use. Whenever possible, servicers should work to ensure proper disposition of zombie properties by appointing a receiver or developing a plan to transfer ownership to a nonprofit developer, land bank, or other third-party buyer.

Municipalities should enact vacant buildings ordinances that hold servicers and mortgagees accountable for maintaining homes, even before taking title to the home.

While the City of Chicago and Cook County have adopted vacant buildings ordinances that target servicers and lenders, many local governments and municipalities have not. Cook County's ordinance applies only to unincorporated Cook County and to municipalities that opt in to its ordinance. These ordinances provide a tool to municipalities to find a responsible party to maintain vacant and abandoned homes when the property owner cannot be found.

Municipalities should seek creative ways to expand or leverage existing code enforcement resources. While many municipalities have passed vacant buildings ordinances, some may not have sufficient code enforcement resources to pursue violators. Creative strategies can help to make the most of limited code enforcement staff time. Several municipalities in South Cook County are piloting a program to share code enforcement resources. Municipalities could also band together to hire a vacant buildings "bounty hunter" who could devote time to seeking out code violators across several jurisdictions.

¹¹ On June 6, 2013, Wells Fargo Bank settled a fair housing complaint alleging that it maintained properties in white neighborhoods better than in African American and Latino neighborhoods. The allegations included neighborhoods and properties in Colorado, Indiana, Michigan, Florida, Louisiana, Illinois, Georgia, Wisconsin, Ohio, and Texas.

The Federal Housing Finance Agency (FHFA) should withdraw its lawsuit against the City of Chicago's vacant buildings ordinance.

The FHFA, which is the conservator of Fannie Mae and Freddie Mac, filed a lawsuit against the City of Chicago arguing that the FHFA should not have to abide by provisions of the City's vacant buildings ordinance requiring a registration fee and maintenance standards for mortgagees of vacant and abandoned buildings. A federal judge ruled in favor of the FHFA in 2013. Mortgages serviced for Fannie Mae and Freddie Mac comprise nearly 60 percent of all outstanding mortgages nationally, raising the likelihood that a large proportion of properties in foreclosure limbo in Chicago are not required to be maintained to the ordinance's standards.¹² The FHFA should withdraw its lawsuit and comply with local vacant buildings ordinance registration and maintenance requirements.

The Cook County Land Bank Authority (CCLBA) needs a dedicated funding source.

Land banks can be an excellent tool for addressing properties with cloudy title, such as zombie properties. The Cook County Land Bank Authority, established in 2013, currently relies on grant funding and potential property sales revenue to fund its operations. Policymakers should explore ways to develop a more sustainable funding source for CCLBA.

The National Monitor should more vigorously enforce the anti-blight provisions of the National Foreclosure Settlement.

In February 2012, 49 state Attorneys General reached a settlement with the nation's five largest banks (Bank of America, Citi, Ally, JP Morgan Chase, and Wells Fargo) over allegations of improper handling of the foreclosure and servicing process. The settlement included financial relief for homeowners, payments to state and federal governments, and servicing standards. The servicing standards include requirements that servicers implement policies to ensure that real-estate owned (REO) properties do not become blighted, participate in local anti-blight and neighborhood stabilization activities, and protect the rights of tenants to remain in properties after the foreclosure process as defined by state and federal law. The Office of Mortgage Settlement Oversight has reported only minimally on servicers' compliance with the anti-blight provisions of the settlement. The Office of Mortgage Settlement Oversight should more vigorously enforce and publicly report on the anti-blight measures to ensure that servicers are being responsible stewards of vacant properties.

¹² Office of the Comptroller of the Currency. "OCC Mortgage Metrics Report: Disclosure of National Bank and Federal Savings Association Mortgage Loan Data, Third Quarter 2013." From <http://www.occ.gov/publications/publications-by-type/other-publications-reports/index-mortgage-metrics.html>.

Appendix A

| Community Area | Total Zombie Properties | Zombies per 1,000 Mortgageable Properties |
|------------------------|-------------------------|---|
| Albany Park | 82 | 9.51 |
| Archer Heights | 29 | 9.43 |
| Armour Square | 3 | 1.10 |
| Ashburn | 149 | 12.33 |
| Auburn Gresham | 138 | 11.03 |
| Austin | 252 | 11.78 |
| Avalon Park | 36 | 10.29 |
| Avondale | 82 | 8.97 |
| Belmont Cragin | 223 | 14.04 |
| Beverly | 31 | 4.45 |
| Bridgeport | 29 | 3.44 |
| Brighton Park | 81 | 8.74 |
| Burnside | 15 | 15.60 |
| Calumet Heights | 42 | 7.87 |
| Chatham | 83 | 10.02 |
| Chicago Lawn | 192 | 16.74 |
| Clearing | 52 | 7.26 |
| Douglas | 26 | 12.19 |
| Dunning | 112 | 8.43 |
| East Garfield Park | 66 | 17.35 |
| East Side | 32 | 5.03 |
| Edgewater | 75 | 5.73 |
| Edison Park | 11 | 2.81 |
| Englewood | 126 | 17.90 |
| Forest Glen | 26 | 4.06 |
| Fuller Park | 9 | 14.20 |
| Gage Park | 94 | 12.94 |
| Garfield Ridge | 67 | 6.05 |
| Grand Boulevard | 86 | 22.03 |
| Greater Grand Crossing | 97 | 11.64 |
| Hegewisch | 12 | 4.01 |
| Hermosa | 58 | 11.96 |
| Humboldt Park | 166 | 15.00 |
| Hyde Park | 20 | 3.95 |
| Irving Park | 105 | 7.94 |
| Jefferson Park | 44 | 5.38 |

| Community Area | Total Zombie Properties | Zombies per 1,000 Mortgageable Properties |
|--------------------|-------------------------|---|
| Kenwood | 28 | 8.06 |
| Lakeview | 75 | 3.22 |
| Lincoln Park | 46 | 2.73 |
| Lincoln Square | 52 | 6.16 |
| Logan Square | 122 | 7.34 |
| Loop | 51 | 8.60 |
| Lower West Side | 35 | 5.41 |
| McKinley Park | 21 | 5.23 |
| Montclare | 46 | 13.54 |
| Morgan Park | 60 | 8.50 |
| Mount Greenwood | 21 | 3.39 |
| Near North Side | 151 | 6.59 |
| Near South Side | 53 | 9.14 |
| Near West Side | 91 | 7.27 |
| New City | 122 | 13.76 |
| North Center | 27 | 2.70 |
| North Lawndale | 94 | 16.27 |
| North Park | 29 | 7.08 |
| Norwood Park | 54 | 4.28 |
| Oakland | 11 | 14.02 |
| O'Hare | 38 | 13.21 |
| Portage Park | 144 | 8.47 |
| Pullman | 22 | 8.47 |
| Riverdale | 7 | 4.12 |
| Rogers Park | 97 | 11.34 |
| Roseland | 152 | 11.33 |
| South Chicago | 95 | 12.52 |
| South Deering | 43 | 8.74 |
| South Lawndale | 99 | 9.00 |
| South Shore | 122 | 15.64 |
| Uptown | 53 | 5.03 |
| Washington Park | 37 | 27.42 |
| Washington Heights | 87 | 10.72 |
| West Elsdon | 46 | 10.77 |
| West Englewood | 160 | 17.11 |
| West Garfield Park | 52 | 14.16 |

| Community Area | Total Zombie Properties | Zombies per 1,000 Mortgageable Properties |
|----------------|-------------------------|---|
| West Lawn | 116 | 14.14 |
| West Pullman | 128 | 14.30 |
| West Ridge | 187 | 12.60 |
| West Town | 110 | 5.77 |
| Woodlawn | 91 | 19.98 |
| Chicago | 5,828 | 9.17 |

| Community Area | Total Zombie Properties | Zombies per 1,000 Mortgageable Properties |
|-----------------------|-------------------------|---|
| North Cook County | 653 | 5.19 |
| Northwest Cook County | 1,371 | 7.25 |
| South Cook County | 1,607 | 13.61 |
| Southwest Cook County | 854 | 6.10 |
| West Cook County | 1,396 | 9.21 |