

Foreclosure Inventory Level and Recovery Schedule

Cook County, May 2013

Presented To

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From

R | E | A | L

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Objective

The objective of this note is to provide a methodology to assess the contribution of foreclosures to current housing inventory levels, and to assess the time it will take to restore foreclosure levels to rates observed prior to the financial crisis that began in 2008.

Terms and Definitions

Foreclosure start: Newly filed foreclosures, indicating the inflows of foreclosure to the pipeline.

Foreclosure completion: Foreclosures reach auction sales, including both successful auctions and unsuccessful ones.

Foreclosure inventory: Properties at some phases between the new filings and the auction sale¹.

Inventory recovery level: Average foreclosure inventory level of 1997-2005. Since the end of 2005 and early 2005, new foreclosure filings increased from all previous months.

In/out ratio: foreclosure starts/foreclosure completions

Recovery schedule: Projection of the time by which foreclosures reaching the recovery level under three assumptions using the average in/out ratio of (a) the last 12 months (b) last 24 months and (c) last 30 months

Data manipulation

About 50% of the foreclosure starts are not followed by any other actions in the data set. It means a foreclosure starts without a completion. The explanation from the data collection company is that those cases are most likely to be missed, dismissed or resolved. In addition, it is not possible for them to track when that happened. However, to identify the inventory, we need both the date of foreclosure start (newly filed foreclosure and thus added to the inventory) and the date of auction (when the property is removed from the inventory).

For the purpose of extracting the inventory, three scenarios are compared.

Scenario 1: All those foreclosure starts without follow-up are treated as still in the process of foreclosure (no decision has been made). This is likely to overestimate the inventory and underestimate the speed of recovery.

¹ Our extraction may be smaller than some other studies, since they also include bank repossessed properties-shadow inventory while our data source does not allow us to identify these figures for a specific time point)

Scenarios 2-3:

Completion dates are estimated for those without follow-up, assuming they have been processed out by the estimated dates. Completion dates are estimated in the following ways:

Scenario 2: Adding median days of foreclosure processes to the start dates, then deriving the estimated missing completion dates. (Two medians were separately applied for foreclosures occurred before 2007 and after)

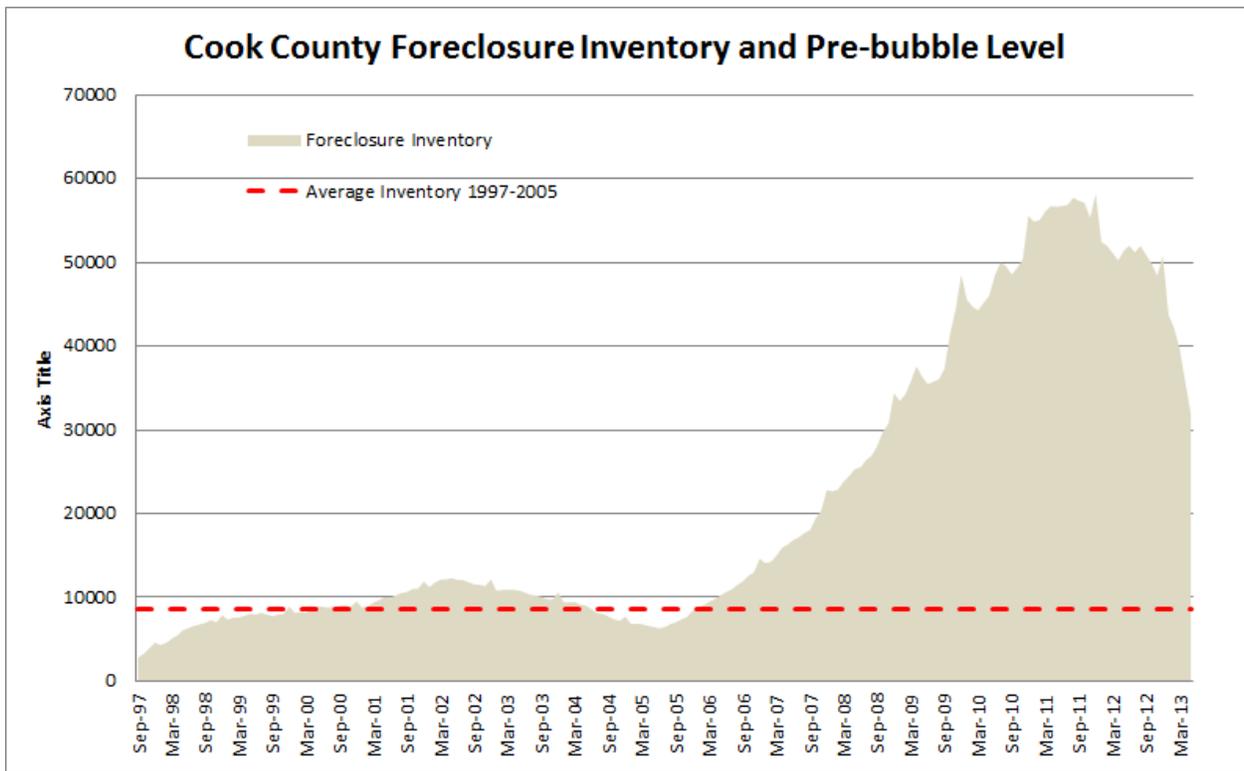
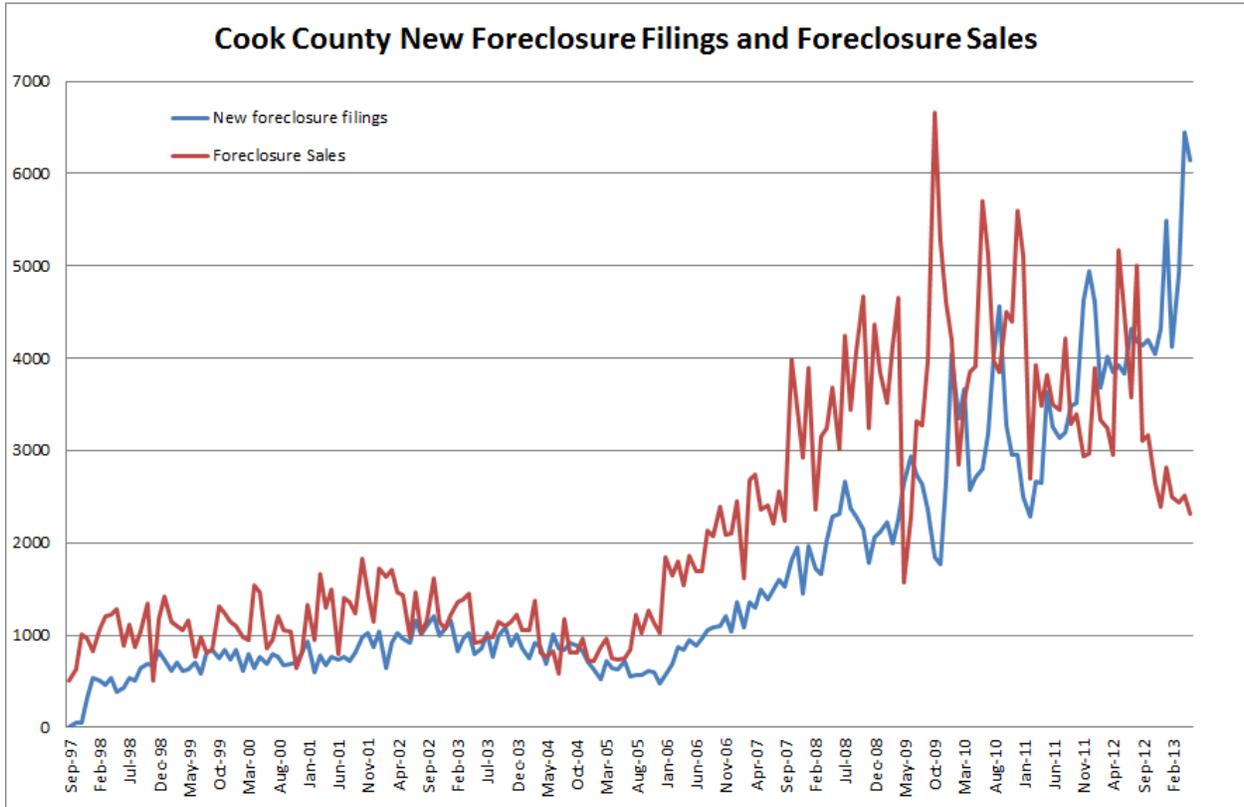
Scenario 3: Adding 9 months (270 days) to the start dates. This is the minimum number of days possible for a foreclosure process to be completed. This assumption most likely underestimates the size of the inventory and overestimates the speed of recovery.

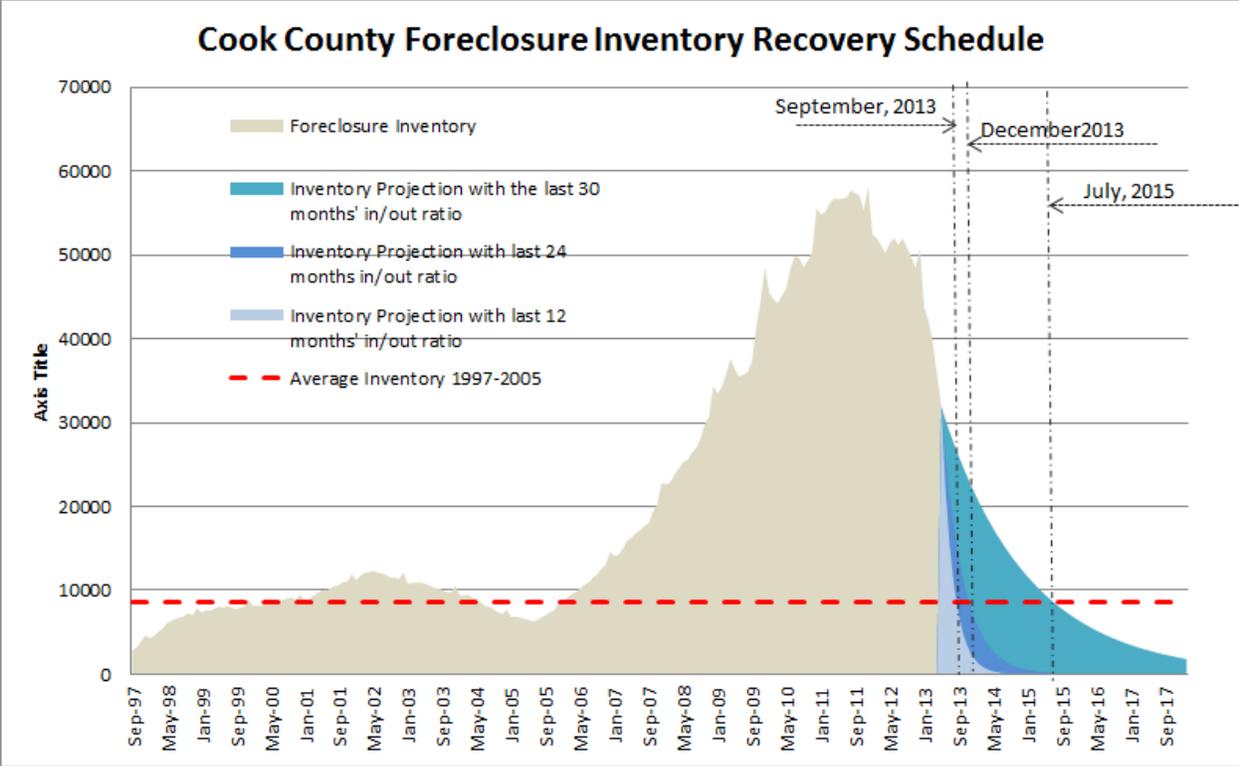
Table 1.Recovery Schedule under Alternative Scenarios and Assumptions

	Foreclosure Inventory by May 2013	Average in/out ratio			Recovery schedule with corresponding in/out ratio		
		Last 12 months	Last 24 months	Last 30 months	Last 12 months	Last 24 months	Last 30 months
Scenario 1	141,248	1.31	1.73	2.08	NA	NA	NA
Scenario 2	31,876	0.69	0.82	0.95	Sep, 2013	Dec, 2013	Jul, 2015
Scenario 3	25,122	0.67	0.80	0.91	Jul, 2013	Oct, 2013	May, 2014
Summary: <ul style="list-style-type: none"> • Scenario 1 has the highest inventory by the May 2013 without taking care of missing cases. With all in/out ratios above 1, the inventory does not seem to recover with the constantly more foreclosure starts than completions. • Scenario 2 applies the median length of foreclosures to estimate the missing dates of completion and returns more reasonable inventory and recovery schedule. • Scenario 3 applies an estimation of 270 days of minimum foreclosure length to tackle the missing dates. The inventory level is lowest and speed to recover is highest. • There is a preference for Scenario 2, since it is not that extreme and has more reasonable assumptions. Under this scenario, the pre-housing bubble level of foreclosure inventory will be recovered by September, 2013 with the last 12 months' in/out ratio, by December 2013 with the last 24 months' in/out ratio and by July, 2015 with the last 30 months' in/out ratio. 							

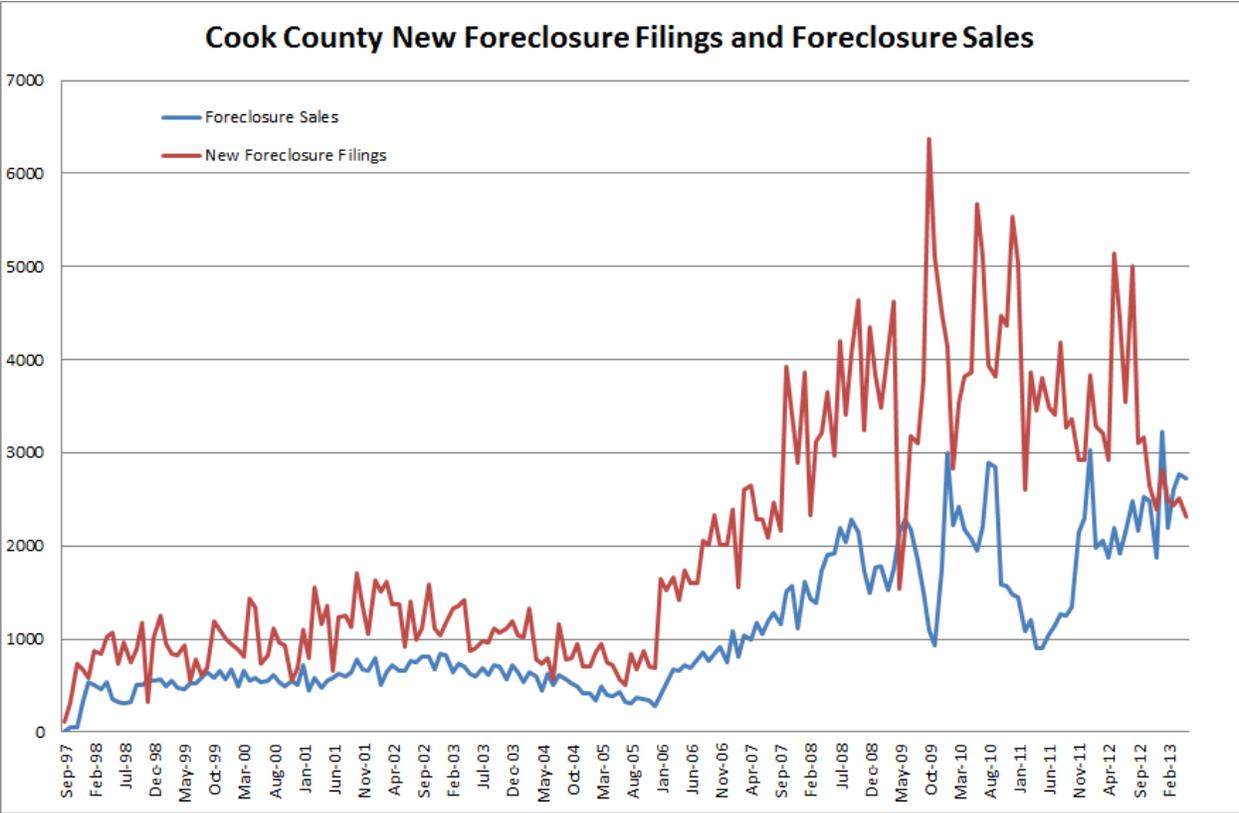
Graphs of Scenario2 dynamics are presented below and followed with the other two scenarios.

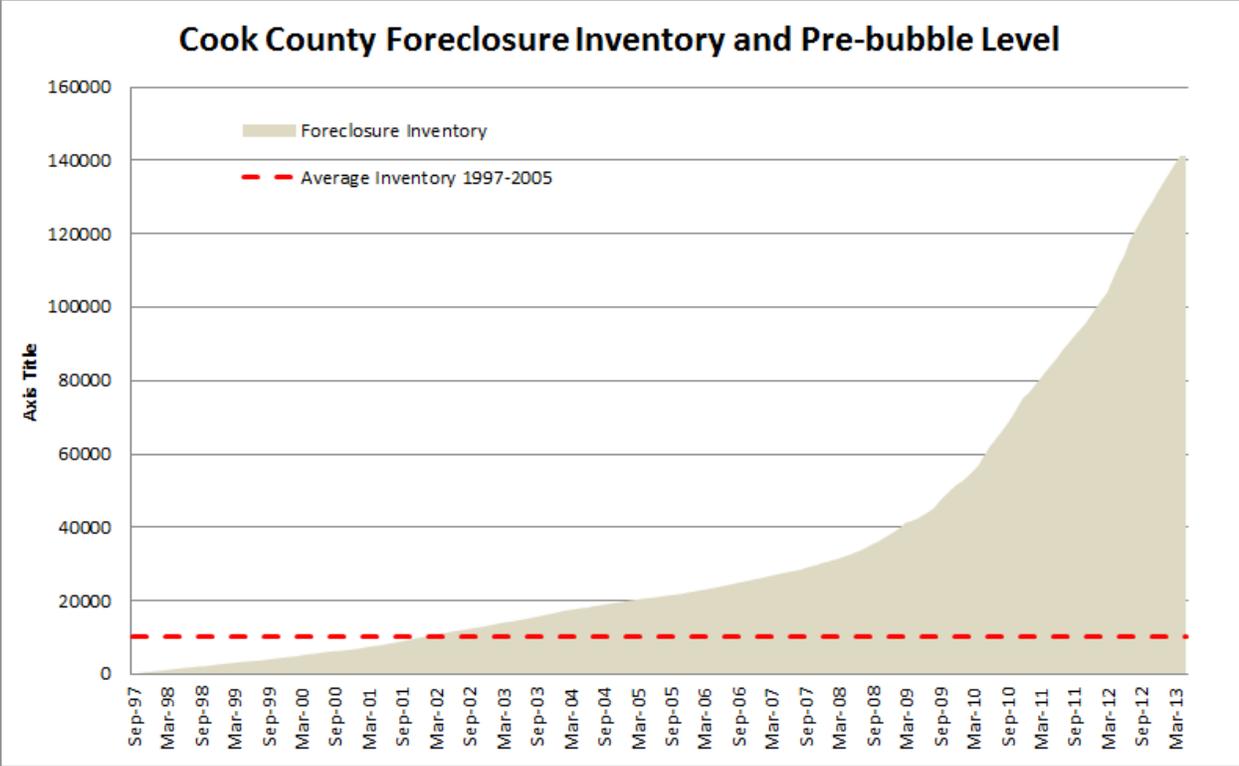
Scenario 2



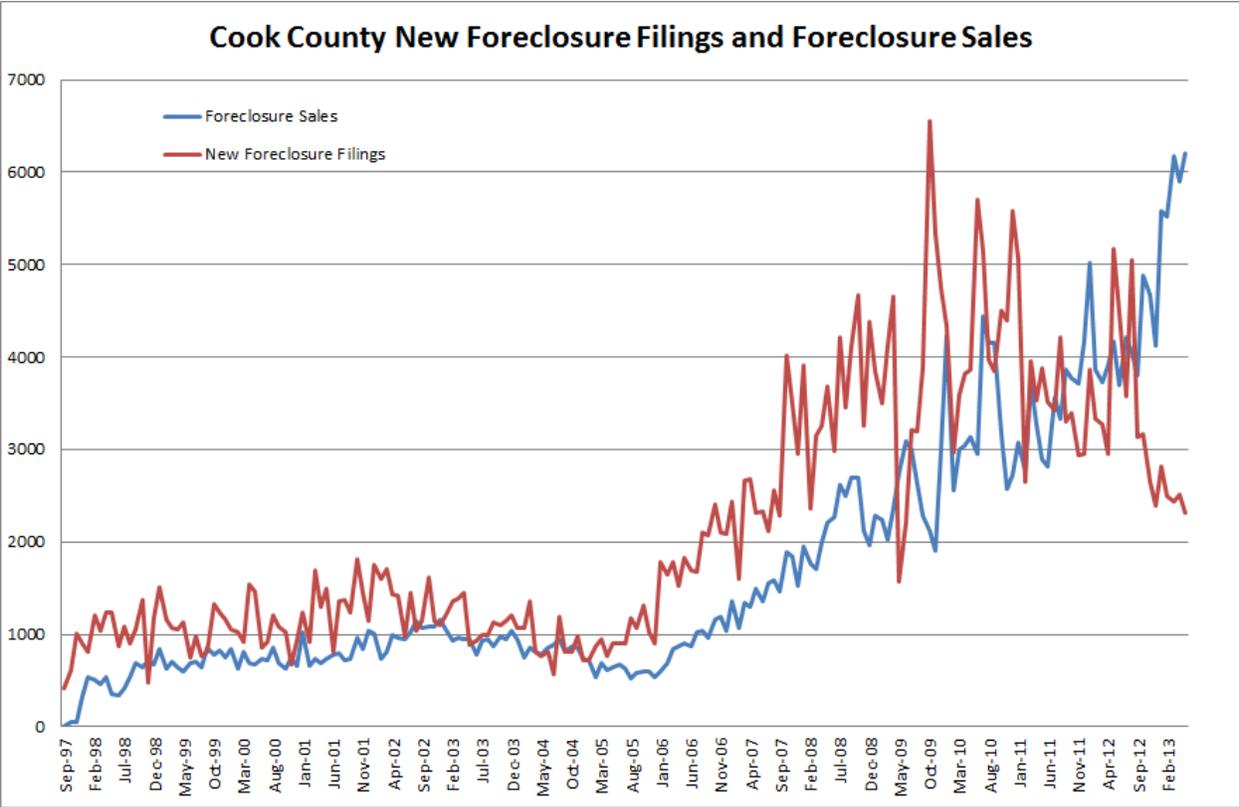


Scenario 1

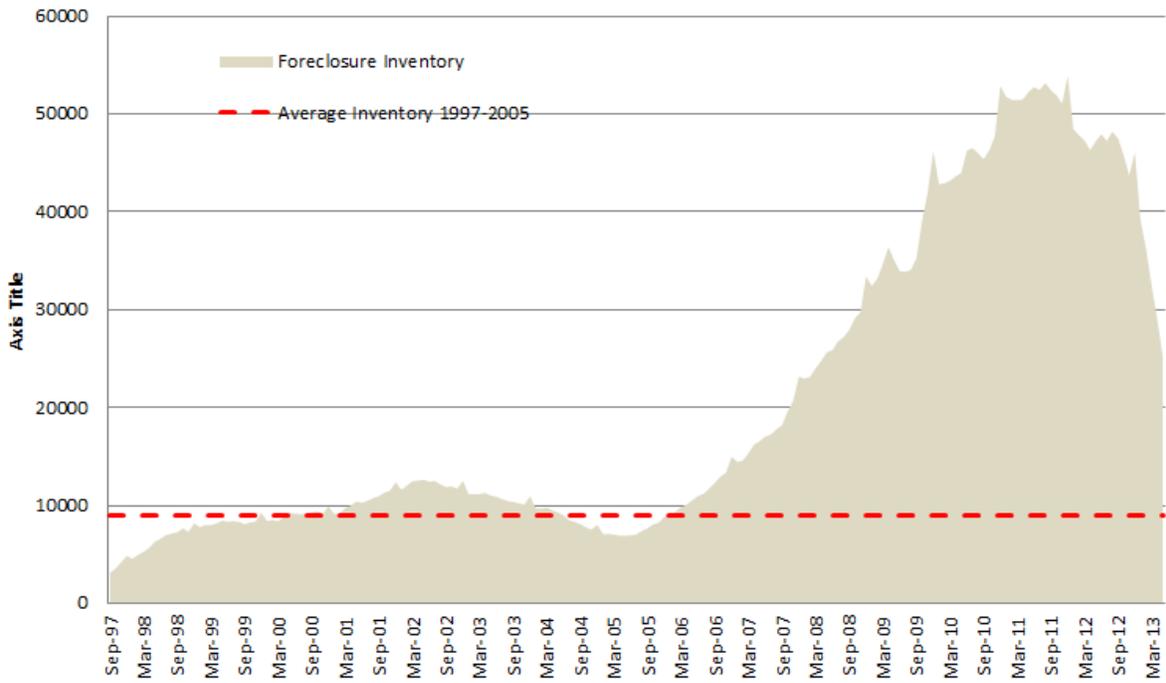




Scenario 3



Cook County Foreclosure Inventory and Pre-bubble Level



Cook County Foreclosure Inventory Recovery Schedule

