

Freddie could take more than a decade to unload REO inventory

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Freddie Mac vendors sold fewer REO properties in the third quarter than they did earlier in the year as nonperforming loans continue to climb.

More than 25,300 repossessed homes held by Freddie Mac sold in the third quarter, down 13.5% from the nearly 30,000 in the previous three months. It was also a 17% decline from the record-setting 31,600 sold in the first quarter.

At the same time Freddie unloaded the 25,300 REO, it repossessed another 24,300 homes back into the inventory. At the end of the quarter, Freddie held 60,000 REO on its books, which has been trimmed — as new foreclosures are completed — from 75,000 one year ago.

If the current trend holds, and the GSE reduces a net 1,000 REO from its inventory every quarter, it would take 60 quarters to unload its entire inventory — roughly 15 years.



And that's with a severely constricted foreclosure pipeline due to recent servicing problems and new regulations. As it opens up, the market will be asked to absorb even more REO sales just to remain on that current trend.

"The pace of REO acquisitions remained slow in 3Q 2011 due to continued delays in the foreclosure process for single-family mortgages," Freddie said. "We expect these delays will likely continue into 2012. However, we expect our REO inventory to remain at elevated levels."

Meanwhile, nonperforming assets continue to mount. These troubled mortgages totaled \$127.9 billion, or 6.6% of its total mortgage portfolio, in the third quarter. That's up 3.2% from the previous quarter.

To help manage the still mounting problem holding back housing and as an extension the overall economy, the Obama administration and the **Federal Housing Finance Agency** [began](#) asking market participants for ideas on selling these properties in bulk and even possibly renting them.

Before a House subcommittee Thursday, FHFA Acting Director Edward DeMarco reiterated that such a strategy will not be implemented nationwide but on a local level.

"We are not looking to develop a single, national program for REO disposition. We are most interested in proposals tailored to the needs and economic conditions of local communities," DeMarco said. "We received nearly 4,000 responses to the RFI and are reviewing the submissions."

by JON PRIOR