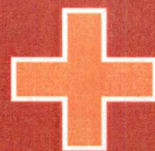


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APRIL 2006
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CROSSROADS OF AMERICA AT A DEAD END?

Indiana's Economy Continues to Decline



AP PHOTO/INDIANAPOLIS STAR, ALAN PETERS/IME

JOB LOSS: Sandi Redmon, 32, of Greenfield, Ind., picks up a milled spool valve to check the tolerances. Indiana's Detroit-dependent plants have dismissed 20 percent of their workers since 2000, dropping auto-parts employment statewide to 76,000 by last month, says Haver Analytics of New York.

STORY BY JENNIFER WORKMAN PITCOCK

INDIANA'S MOTTO IS "THE CROSSROADS OF AMERICA." Less than a century ago it was a hub of economic activity, a state where important roads and waterways intersected. Today, the economy is in decline in most of the state—with a few notable exceptions.

Indiana Market Insight

Rank:	5th
Notice of default	1,056
Notice of trustee sale	764
REO listings	2,599
Foreclosure rate	1 in 571
Change from previous month	-30%

Ranking reflects foreclosure rate relative to other U.S. States; foreclosure rate includes all properties in some stage of default

SOURCE: JANUARY 2006 REALTYTRAC™ U.S. FORECLOSURE MARKET REPORT

Investor-friendly Indy

From his office in Indianapolis, Mark Davis, broker/owner of Indy REO Inc., reports that business in Indianapolis is booming. REOs stay on the market for an average of just 26 days. And he regularly receives multiple offers—usually because the homes are underpriced or in a high-demand area. "This is a very desirable position for the seller, who can then request 'highest and best' from all parties," says Davis. "This often results in offers over

list price and often over market value."

Named the most affordable major housing market for the second quarter in a row, Indianapolis REO attracts plenty of investors. Davis estimates that investors buy 80 percent of the homes under \$100,000. "Prices frequently go below \$20,000 in the worst areas," says Davis. "The average price of an REO is \$55,000."

Even in such a hot market, some properties are harder to sell than others. "I had one property recently in a neighborhood less than 10 years old. It had about six bullet holes in the shutters and attic vents. Houses just don't get shot at in this neighborhood! It was probably kids vandalizing." While repairing REOs often doesn't pay, in this case, it would have, says Davis. "For about \$300 the seller could fix this, but chose not to. What was a very inexpensive repair scared off several buyers. They don't want to be shot at when they move in!"

Ailing Anderson

But while the REO market in Indianapolis is thriving, just up the road in Anderson, Davis sees a different picture. Delco, a GM supplier, closed in 2003, eliminating about 400 jobs. Other factory closings have raised the local unemployment rate to 6.7 percent—well above the national average of 4.7 percent. A February *New York Times* headline described Anderson—"A City in Danger of Dying Out as GM Falters." Thirty years ago, the city had more than 20,000 GM jobs. The two remaining parts plants employ fewer than 3,000 total. One of the two, Delphi, is under bankruptcy protection and in danger of closing.

"In Anderson, all I hear is, 'We can't sell anything here!'" says Davis. With unemployment continuing to rise and an exodus of residents to areas with jobs,

few homes, REO or otherwise, are selling. "Unlike Indianapolis, where the economy is strong, Anderson has a surplus of REO property."

Weakening Wabash Valley

Terre Haute is home to REO Broker Cy Marlow of L.J. Michaels Real Estate. His family has lived in the Wabash Valley for more than 10 generations. "Actually, my family still has some of the original land grants from the government. The land is still family-owned," says Marlow. "That's how tied I am to this area. I know I could have furthered my career in a larger metropolitan area, but I have no desire to leave this part of Indiana."

Marlow's service area covers a large swath of central Indiana. Like Davis, he sees economic growth in some areas like Indianapolis and Bloomington, where Indiana University is located, as well as other university towns like Greencastle (Depauw) and Crawfordsville (Wabash).

But overall, the economy is waning. Terre Haute, located on the Wabash River, was once a prosperous city—first because of its ports and later railroads and coal mining. Now this city of 60,000 is struggling as manufacturing jobs are exchanged for jobs in retail.

"The increased number of REOs in all markets of Indiana is one of the best indicators that Indiana's economy is on the decline," says Marlow. "It's very easy to look at percentages and numbers under a set of controlled conditions and think that everything's OK because people are employed or areas have decreasing unemployment."

"Factory workers that were employed at \$15 to \$35 an hour are now employed at other jobs with pay rates much lower—\$8 to \$15," says Marlow. "Homeowners with a 30-year mortgage were making double the wages when they qualified—this is the real reason we are seeing such an increase in REOs statewide."

The REOs these economic conditions create eventually sell—in Terre Haute and the surrounding areas, generally after about 120 days on the market. Marlow estimates that about 40 percent sell to owner occupants and 60 percent to investors at an average price of \$35,000 to \$45,000. "The price has to be competitive to justify the cost to cure, and there must be a profit margin for an investor to make

**"They don't want
to be shot at when
they move in!"**

—Mark Davis, Indy REO Inc.,
Indianapolis

an offer," he says.

Marlow does sometimes see multiple offers but usually after a high number of DOM. "Usually, higher offers were presented right after listing," he says. "I had one home that just went pending on a highest and best, multiple-offer situation. The property went pending for \$112,000 with 6 percent concessions. However, the first week the property was listed we had a cash offer of \$120,000 with no concessions."

Though Marlow runs across the occasional property in pristine condition, most REOs are missing something. "I have a home that went pending a week ago that had every window, cabinet, HVAC, carpet, bath fixture, light fixture, and door missing when I went to the home for the first time," he says. "This was extreme but points to a real problem. It's next to impossible to know what an appraiser might have seen at the time of appraisal." Such changes in conditions make it hard to sell a home for what it appraised at before it was stripped.

Marlow characterizes the sheer amount of REO in the Terre Haute area as "staggering." "Buyers have so many choices that it has made the REO market extremely competitive. The market is so flooded that in some instances lenders have not kept track of houses going through foreclosure and haven't had abandoned homes secured," he says. "Then we see the major theft of cabinetry, lighting and HVAC systems I mentioned—even in some of the better neighborhoods. Just securing these homes and mowing the grass could save lenders major money at the closing table."

And with Indiana's economy changing from manufacturing to retail in small and mid-sized communities, Marlow doesn't see things changing in the near future. "In Terre Haute, AP&S Clinic just laid off 25 percent of the staff and Columbia House just laid off another 300 employees," he says. "But we are getting another Wal-Mart. It appears we are exchanging quality for quantity." 🏠