
The Impacts of Foreclosure on Renters

Federal Reserve Breakfast Forum

March 24, 2009

FURMAN CENTER



FURMAN CENTER
FOR REAL ESTATE & URBAN POLICY

NEW YORK UNIVERSITY

SCHOOL OF LAW • WAGNER SCHOOL OF PUBLIC SERVICE

NYU's Furman Center for Real Estate and Urban Policy

Since its founding in 1995, the Furman Center for Real Estate and Urban Policy has become the leading academic research center in New York City devoted to the public policy aspects of land use, real estate development and housing. The Furman Center, a joint research center of NYU Law School and the Robert F. Wagner School of Public Service, is dedicated to:

- Providing objective academic and empirical research
- Promoting frank and productive discussions
- Presenting essential data and analysis

Who are the Other Victims of Foreclosure?

- Neighboring Property Owners (property values and crime)
- Local Governments (reduced tax collection and increased expenditures)
- **Tenants**

Tenants at Risk around the Country

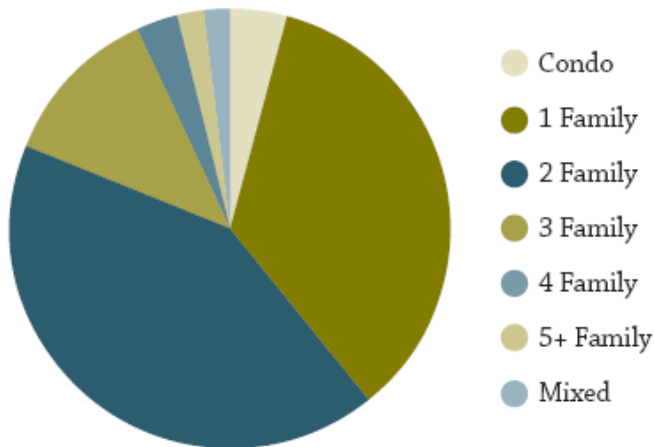
National estimates:

- JCHS: 20% of all foreclosure filings are on non-owner occupied properties
- RealtyTrac: 38% of foreclosures nationwide involve rental properties
- New England: about one third of properties facing foreclosure are multi-unit (National Low Income Housing Coalition)
- Chicago: 35% of foreclosure filings are on 2-6 unit buildings (Woodstock Institute)

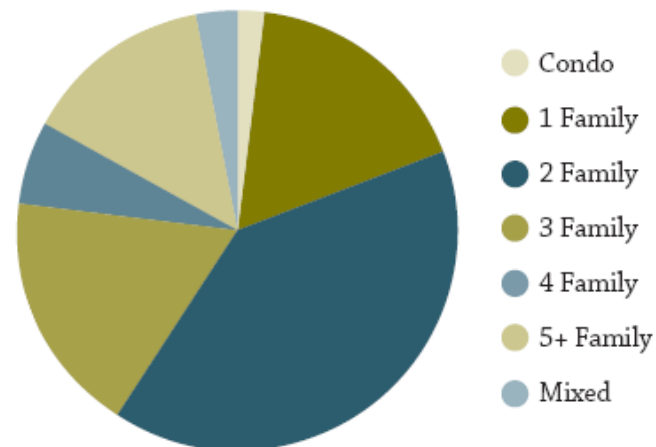
Tenants at Risk in New York City

- Of the nearly 15,000 foreclosure filings in NYC in 2007, 60% were on 2-4 family and 5+ unit buildings, while only about 40% were on condos and single family properties

Breakdown of Properties that Entered Foreclosure in 2007



Breakdown of Total Units in Properties that Entered Foreclosure in 2007



What Happens to Tenants When the Landlord is Foreclosed on?

- In most states, in most cases, foreclosure of the mortgage wipes out the lease;
- In smaller buildings, new owners generally want the property vacated, and therefore are likely to evict tenants.
- Tenants are often unaware that the landlord is in foreclosure so are frequently evicted with little notice

Other consequences for tenants...

- Before Eviction:
 - ❑ Utility shut-offs
 - ❑ Decline in repairs or maintenance
 - ❑ Intimidation; “cash for keys” offers to force tenants out quickly
- After foreclosure:
 - ❑ Lives disrupted
 - ❑ Difficulty paying moving expenses
 - ❑ Children pulled out of school
 - ❑ Loss of security deposit
 - ❑ Difficulty finding affordable new apartment
 - ❑ Ruined rental history

What Rights do Tenants Have?

- Section 8 and rent regulated tenants are protected from eviction
- In some states, “just cause” statutes protect tenants from eviction (NJ, DC, NH)
- Other tenants only have notice protections, which vary widely by state

Sample of Different State Protections

- Illinois provides tenants with 120 days notice prior to eviction proceedings
- Ohio provides only 3 days notice prior to eviction proceedings
- Massachusetts requires court approval prior to eviction; judge determines length of time required prior to eviction
- Some states (for example, California and Minnesota) require that tenants receive notice of foreclosure proceedings

Recent Victories for Tenants

- Fannie Mae and Freddie Mac agreed not to evict renters. Tenants are offered either new month-to-month leases or financial assistance for moving
- American Recovery and Reinvestment Act (ARRA) grants tenants in properties receiving Community Development funds 90 days eviction notice and allows tenants with leases to remain for the lease term
- H.R. 1247 introduced March 2, if passed, would extend the ARRA protection to all tenants (sponsored by Keith Ellison, D- MN)

Big Open Questions

- How many tenants in foreclosed properties are actually evicted?
- What happens to evicted tenants?
- How are large multi-family properties different?

Policy Proposals

- Outreach and Information
- Notice
- Prevent Utility Shut-offs
- Preserve Tenancies
- Assistance for Displaced Tenants
- Preservation programs to keep overleveraged multifamily buildings affordable

Policy Proposals: Outreach and Information; Notice

- Outreach and Information: Inform tenants of their rights
 - Even tenants who are legally protected from eviction are often intimidated out of their homes because they are unaware of their rights. For example, a recent New Jersey press release warned of landlords changing locks to force eviction.

- Notice: Require that tenants receive notice of foreclosure

Policy Proposals: Shut-offs; New Leases

- Prevent Utility Shut-offs and Require Maintenance:
 - During the foreclosure process tenants may be left without utilities or repair services. Pending legislation in Rhode Island would require any successors in interest to continue providing essential services. (R.I. S0040)
- Preserve Tenancies: Honor current leases or execute new leases
 - Keeping tenants in their homes would not only aid the tenants, but also prevent decreases in property values from vacant buildings

Policy Proposals: After Foreclosure

- Assistance for Displaced Tenants:
 - ❑ Financial assistance for moving expenses and security deposits.
 - ❑ Homelessness services
- Preservation programs to keep overleveraged multifamily buildings affordable
 - ❑ Attach affordability requirements to federal aid