Policy Matters Ohio

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Financial Institutions, Real Estate, and Securities Committee
The Ohio House of Representatives, 128th General Assembly
Hearing on H.B. 9 – March 5, 2009 – Testimony of David Rothstein, Policy Matters Ohio

Chairman Koziura and members of the Committee. My name is David Rothstein and I am a researcher with Policy Matters Ohio, a nonprofit, nonpartisan research group that provides analysis on economic issues that matter to low- and moderate-income families. My work centers on tax and consumer issues in Ohio. Thank you for allowing me the opportunity to testify on this extremely important piece of legislation. I applaud your openness in holding hearings on renters in the foreclosure process.

The foreclosure crisis in Ohio is now well known. Each year since 1995, Ohio has witnessed growth in new foreclosure filings.[1] In 2008, we had a record 85,773 new foreclosure filings. What the numbers don't often tell are the stories of the different types of foreclosures. The most recent wave of foreclosure filings in Ohio and across the country, deals with non-owner occupied, renter-foreclosures. When owners of rental properties face foreclosure, they often walk away from the property, do not inform tenants about the situation, or tell the tenant when it is too late to easily move. The tragedy is that tenants may have totally fulfilled their end of the agreement but they end up suffering the largest loss, their home.

Beginning in 2007, community and social service groups noted a dramatic increase in tenants being evicted from their homes by a new owner, not their known landlord. Sheriff deputies noted that when serving foreclosure writ, they found tenants in the property close to 40 percent of the time. The stories began to compile. Many tenants contacted the United Way First Call for Help or service organizations saying their utilities like water or gas had been shut-off. Some tenants learned about a foreclosure from a sheriff deputy coming to the door informing them the house is now owned by a bank.[2] The Mortgage Bankers Association noted in a ***New York Times*** article that likely one in every seven foreclosed properties was a non-owner occupied residence.[3] We quickly learned that these were not isolated incidents but rather a huge problem in the foreclosure system. Renters constitute, in essence, the collateral damage from non-owner occupied foreclosures.

The Sisters of Charity Foundation in Cleveland noted this new demand on community resources by renters. This was sending shock waves through the low- and moderate-income housing system. They commissioned Policy Matters Ohio to produce a research report to understand how foreclosures impact renters and the community. For the report, we worked with the Legal Aid Society of Cleveland, Cleveland Tenants Organization, and Case Western Reserve University's Center on Urban Poverty and Community Development.[4] You will find this report, entitled ***Collateral Damage: Renters in the Foreclosure Crisis*** attached to my testimony. Our study found the following:

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[1] Zach Schiller and April Hirsh. "Foreclosure Growth in 2008," *Policy Matters Ohio* (April, 2008).
[2] Sheryl Harris. "Renters Evicted When Landlords Don't Pay Mortgage," *Cleveland Plain Dealer* (October 14, 2007).
[3] John Leland. "As Owners Feel Mortgage Pain, So Do Renters," *New York Times* (November 18, 2007).
[4] My testimony reflects our research and views, not necessarily those of our funders or collaborators.

- Renter foreclosures made up 30 percent of Cuyahoga County's total residential foreclosure filings in 2007. Of the 13,729 new residential foreclosure filings, 3,918 of them were renter foreclosures. This is an increase of 29 percent from the previous year.
- More than 35 percent of foreclosure filings in Cleveland (2,586) and East Cleveland (175) were rental units. However, the largest increases from the previous year occurred in the inner-ring suburbs and Cleveland's border cities. Because foreclosures are at crisis levels in every Ohio county, rural and suburban counties are also experiencing renter foreclosures.[5]
- The Cleveland Housing Court noted a near doubling in eviction filings against renters because of foreclosure filings.
- Families faced high costs related to the eviction or foreclosure process. This type of relocation cost them in lost security deposits, increased rent at a new location, moving and storage, property loss, property damage, replacement costs, and utilities. Based on interviews and intake sheets, a conservative average cost for a displaced family was $2,500 meaning families in Cuyahoga County lost $10 million because of renter foreclosures. Specifically,
  - The vast majority of tenants (86 percent) lost their entire security deposits, an average of $474.
  - A small, but notable percentage of families used an emergency shelter until relocating. This is now up in 2008 to nearly 10 percent of families.
  - Many families moved in with family and friends, or "doubled-up" producing additional economic and social hardships.
  - The average monthly rent increased, despite a poor housing market and slumping economy, by $50.

Some costs are social and cannot simply be measured numerically. Families found themselves strained to adjust their children to a new school or transport children to an existing school. Individuals found it incredibly challenging to continue their employment during this process. Other issues, such as vacant land from unoccupied renter properties, affects entire communities. Recently, this Assembly recognized the blight and costs of vacant and abandoned properties by authorizing a Cuyahoga County Land Bank to take on tax delinquent foreclosed property. This problem of vacant and abandoned properties, intensified by renter foreclosures, cannot be overstated. Looking at eight Ohio cities, ReBuild Ohio estimated $60 million worth of revenue is spent and lost each year because of vacant and abandoned properties.[6] Homeowners and communities see dramatic declines in their property value simply by being in close proximity to a vacant or abandoned home.[7] This is not solely a "renter" problem.

The report recommended:

- Enacting a state law that allows a renters' tenancy to survive the foreclosure process.
- Mandating a proper notice of foreclosure to renters of 90 days or more.

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[5] Schiller and Hirsh (2008).

[6] *Community Research Partners, ReBuild Ohio*. "$60 Million and Counting: The Cost of Vacant and Abandoned Properties to Eight Ohio Cities." (February, 2008).

[7] Dan Immergluck and Geoff Smith. "There Goes the Neighborhood: The Effect of Single-Family Mortgage Foreclosures on Property Values." *The Woodstock Institute* (June, 2005).

- Establishing funds, both public and private, to assist renters in their relocation process.

HB 9 (and a similar bill, SB 13 in the Senate) would improve upon existing policy by allowing the tenancy to survive foreclosure, even for a very short time period. The tenancy becomes month-to-month upon the confirmation of the property sale allowing a renter reasonable time to relocate or perhaps remain a tenant in the property. Importantly, this bill requires the landlord to provide notice of the foreclosure process and sale date to the tenant.

Working families and seniors who are keeping their end of the bargain are innocent victims of the foreclosure crisis in Ohio. Considering the state of Ohio's economy and our current budget, it is rare that this assembly has the opportunity to enact a measure that will help so many Ohioans for little to no cost. HB 9 should be passed, helping every community in Ohio.

I am happy to answer any questions at this time.

Respectfully Submitted,

David Rothstein
Researcher