

Win-Win: A Proposal for Banks to Continue Renting to California Tenants after Foreclosure

Background

Tenants are innocent and hidden victims of a foreclosure crisis they did nothing to create. The scope of the problem is staggering: Tenants Together estimates that at least 37 percent of residential units in foreclosure in California are rentals. In 2009 alone, over 200,000 tenants were directly affected by home foreclosures. Despite their willingness to continue to pay rent, most tenants in foreclosure situations are being driven from their homes by banks acquiring properties at foreclosure.

In addition to the devastating human costs, banks' practices of evicting tenants in their foreclosed properties make no financial sense. Over the last two years, banks have lost nearly \$2 billion in rental income by displacing rather than renting to tenants after foreclosure. Additionally, banks are incurring costs for lawyers to litigate eviction cases, and for real estate agents to negotiate "cash for keys" deals. Once the tenants are evicted, many of these properties end up sitting vacant for months or years. As a result, properties fall into disrepair and become prime targets for vandalism, further contributing to plunging property values and creating legal liability for banks as the owners of blighted, vacant property.

There is a better way. Forward-thinking banks should adopt tenant policies that are both humane and economically sound, benefiting tenants, communities and the banks themselves. Proposed policies are set forth below.

Proposed Policies for Banks

Tenants Together urges lenders to **adopt the following minimum policies** with respect to California tenants when they take ownership of occupied rental units:

- 1. Notify Tenants of New Ownership and Management:** As required by California law, inform tenants in writing within 15 days of acquiring the property of the identity and contact information of the property owner and manager.
- 2. Maintain the Premises:** As required by California law, continue to provide the utility services that were the responsibility of the pre-foreclosure landlord, and maintain units in habitable condition.
- 3. Do Not Evict Except for Cause:** Refrain from evicting tenants after foreclosure unless the tenant has violated terms of tenancy. This is already required by local law in sixteen California cities.
- 4. Enforce Zero-Tolerance Policy for Noncompliance with Tenant Protection Laws –** Adopt a zero-tolerance policy for agents who violate the letter or spirit of federal, state, and local tenant-protection laws; monitor contractors/agents for compliance with the policy; and terminate contractors who fail to comply.
- 5. Return Security Deposits:** Consistent with the requirements of the Protecting Tenants at Foreclosure Act and California Civil Code section 1950.5, return security deposits after tenants vacate, unless there are grounds for deductions.

Following the above policies will result in greater housing stability for renters, increased revenue for lending institutions, and stabilization of property values. Additionally, it will improve banks' standing in their communities. We urge your institution interested to adopt these policies. Please contact Tenants Together at 415.495.8100 for more information.