Center on Budget and Policy Priorities

CBPP STATEMENT

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STATEMENT BY BARBARA SARD, DIRECTOR OF HOUSING POLICY, ON HOUSE ACTION ON FORECLOSURE LEGISLATION

Two essential elements of an effective federal response to the foreclosure crisis are stabilizing communities hard hit by foreclosures and helping renters who lose their homes to foreclosure through no fault of their own. The Neighborhood Stabilization Act (H.R. 5818), which the House plans to consider today, would help address the first of these issues and deserves support. The House should also act quickly to address the second issue as part of a more comprehensive foreclosure package.

Stabilizing communities. In communities across the country, concentrated foreclosures have left thousands of properties vacant, contributing to a downward spiral of falling property values and rising crime. As a result, local tax bases in many areas have weakened even as the costs of public services such as police protection and trash collection have increased.

H.R. 5818 would give grants and loans to hard-hit states and localities to purchase foreclosed properties and rehabilitate them for resale or rental, at a federal cost of $8.4 billion. The funds would be distributed on the basis of actual and likely future foreclosures in communities where subprime loans, mortgage defaults, and mortgage delinquencies are prevalent.

Lenders would benefit from the purchase of their foreclosed properties but not excessively so, since buyers would purchase the properties at a discount from their current value. Homeowners in these communities who are *not* facing foreclosure will also benefit, as local home prices will fall less, and neighborhood conditions will become more stable, than in the absence of the bill.

At the same time, the bill seeks to ameliorate the nation's severe shortage of affordable housing by requiring that a large share of the properties rehabilitated under the bill be affordable to low- and moderate-income families.

Protecting renters. More than one in four foreclosures affects renter households. These families have paid their rent but face eviction because the owners of their homes have defaulted on their mortgages. (Lenders typically evict renters precipitously after repossessing homes, rather than act as landlords.) They often cannot get their security deposits back, making it harder for them to find the funds to obtain other housing.

That calls for two remedies:

1. a requirement that foreclosing lenders give renters a reasonable amount of

time to relocate, and

2. funds to help low-income families avoid homelessness. For example, an estimated 100,000 renters with incomes below $15,000 reside in units that face likely foreclosure. For $300 million, each such household could get $3,000 to help cover relocation expenses.

In particular need of federal protection are renters with federal "Section 8" housing vouchers whose homes face foreclosure. They are among the most vulnerable of families affected and risk losing their housing subsidies as well as their homes if they are unable to find another unit to rent with their voucher within the time period set by the voucher program.

As Congress continues to refine its response to the foreclosure crisis, it should include measures to ameliorate the harm to innocent renters. For example, Rep. Michael Capuano (D-MA) has proposed a measure to ensure that these families be allowed to remain in their homes through the remaining months of their lease.

Residents of hard-hit communities and renters of foreclosed properties represent the "collateral damage" of the foreclosure crisis. They are not responsible for the actions of lenders and homebuyers and should therefore have a strong claim on any public resources provided to help address the foreclosure crisis.

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