



NEW YORK STATE SENATOR

Liz Krueger

## Senate Passes Neighborhood Preservation Act Protects Property Values and Neighborhood Safety from Fallout of Foreclosure Crisis

LIZ KRUEGER February 24, 2009

ALBANY, NY- Today Senator Jeff Klein's bill, the Neighborhood Preservation Act, passed the NYS Senate with 47 members voting for the bill and 11 members voting against it. The legislation creates a standard of safety and habitability for bank owned homes which are foreclosed and vacant. Klein's legislation will allow municipalities to use their discretion in how they chose to clean up these unsitely residential properties and how they choose to get reimbursed for their work whether by issuing violations or through legal action, or by simply billing the bank.

Currently, in New York State, municipalities use real property law (RPL) 235-b to craft administration codes by which to enforce the standard of safety and habitability. Real property law (RPL) 235-b establishes a standard of habitability for occupied properties between tenants and landlords. Currently, no such standard for bank owned (REO) properties exists. This standard of habitability has been considered to be breached in the State of New York if such conditions such as inadequate security (failure to provide locks and secure the premises), substantial accumulation of garbage, severe infestation of insects/rodents, and sewage leaks and spills are in evidence. Klein's bill will provide parallel support to any codes and laws created by an individual municipality with reference to a bank owned vacant property.

"As the foreclosure crisis spreads, we're seeing a ripple effect as property values plummet and surrounding neighborhoods experience an increase in quality of life issues like graffiti and crime. One foreclosure can devastate an entire community and threaten the safety and well-being of innocent families. We need to curtail this crisis and end the shameful lack of responsibility on the part of the banks that has permeated the American Dream of homeownership. We cannot allow our communities to become a casualties of the foreclosure crisis," said Klein.

The legislation was originally introduced in May 2008 when the fall-out of the sub-prime mortgage crisis hit home in the Throggs Neck section of the Bronx in the 34th senate district, where the ripple effect of a single foreclosure rocked a pristine and exemplary community of responsible citizens. The basement of a foreclosed property had degenerated into the site of frequent delinquent behavior by gangs of local teenagers, tormenting an otherwise quiet and family oriented neighborhood.

Unable to find any bank or agency to take responsibility for the property, the desperate community called Klein's office for help.

In response, Klein looked up the deed of the property via the ACRIS system (the on-line records of the New York City Register) and found that it was owned by HSBC Bank as a trustee, which had sold the servicing rights to Ocwen Loan Servicing to manage the sale of the property. After countless calls, Ocwen informed Klein that eviction notices would be issued at the end of the month but that the realtor currently responsible for the property was Northeast Assets Realty Inc. Despite repeated opposition, and an extraordinary amount of red tape to determine the party responsible for the house, Klein was finally able to arrange

to have the property boarded up the next day.

“The devastation of home foreclosure affects everyone, not just the family facing the loss of their home, but the entire community. Empowering a municipality to force banks to take responsibility for foreclosed property protects property values and preserves the character of our neighborhoods,” said Senate Majority Leader Malcolm A. Smith.

Billions of dollars continue to be drained from the tax base, and New York neighborhoods are feeling the effects of the foreclosure crisis firsthand as homes fall into disrepair, attract trespassers and illegal activity. As of October 2008, there were 23,093 houses in the foreclosure process in NYC, with 9,297 in Queens, 7,816 in Brooklyn, 2,682 in the Bronx, 2,296 in Staten Island and 1,002 in Manhattan. Queens accounts for 8.8% of the state's foreclosure filings this year and 34.2% of filing for New York City.

In addition, according to PropertyShark, foreclosure rates in Queens (the most afflicted county in the state) jumped 91% in the first quarter of this year. As a result, the median home price in Queens plummeted over \$100,000 from Feb 2007 to Feb 2008, from \$390,000 to \$283,665.

According to the Center for Responsible Lending, bank owned properties not only drag down property values, but directly correspond to an increase in neighborhood violent crime by approximately 6.7%. Homeowners living near foreclosed properties will see their property values decrease by \$5,000 on average per each foreclosed home. Whereas foreclosure rates for the entire city jumped 60% in the third quarter of 2008, New York City property values overall are likely to decline by 20-25% in the next 12 to 18 months.

In May, 2008 Klein released a report which found that in New York State alone, there are 3,552,642 homes which have experienced devaluation in 2007 due to subprime foreclosures.

The resulting combined monetary decrease in home values/tax base in New York State is \$36.841 billion dollars. As of October, 2008 there were a total of 1,954 bank owned properties in NYC, with 1,209 in Queens, 313 in Brooklyn, 160 in the Bronx, and 17 in Manhattan. Kings County (Brooklyn) ranks 3rd in the first in the United States but 1st in the NY Metro region with 740,141 neighboring homes devalued at a total cost to the tax base of \$12.743 billion. Queens County is a close contender at 5th place (411,929/\$9,254 billion), followed by Bronx County at 7th (398,746/\$4.903 billion), New York County at 10th (398,746/\$3.845 billion), and finally Richmond County at 33rd (141,174/\$1.086 billion). Klein's report also surveyed Nassau and Westchester county. In Nassau county there were 911 REO owned properties with 271,875 neighboring homes devalued due to foreclosure. There a was a combined \$1.935 billion dollar decrease in home values/tax base from the foreclosure effect. In Westchester County there were a total of 209 REO owned properties with 176,387 neighboring homes devalued due to foreclosure. There was a combined \$1.3 billion dollar decrease in home values/tax base from the foreclosure effect.

"It is sad that many of the same lending institutions that gladly took taxpayer money to buy new drapes and take lavish trips to Las Vegas have to have their arms twisted to be a good neighbor," Senator Craig M. Johnson, (D-Port Washington), said. "I commend Senator Klein for authoring this common-sense legislation and for leading the fight to hold these lending institutions accountable, and to preserve the quality and character of our neighborhoods," said Senator Craig M. Johnson (D-Port Washington)

"I want to applaud Senator Klein for leading the fight to get such common sense legislation passed," said Senator Krueger. "When a house is foreclosed upon, for whatever reason, it is incumbent upon the bank or the financial institution to take responsibility for being a good neighbor and keeping the home in good repair. Otherwise, the entire community suffers," added Senator Liz Krueger (D-Manhattan).

"A foreclosed property that falls into disrepair can have devastating ripple effects for the surrounding community," said State Senator Eric Schneiderman (D-Manhattan/Bronx). "I am confident that this bill, by holding the banks accountable for maintaining their properties, will go a long way to protect the quality of life for the residents of impacted neighborhoods throughout the state," added Senator Eric Schneiderman (D-Manhattan).

"When a home is foreclosed on, banks take ownership but they don't take responsibility, and it takes a toll on the community," added Klein.