#### COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, SS:

HOUSING COURT DEPARTMENT CITY OF BOSTON DIVISION SUMMARY PROCESS
NO. 95-/0/4/7/9/4/

EMC MORTGAGE CORP.

VS.

JACQUELINE SMITH

#### MEMORANDUM OF DECISION AND ORDER

The defendant filed a Motion to Dismiss this summary process action pursuant to Mass.R.Civ.P. Rule 12(b). The defendant argues that the plaintiff failed to terminate the defendant's Section 8 tenancy with a legally sufficient Notice to Quit. She argues that the notice did not allege good cause as is required by the Section 8 lease and federal law.

The issue presented by the parties is whether the defendant's Section 8 tenancy, and the rights afforded to her under the Section 8 statute, were automatically extinguished upon foreclosure by operation of state law. Specifically, the court must determine whether application of the state common law foreclosure rule to Section 8 tenancies creates an impermissible conflict with the notice and termination provisions of the Section 8 statute.

It is the Court's conclusion that the notice and termination provisions of the Section 8 Existing Housing Program, 42 U.S.C. 1437f, et seq., preempt the state common law rule that tenancies are automatically terminated by operation of law by foreclosure. The state common law rule, if applied to Section 8 tenancies, would

impermissibly conflict with the termination and notice requirements of the Section 8 Program because it would stand as an obstacle to the accomplishment and execution of the congressional purpose of providing security of tenancy to Section 8 tenants. Congress intended that Section 8 tenants would have the right to continue to reside in their homes unless they violate a material condition of their lease or the owner establishes "good cause" to terminate the tenancy.

#### UNCONTESTED FACTS

The facts are not in dispute. The defendant, Jacqueline Smith ("Smith"), resides at 10 Humboldt Avenue, Unit 2, Roxbury ("premises"). In April, 1990, Smith entered into a subsidized tenancy with the prior owner of the premises, John Foote ("Foote"). Smith's lease and tenancy were governed by the rules and regulations of the Section 8 Existing Housing Program.

Approximately five (5) years after executing the lease with Smith, Foote defaulted on his mortgage obligations for the

The Section 8 Existing Housing Program was established by the Housing and Community Development Act of 1974, and codified at 42 U.S.C. 1437f. The Secretary of Housing and Urban Development ("HUD") through the local housing agency (here the Boston Housing Authority ("BHA") granted Smith a Section 8 Existing Housing Certificate of Family Participation. The BHA administers the Section 8 Existing Housing Program for HUD with respect to Smith's tenancy.

On October 2, 1995, HUD implemented unified regulations governing the Section 8 Certificate program and Section 8 Voucher program. See 24 CFR Part 982 (60 Federal Register 34660 et seg.).

premises. For purposes of this argument the Court assumes, but does not decide, that the mortgage was in existence prior to the commencement of the Section 8 tenancy. On or about May 31, 1995, EMC Mortgage Corporation. ("EMC") acquired title to the premises by virtue of a foreclosure deed. On or about June 23, 1995 EMC served Smith with a Notice to Quit. The notice stated that EMC was the owner of the premises and that Smith's "leasehold interest, if there be any" would be terminated effective the last day of May, 1995. The notice further advised Smith that EMC demanded payment of \$500.00 per month for the use and occupation of the premises from the date of foreclosure. The notice did not state any reason or cause for terminating the tenancy.

On August 15, 1995, EMC commenced this summary process action against Smith. EMC is relying on the June 23, 1995 Notice to Quit as the legal basis for this summary process action.

In response to the summary process complaint Smith filed a Motion to Dismiss. Smith argues that the Complaint must be dismissed because EMC failed to terminate her Section 8 tenancy in accordance with the requirements of the Section 8 Statute, 42 U.S.C. §1437(f). Her position is that the notice and termination provisions of the Section 8 statute preempt the state common law rule that tenancies automatically terminate by operation of law by foreclosure. She contends that an important objective of Congress in enacting the Section 8 program was to provide Section 8 tenants

with security in their tenancies; that the notice and terminationprovisions of the Section 8 statute provide Section 8 tenants with
that security; that Section 8 tenancies can only be terminated in
compliance with the notice and termination provisions of the
Section 8 statute for violation of the lease or other "good cause";
that the Section 8 statute does not permit the automatic
termination of Section 8 tenancies for any reason; and therefore,
an actual conflict exists between the notice and termination
provisions of the Section 8 statute and the state common law
foreclosure rule.

EMC contends that there is no actual conflict between the federal and state laws. EMC argues that the notice and termination provisions of the Section 8 statute were enacted by Congress to protect Section 8 tenants from the unilateral and arbitrary termination of existing leases under state property law; that under the state common law leases are automatically extinguished upon foreclosure; and therefore, the state common law foreclosure rule "would not be an obstacle to the federal purpose of preventing arbitrary terminations of existing leases because the leases would already be extinguished upon foreclosure under state property law and not based upon an arbitrary determination." See Plaintiff's Memorandum, p. 7.2

<sup>&</sup>lt;sup>2</sup> EMC further argues that even if a tenancy at will existed after foreclosure, the Section <u>lease</u> would have been extinguished; the resulting state law tenancy at will would

## THE SECTION 8 EXISTING HOUSING PROGRAM

The rights and obligations of tenants and owners under the Section 8 Existing Housing Program are governed by federal law. After an eligible applicant obtains a Section 8 Certificate from HUD or the local housing agency, she must locate an apartment or house owned by a person willing to participate in the Section 8 program. As a condition of participation in the program the owner must enter into a housing assistance payment contract ("HAP contract") with HUD or its local housing agency. 42 U.S.C., §1437f(c). The local housing agency (here the BHA) is authorized by HUD to enter into an assistance payments contract with the owner. 42 U.S.C., §1437(b)(1).

The Section 8 statute provides than an owner "shall not terminate the tenancy except for serious or repeated violation of the terms and conditions of the lease, for violation of Federal, State of local laws, or for other good cause." 42 U.S.C., \$1437f(d)(1)(B)(ii). The statute requires that any "termination of tenancy shall be preceded by the owner's provision of written notice to the tenant specifying the grounds for such action." 42 U.S.C., §1437f(d)(1)(B)(iv). The HUD regulations implementing these provisions can be found at 24 CFR 892.310.

Under the Section 8 statute an owner of leased premises

not be subject to the Section 8 statute; and therefore, that the notice to quit is legally sufficient to terminate the tenancy under G.L.c. 186, §§12 and 13.

subject to an existing HAP contract and Section 8 lease may not unilaterally terminate its participation in the Section 8 Existing Housing Program. The Section 8 statute and regulations set forth specific notice and termination requirements which an owner must satisfy before the HAP contract and Section 8 lease may be terminated. With respect to the HAP contract the statute states that:

Not less than 1 year prior to terminating any contract under which assistance payments are received under this section (but not less than 90 days in the case of housing certificates or vouchers under subsection (b) or (o) of this section, an owner shall provide written notice to the Secretary and the tenants involved of the proposed termination, specifying the reasons for the termination with sufficient detail to enable the Secretary to evaluate whether the termination is lawful and whether there are additional actions that can be taken by the Secretary to avoid the termination... The Secretary shall issue a written finding of the legality of the termination, including the actions considered to be taken to avoid the termination. Within 30 days of the Secretary's finding, the owner shall provide written notice to each tenant of the Secretary's decision...(emphasis added).

42 U.S.C., §1437f(c)(9). The HUD regulations implementing this provision provide that the owner must have a business or economic reason to terminate his involvement in the Section 8 program. If HUD approves the owner's request to terminate the HAP contract, the underlying Section 8 tenancy would terminate. See 24 CFR 982.310 and 982.455.

The Section 8 statute defines "owner" to mean "...any private person or entity -- .

dwelling units" (Emphasis added). 42 U.S.C., \$1437f(f)(1). The statutory definition of "owner" is not restricted only to those persons who owned the premises at the time the HAP contract and lease were executed. Congress did not exclude from the definition of "owner" those persons who acquired title to residential premises after the creation of a Section 8 tenancy. By including within the definition of "owner" those "having the legal right to lease or sublease dwelling units" it is reasonable to conclude that Congress anticipated that the ownership of the demised premises would likely change hands during the term of the HAP contract and lease. The Section 8 statute does not provide for the automatic termination of a Section 8 tenancy or for the automatic termination of the owner's HAP contract upon the conveyance or transfer of the premises (whether it be voluntary or pursuant to a power of sale contained in a mortgage).

A new owner can seek to terminate the existing HAP contract and lease, but only in accordance with the procedures set forth in the federal statute and regulations. 24 CFR 892.455.

#### EMC'S RIGHTS UNDER STATE LAW

After it acquired ownership of the premises in May, 1995, EMC never took any steps to obtain HUD's permission to terminate the housing assistance payments contract which governed Smith's Section 8 tenancy. Specifically, EMC did not provide the Secretary of HUD with the 90 day notice requesting permission to terminate

the contract required by 42 U.S.C., §1437f(c)(9). Further, the notice to quit served on Smith by EMC did not allege "good cause" to terminate the Section 8 tenancy required under the Federal statute. 42 U.S.C., §1437f(d)(1)(B); 24 CFR 892.310(a-d).

EMC argues that its right to recover possession of the premises from Smith is not governed by federal law. It is EMC's position that the foreclosure of the premises automatically terminated all rights of the mortgagor or her grantee (Smith) in the property covered by the mortgage, and that after foreclosure there no longer existed any landlord-tenant relationship. EMC argues that it was not required to comply with the termination provisions set forth in the Section 8 statute because there was no longer any tenancy in existence after EMC foreclosed on the premises.

Under the state common law a foreclosure extinguishes all rights of the mortgagor and his grantees in the property covered by the mortgage. A mortgagor cannot convey better title than he possesses, and a tenant of the mortgagor is subject to the same liabilities as the mortgagor. See Levin v. Century Indemnity Co., 279 Mass. 256 (1932); Winnisimmet Trust, Inc. v. Libby, 247 Mass. 560 (1924). The common law rule is that after a foreclosure "the mortgagor and those claiming under him become tenants at sufferance

EMC did not provide notice to the BHA as required by 24 C.F.R. 892(e)(2)(ii).

of the mortgagee..." <u>Cunningham v. Davis</u>, 175 Mass. 213 (1900). Tenants who enter into leases with the mortgagee subsequent to the giving of the mortgage come within the definition of "those claiming under [the mortgagee]." <u>Allen v. Chapman</u>, 168 Mass. 442 (1897).

The common law rule that tenancies automatically terminate upon foreclosure is not absolute. There are state law exceptions to the foreclosure rule.

The 1973 amendment to G.L.c. 186, §13 (St. 1973, c.416) provides that "[a] tenancy at will of property occupied for dwelling purposes shall not be terminated by operation of law by conveyance, transfer or leasing of the premises by the owner or landlord thereof." A foreclosure is the termination of the owner's rights of redemption in the property. Levin v. Century Indemnity Co., supra. The act of foreclosure by someone with paramount interest in the mortgaged property granted by the mortgagor in the mortgage instrument, whether by entry pursuant to G.L.c. 244, §1 or by power of sale pursuant to G.L.c. 244, §14, effects a transfer or conveyance of the mortgaged property, albeit an involuntary one.

The Supreme Judicial Court has not yet addressed the question of the extent to which G.L.c. 186, §13 has eliminated the automatic common law termination of tenancies by foreclosure. See Boston Rent Equity Board v. Dime Savings Bank of New York, FSB, 415 Mass. 48 52, note 6. Since the resolution of the dispute between FHLMC and Hobbs is based upon federal preemption principles, this Court does

In Boston Rent Equity Board v. Dime Savings Bank of New York, FSB, 415 Mass. 48, 50 (1993) the Supreme Judicial Court held that "...a mortgagee that has foreclosed its mortgagor's equity of redemption and has purchased the premises at a foreclosure sale must obtain a certificate of eviction before it may obtain possession of the premises that are subject to the Boston Rent Control Ordinance and occupied by a tenant of the former mortgagor." Dime Savings argued that it was not obligated to comply with the rent control ordinance because under the state common law the underlying tenancy was automatically terminated by foreclosure. Since there was no tenancy there was no obligation to obtain a certificate of eviction. The court rejected Dime Savings' arguments. The court did not have to determine what, if any, landlord-tenant relationship may have existed after the foreclosure. The court reasoned that the mortgagee became a "landlord" within the meaning of the rent control ordinance when it acquired title to the premises. As such the landlord was required to comply with the termination requirements of the rent control ordinance prior to initiating a summary process action to recover possession of the premises.

not decide here whether G.L.c. 186, §13 eliminated the common law rule with respect to tenancies under leases.

The old Boston Rent Equity Ordinance (Chapter 34 of the City of Boston Ordinances of 1984) provided that a landlord could obtain a certificate of eviction only for

Prior to January 1, 1996, EMC would have been required to establish "just cause" to evict as a matter of state law because Smith was a "covered tenant" under the transitional state rent control statute. Smith's apartment, which is in a building containing no more than three units, became exempt from rent control on December 31, 1995. St. 1994, Chapter 282, §4(c). After foreclosure, and without a federally protected tenancy, Smith would, at best, have been a tenant at will under the provisions of G.L.c. 186, §13. As a matter of state law, the notice to quit served on Smith by EMC would have been legally sufficient to terminate a tenancy at will.

The issue here, however, is whether EMC is required to establish "good cause" to terminate Smith's tenancy as a matter of federal law.

### PEDERAL PREEMPTION OF STATE LAW

A federal statute preempts state law where (a) Congress expressly preempts state law in the language of the statute, or (b) congressional intent to preempt state law can be presumed from the

the specific causes enumerated in the ordinance. Those just cause standards were incorporated into the current transitional state rent control statute, though a landlord no longer has to obtain a certificate of eviction. See St. 1994, Chapter 282 §6. The good cause standards that exist in the Section 8 statute are similar (though not identical) to the just cause standards found in the old rent equity ordinance and current rent control statute.

See footnotes 2 and 3, supra.

comprehensive nature of the federal legislative scheme, or (c) anactual conflict exists between the federal and state laws. Smith's argument rests on the third pronge of preemption analysis which holds that federal law prevails where there is an actual conflict with a state law. See California Ped. Sav. & Loan Ass'n v. Guerra, 479 U.S. 272 (1987).

An actual conflict exists where (1) compliance with the federal and state law is physically impossible, and (2) the state law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." Plorida Lime & Avocado Grovers, Inc. v. Paul, 373 U.S. 132 (1963); Hines v. Davidowitz, 312 U.S. 52 (1942).

Federal law and state law affecting federally subsidized housing can co-exist except where the state law actually conflicts with the goals and purposes of the federal law. Under the supremacy clause, state regulations must then give way to federal law. See <u>Karqman v. Bullivan</u>, 552 P.2d 2 (1st Cir. 1977) (local rent control regulation did not conflict with HUD regulation); <u>City of Boston v. Harris</u>, 619 F.2d 87 (1st Cir. 1980) (local rent

Smith does not argue that Congress explicitly enacted legislation that preempted the common law foreclosure rule. See <u>Jones v. Rath Packing Co.</u>, 4230 U.S. 519 (1977). Similarly, Smith does not argue that federal housing legislation is so comprehensive that it must be presumed that Congress intended to preempt the field of housing regulation. See <u>Rice v. Santa Fe Elevator Corp.</u>, 331 U.S. 218 (1947).

Management Co., Inc. v. Wideman, 417 Mass. 771 (1994) (state common law remedies for Section 8 tenant whose landlord fails to remedy conditions of disrepair do not conflict with the Section 8 statute because the common law remedies complemented and enhanced the federal purpose of providing safe and sanitary housing); and Attorney General v. Brown, 400 Mass. 826 (1987) (goals of the Section 8 program would not be undermined by enforcement of state anti-discrimination statute).

The state common law rule that tenancies are automatically terminated by operation of law by foreclosure conflicts with the Section 8 statute under both parts of the conflict based preemption test.

# a. Compliance With Both Pederal Law and State Common Law is Impossible

It is logically impossible to reconcile the notice and termination provisions set forth in the Section 8 statute with the state common law foreclosure rule. The Section 8 statute does not provide in any manner for the <u>automatic termination</u> of a Section 8 tenancy. The Section 8 statute imposes explicit notice and termination requirements upon an owner of premises leased to a tenant under the Section 8 program. The owner must have a business or economic reason for terminating the HAP contract. The

For the reasons set forth at p. 6-7 of this memorandum, EMC is an "owner" within the meaning of 42 U.S.C., §1437(f).

In contrast to the federal requirements of "good cause" and notice to terminate a Section 8 tenancy, application of the state common law rule to a Section 8 tenancy would dictate that the tenancy is automatically extinguished when a new owner acquires title to the premises by a foreclosure deed. Levin v. Century Indemnity Co., 279 Mass. 256 (1932). The common law does not recognize the existence of any tenancy between the occupant and the new owner. Anderson v. Connolly, 310 Mass. 5 (1942). Application of the common law foreclosure rule would dictate that the new owner takes the property free of any preexisting notice and termination obligations imposed upon an "owner" under the Section 8 statute, and free from any rights of the Section 8 tenant. The new owner would be entitled to immediate possession.

It is impossible to apply the state common law foreclosure

rule to Section 8 tenancies without creating a direct conflict withnotice and termination provisions of the Section 8 statute.

EMC's argues that there is no conflict because Smith's Section 8 lease "expired upon foreclosure" as a matter of state common law. FHLM argues that "the terms and conditions of the lease are irrelevant where the lease itself would be extinguished under state property law." (See Plaintiff's Memorandum at p 3). EMC assumes as its major premise that the common law foreclosure rule applies to this case. However, this is the very issue which the court must resolve.

EMC cites the case of <u>Whitehall Manor Properties</u>, <u>Inc.</u> v. <u>Lamothe</u>, 13 Mass. App. Ct. 917 (1982) as support for the proposition that the Section 8 statute's notice and termination provisions apply only to federal leases that are still in effect <u>under state law</u>. EMC reads too much from that decision. <u>Whitehall Manor</u> involved a Section 8 tenancy where the HAP contract and lease had expired <u>by their own terms</u>. The holdover tenant claimed that even after the expiration of the HAP contract and lease he was entitled to protection under the Section 8 statute. The Appeals Court in a rescript rejected the tenant's appeal, holding that where the Section 8 lease had expired by its own terms the landlord could evict that holdover tenant without complying with the notice and termination provisions of the Section 8 statute. There is no suggestion in <u>Whitehall Manor</u> that the Section 8 lease at issue in

that case had been automatically terminated by virtue of a foreclosure.

The Section 8 statute specifies the only grounds upon which a Section 8 lease can be terminated. Expiration upon foreclosure is not one of the enumerated statutory grounds for terminating a Section 8 lease. See 42 U.S.C., §1437f(d)(1)(B)(ii). Application of the state common law rule that tenancies automatically terminate upon foreclosure would cause the termination of Section 8 tenancies in a manner which is proscribed by the Section 8 statute. It is physically impossible to comply with both the state and federal laws.

b. The State Law Stands As An Obstacle to the Accomplishment and Execution of The Purpose and Objective of Congress

The second part of conflict analysis requires the court to determine whether the state law "stands as an obstacle to the

The court does not decide whether a new owner's decision to end participation in the Section 8 program after acquiring the property by foreclosure constitutes a sufficient "business or economic reason" to terminate the HAP contract and lease. This is a decision which the Section 8 statute delegates to the Secretary of HUD. 24 CFR 892.455. EMC has never given the Secretary of HUD any notice of its intent to terminate the HAP contract for any reason under the provisions of 42 U.S.C., §1437f (c) (9).

The Court does not decide whether the act of foreclosure, in and of itself, constitutes "good cause" to terminate a Section 8 tenancy under federal law. See 24 CFR 892.310 (d). The June 23, 1995 notice to quit served on Smith by EMC does not allege any reason for its decision to terminate Smith's tenancy.

accomplishment and execution of the full purposes and objectives of Congress." Plorida Lime & Avocado Growers, Inc. v. Paul, 373 U.S. 132 (1963); <u>Hines</u> v. <u>Davidowitz</u>, 312 U.S. 52 (1942). central purpose of the Section 8 program is to provide participating families with security of tenancy and reasonable assurance that, unless they breach a material term of their lease or the landlord has "good cause" to terminate the tenancy, they can continue to reside in their homes. EMC concedes (plaintiff's Memorandum at p. 7) that "security of tenure" was one of Congress's objectives when it promulgated the Section B termination provisions set forth in the Section 8 statute. 42 U.S.C., §1437f(d)(B). Federal Courts have consistently interpreted the Section 8 statute in this manner. See <u>Mitchell</u> v. <u>U.S. Department of Housing and</u> Urban Development, 569 F. Supp. 701, 708 (N.D. Cal. 1983) ("[s]imply providing housing, without also providing some certainty in that housing, cannot be considered to accomplish the objectives of Congress in enacting the [Section 8 program]"); <u>Swann</u> v. Gastonia Housing Authority, 675 P. 2d 1342, 1346 (4th Cir. 1982) ("a tenant in the Section 8 Existing Housing Program is assured by statute that he will continue in occupancy in the absence of good cause for eviction").

Application of the state common law foreclosure rule to federally subsidized tenancies would frustrate the congressional mandate that Section 8 tenants be provided with reasonable security

of tenancy because existing Section 8 tenancies would be subject to termination without any proof of fault on the part of the tenant or "good cause" on the part of the new owner. Application of the state common law foreclosure rule would effectively deprive Section 8 tenants of these specific notice and termination protections that Congress determined were necessary to accomplish the full purposes and objectives of the Section 8 Existing Housing Program. 11

#### CONCLUSION

For these reasons, the court concludes that application of state common law foreclosure rule to Section 8 tenancies would directly conflict with the notice and termination provisions of the Section 8 statute. Therefore, the Section 8 statute preempts the state common law foreclosure rule to the extent that application of the rule would automatically terminate Section 8 tenancies upon foreclosure without proof of fault or good cause.

Since EMC has not terminated the HAP contract governing

EMC argues that a ruling that Section 8 leases are binding upon foreclosure sale purchasers would deprive those purchasers of property without due process in violation of the Fifth Amendment to the Constitution of the United States. U.S.C.A. Const. Amend. 5. The argument is without merit. The Supreme Judicial Court rejected this argument in the context of rent control restrictions similar to Section 8 restrictions in the case of Boston Rent Equity Board v. Dime Savings Bank of New York, FSB, supra. The Section 8 statutory and regulatory scheme provides fair and adequate provisions for an owner to terminate his participation in the Section 8 program and the underlying Section 8 tenancy for "a business or economic reason." See 24 CFR 892.310(a)(3) and (d); 892.455.

Smith's Section 8 tenancy in accordance with 42 U.S.C., §1437f(c)(9), it continues to be obligated to comply with the terms of Smith's Section 8 tenancy. Since EMC has not served Smith with a legally sufficient notice to quit which sets forth good cause to terminate her tenancy as required by 42 U.S.C., §1437(d)(1)(B), Smith's tenancy has not been properly terminated.

Accordingly, defendant's Motion to Dismiss is ALLOWED.

JEFFREY M. WINIK ASSOCIATE JUSTICE

Date: January 4 , 1995

cc: Daniel D. Gray, Esq.
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## COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, SS:

HOUSING COURT DEPARTMENT CITY OF BOSTON DIVISION SUMMARY PROCESS ACTION 95 NO. / 0/4/7/9/4/

EMC Mortgage Corp.

PLAINTIFF(S)

VS.

Jacqueline Smith DEFENDANT(S)

## NOTICE OF JUDGMENT ENTERED

This action came on for hearing before the Court,
Winik, J., presiding, and the issues having been duly
heard and findings having been duly rendered, it is ORDERED and
ADJUDGED under Rule 10 of the Uniform Rules of Summary Process,
judgment enter for the Furnities (2), believe the possession
and do you in the amount of \$, plus outs.
Accordingly, judgment enters at 10:00 a.m. this 5th
day of January , 1996 -
ROBERT L. LEWIS CLERK MAGISTRATE

Eff. 2/12/61