

## **Homeowner Protection: The Right to Rent**

This proposal would temporarily alter the rules on foreclosure to give homeowners facing foreclosure the option of renting their home for a long period of time (e.g. 10-20 years) at the market rate. This rate would be determined by an independent appraiser in the same way that an appraiser determines the market value of a home when a bank issues a mortgage.

The proposal requires no taxpayer dollars or new bureaucracies. It would be administered by a judge in the same way that foreclosures are already overseen by judges. It simply changes the rules under which foreclosures can be put into effect.

The proposal does not bail out in any way lenders who made predatory mortgages or made risky gambles in the secondary market. There are also no windfalls for homeowners. They will have the right to stay in their house, but will no longer own the home. This means that there is no real incentive to abuse the program. The rules should be written to only affect owner occupied housing, but an investor would not benefit in any case from the right to rent a house.

The plan would be capped at the value of the median house price in a metropolitan area (or some comparable target), so it will not benefit high income homebuyers.

Rents will be adjusted in later years by the Labor Department's consumer price index for rents in the area. If either the owner or renter believes that their rent is unfair, they can arrange, at their own expense, to have the court make a second appraisal.

After the foreclosure, the mortgage holder is free to resell the house, but the buyer is still bound by the commitment to accept the former homeowner as a tenant indefinitely.

By allowing homeowners to stay in their house as renters, this plan will help to prevent the sort of blight that often afflicts neighborhoods with large numbers of foreclosures. Homes will remain occupied, and long-term renters will have an incentive to keep up the appearance of the property. This should help to sustain property values for whole neighborhoods.

This proposal would provide housing security to millions of homeowners who would otherwise be forced out on the street. If a family is happy with their home - they like the neighborhood and the schools - they would have the option to remain there as renters.

The second important benefit of this proposal is that it is likely to lead to a situation in which many of these families will be able to stay in their home as homeowners. Giving homeowners the option to remain in their home as renters changes the calculation for lenders seeking foreclosures. Banks will no longer have the option to use the foreclosure process to throw families on the street and then resell the vacant house.

Instead, banks will face the prospect of having a long-term tenant. In general, banks are

not interested in becoming landlords, so this will not be an attractive option. Banks will of course still be able to sell the foreclosed property, but the former homeowner would still have the right to remain as a tenant. And a property with a tenant attached will command a much lower price than a vacant home.

By making foreclosure a much-less-attractive option for banks, this proposal provides them with a real incentive to try to work out a new payment schedule with homeowners that will allow them to remain in their homes as owners.

Since the change in rules on foreclosure is temporary and limited, it should have only a minimal effect on lenders' willingness to make new loans in the future. Furthermore, if it raises concerns in the future among lenders over the risks of making loans in a bubble environment, then this would be a further benefit of the bill.

## **The Subprime Borrower Protection Plan**

**By Dean Baker**

This proposal ensures that subprime borrowers will not be thrown out of their home because they cannot meet the terms of a predatory mortgage.

The plan:

1. Gives homeowners facing foreclosure the option of renting their home for as long as they want at the fair market rate. This rate is determined by an independent appraiser in the same way that an appraiser determines the market value of a home when a bank issues a mortgage.
2. The proposal requires no taxpayer dollars or new bureaucracies. It would be administered by a judge in the same way that foreclosures are already overseen by judges. It simply changes the rules under which foreclosures can be put into effect.
3. The proposal does not bail out in any way lenders who made predatory mortgages or made risky gambles in the secondary market.
4. There are no windfalls for homeowners. They will have the right to stay in their house, but will no longer own the home. This means that there is no real incentive to abuse the program. The plan would be capped at the value of the median house price in a metropolitan area, so it will not benefit high income homebuyers.
5. Rents will be adjusted in later years by the Labor Department's consumer price index for rents in the area. If either the owner or renter believes that their rent is unfair, they can arrange, at their own expense, to have the court make a second appraisal.
6. After the foreclosure, the mortgage holder is free to resell the house, but the buyer is still bound by the commitment to accept the former homeowner as a tenant indefinitely.
7. By allowing homeowners to stay in their house as renters, this plan will help to prevent the sort of blight that often afflicts neighborhoods with large numbers of foreclosures. Homes will remain occupied, and long-term renters will have an incentive to keep up the appearance of the property. This should help to sustain property values for whole neighborhoods.