



## The Right to Rent Plan

BY DEAN BAKER \*

Millions of families face the loss of their homes over the next few years. While there is a long list of complicated and sometimes convoluted proposals to address the country's foreclosure crisis, there is a simple solution: Congress and the Obama Administration can give families facing foreclosure the right to rent their homes at the market rate for a substantial period of time.

This Right to Rent plan<sup>1</sup> would prevent families from being thrown out of their homes as well as help reduce the neighborhood blight that is devastating communities with high levels of foreclosures.

In March 2009, Freddie Mac launched a similar policy as part of its REO Rental Initiative,<sup>2</sup> giving qualified tenants and former owners the option to lease their recently-foreclosed properties on a month-to-month basis.

Right to Rent would give former homeowners the right to remain in their homes as renters for a more substantial period of time (e.g. 5 to 10 years). This would provide more security of tenure. The right to rent for a substantial period of time also would give homeowners much more bargaining power when trying to work out mortgage modifications, resulting in far more homeowners avoiding foreclosure altogether.

During the previous Congress, Rep. Raul Grijalva introduced the Saving Family Homes Act,<sup>3</sup> which would have given former homeowners the option to remain as renters in their home for up to 20 years following a foreclosure.

By allowing families to remain in their homes, Right to Rent would alleviate neighborhood blight and preserve family and community stability. Right to Rent is simple, it can take effect immediately, it requires no taxpayer dollars, and it creates no new bureaucracy. The main features of this plan are described in more detail below.

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- Gives homeowners facing foreclosure the option of renting their home for a substantial period of time (e.g. 5 to 10 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.
- 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 would change the rules under which foreclosures can be put into effect.
- Does not bail out in any way lenders who made predatory mortgages or made risky gambles in the secondary market.
- Provides no windfalls for homeowners. They would have the right to stay in their house, but would no longer own the home. This means that there would be little incentive to abuse the program. The plan could be capped at the value of the median house price in a metropolitan area (or higher, if Congress chose), so it would not benefit high income homeowners.
- Adjusts rents in later years according to the Labor Department's Consumer Price Index for rents in each area. If either the owner or renter were to believe that the rent is unfair, they would be allowed to arrange, at their own expense, to have the court make a second appraisal.
- Allows the mortgage holder to resell the home after foreclosure, but binds the buyer to the commitment to accept the former homeowner as a tenant for the rest of the guaranteed period.
- Prevents the sort of blight that often afflicts neighborhoods with large numbers of foreclosures. Homes would remain occupied, and long-term renters would have the incentive to maintain the properties. This would help to sustain property values for entire neighborhoods.

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<sup>1</sup> Dean Baker first proposed the Right to Rent concept in 2007 as the Subprime Borrower Protection Plan (see <http://www.cepr.net/index.php/op-eds-&-columns/op-eds-&-columns/the-subprime-borrower-protection-plan/>) and in 2008 as an Own to Rent transition (see <http://www.bepress.com/ev/vol5/iss1/art5/>).

<sup>2</sup> See [http://www.freddiemac.com/news/archives/servicing/2009/20090305\\_reo-rental-initiative.html](http://www.freddiemac.com/news/archives/servicing/2009/20090305_reo-rental-initiative.html)

<sup>3</sup> See <http://www.govtrack.us/congress/bill.xpd?bill=h110-6116>