

# Will Right-to-Rent Act Rescue Foreclosed Owners?

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If your lender forecloses on your mortgage but lets you stay in your house as a tenant, is your real-estate saga more likely to have a happy ending? A new law making its way through the House of Representatives may give you the chance to find out.

The riddle for most cities plagued by foreclosure involves solving two problems at once: helping banks recover unpaid mortgage bills while helping people stay in their homes.

If the banks write off bad loans, they have no money to lend to other borrowers; if the banks foreclose and evict on every owner who can't make a payment, cities empty out. What to do? Raul Grijalva (D-AZ), an ally of House Speaker Nancy Pelosi, has proposed a solution for defaulting owners of "moderate-value homes."

Grijalva's "Right to Rent Act of 2010," introduced on Tax Day, would basically keep the homeowner from having to look for a new house. It works as follows.

An owner-occupant, within a week of getting a foreclosure letter, can agree to pay "fair market rent," as determined by an appraiser under the oversight of a judge. As long as the owner--er, tenant--keeps paying rent (subject to adjustments to reflect market comparables), the lender or new owner cannot carry out an eviction "at will."

In theory, this aligns with a lot of enlightened thinking about housing after the subprime meltdown. Thinkers like economist Robert Shiller and the developer-funded sharpies at the Urban Land Institute have concluded that the American obsession with home-ownership distorted the mortgage market, bloated Fannie Mae and Freddie Mac, and tied up too much wealth in collateralized hoo-hah. Not everyone, the reasoning goes, needs to be a homeowner.

But in practice, it's hard to see how this law -- which is just in its first stages -- would financially protect people who owe more than their houses are worth. Are many of these people, caught in the economic updraft, now earning enough to pay a market-compatible rent? Are many of them in housing markets that are so depressed after the mortgage meltdown that rents are cheap across the board? And if the latter is true, how will turning troubled borrowers into troubled renters help cities regain economic strength?

Only the data knows for sure-- and while it's encouraging, it isn't quite telling. "Homeowners who are simply underwater would likely be able to afford market rents," says Ingrid Gould Ellen, an economist at New York University who helped current Housing and Urban Development secretary Shaun Donovan prepare for his job. "Of course, the answer is different for unemployed borrowers who are defaulting because they have lost their source of earnings. It's really hard to figure out what to do for these borrowers."

Ellen points out that if the bubble has burst in your town, mortgage payments should be about the

same as fair market rents, since nobody should be jacking up home prices on unrealistic expectations of getting rich. Which reminds me: shouldn't a right-to-rent law give lenders some claim on the real value of the house as it appreciates?

Normally, I'm all for anything that will make any neighborhood more densely populated, and I'm certainly going to follow this bill with interest. So far, though, it seems less vital than legislation that would reattach mortgages to the banks that made them.

Letting owner-occupants rent is intriguing, but it wouldn't equal the folly of letting bad-mortgage-bundlers walk.