

Legitimized leasebacks picking up momentum

Carolyn Said, Chronicle Staff Writer

Wednesday, November 11, 2009



Once it seemed like a radical idea: Let delinquent borrowers stay in their homes as renters after foreclosure.

Last week it gained legitimacy when housing giant Fannie Mae said it would do just that, offering one-year leases at market rates to people who sign over their homes as a deed in lieu of foreclosure. Voluntarily surrendering homes instead of having the lender repossess them doesn't wallop the borrowers' credit as much.

Fannie Mae wouldn't say how many homeowners it expects to qualify for the program, but it has backed plenty of struggling borrowers. The total "nonperforming" loans in its portfolio hit \$198.3 billion in the third quarter, it said in financial results released last week.

Now housing advocates and some political leaders say the concept should be expanded further. They hope the government will prod banks to follow Fannie Mae's lead, and they propose leases of three to five years followed by the option to buy back the home. With millions of homeowners nationwide behind on mortgage payments, the potential pool could be enormous.

"It is the humane thing to do," said Faith Bautista, CEO of Mabuhay Alliance, a San Diego nonprofit housing counselor. Along with other housing counselors, Bautista's group plans a protest in Washington next week to demand leaseback and other foreclosure-mitigation efforts - followed by meetings with Federal Reserve officials and White House economic advisers.

"People have put so much money, effort and time into their homes," Bautista said. "This would give them dignity to stay there."

Neighborhoods benefit

Rent-back plans also could help prevent vacant foreclosed homes from creating blight in neighborhoods.

"Neighborhood stabilization is key, but you can't have it if we keep having all these foreclosures, vacant properties, shadow inventory, discrimination against (Federal Housing Administration) lending and investors gobbling up all the properties," said Kevin Stein, associate director of San Francisco's California Reinvestment Coalition, which advocates for access to credit.

Dean Baker, co-director of the Center for Economic and Policy Research in Washington, proposed leasing back foreclosures in summer 2007.

"When I first started talking about this, people looked at me like I was nuts," he said. "But it makes sense for several reasons. For people losing their homes, this is something you can do that doesn't require any taxpayer dollars or major interventions in the market. It prevents the downward spiral where vacant foreclosed homes attract crime and squatters."

And, he added, it helps from a macroeconomic standpoint. "We would be helping the families and the economy if we had them instead pay market rent; you'd free up money to spend on other things."

Renting back foreclosed homes could prevent a glut of bank-owned properties from overwhelming the beleaguered real estate market.

"To the extent it allows these homes to slowly go back on the market, rather than being dumped, it allows them to be better absorbed," said Joel Naroff, president of Naroff Economic Advisors in Pennsylvania.

Think short term

But he doesn't think longer-term rentals are a good idea.

"Fannie Mae is offering one year, which gives them flexibility," he said. "The problem with going three to five years is you're really locking this up for the financial institutions. It's tough for them to carry (homes) on their books for that period of time. If the market changes, they should have the opportunity to unload" foreclosures.

Rep. Barney Frank, D-Mass., chairman of the House Financial Services Committee, is among the political backers of renting back foreclosures.

"We're trying to stop the (foreclosure) contagion," said Steve Adamske, a spokesman for the committee. "If leasebacks are a good way to do it, let's do it."

But, he emphasized, the renters should be "credit-worthy people." That could be a stumbling block.

Rental costs could be an issue too. Fannie Mae's program says market rents must be less than 31 percent of a household's income. But Baker points out in that in most bubble markets, including California, market rents are far below ownership costs, especially for houses bought at the peak.

Since January, Fannie Mae has offered leasebacks for tenants whose landlord underwent a foreclosure. The number of renters who opted to stay on was modest, although the eligible pool also was small because most Fannie Mae homes are owner-occupied.

Numbers are humble

From Jan. 1 though Sept. 30, just 271 renters asked to remain as tenants. An additional 3,500 tenants accepted a "cash for keys" payment to cover moving expenses and a month's rent.

In that same period, Fannie Mae properties had 1,996 deeds in lieu of foreclosures, 24,162 short sales and 98,428 foreclosures.

Freddie Mac has offered a more-limited leasing program for foreclosures since March. It offers only month-to-month leases, and it attempts to sell the house during the renters' occupancy.

E-mail Carolyn Said at csaid@sfnchronicle.com.

<http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2009/11/11/BU7R1A1704.DTL>

*This article appeared on page **D - 1** of the San Francisco Chronicle*