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As Owners Feel Mortgage Pain, So Do Renters

By JOHN LELAND

Correction Appended

LAS VEGAS — In the foreclosure crisis of 2007, thousands of American families are losing their homes without ever missing a payment. They are renters in houses whose owners default on their mortgages — a large but little noticed class of casualties.

Some live in big apartments, others in houses owned by small investors who got in over their heads.

There are no exact figures for how many renters have been evicted because of foreclosures, but a survey taken this year by the Mortgage Bankers Association found that one in seven foreclosures was non-owner-occupied. This figure probably underestimates the problem, according to the association, because buildings receive tax benefits if they are registered as owner-occupied. More than one million properties are expected to enter foreclosure this year.

Many renters say they never even knew their buildings were heading for foreclosure.

“This is an explosion,” said Judith Liben, a lawyer at the Massachusetts Law Reform Institute. “This isn’t business as usual. These are investors that overleveraged themselves, and the renters are collateral damage in the mortgage crisis.”

Here in Nevada, which has one of the highest foreclosure rates in the country, 28 percent of mortgages that were in default earlier this year were for homes not owner-occupied, more than twice the national average, according to the bankers group. Arizona and Florida, both leaders in foreclosures, are also well above the national average. In California, 22 percent of the properties lost to foreclosure this year were not owner-occupied, according to ForeclosureRadar.com, which tracks California foreclosure auctions.

Foreclosing lenders typically evict tenants in order to sell the property, said Vicki Vidal, senior director of loan administration and government affairs at the Mortgage Bankers Association.

“Banks don’t want to be landlords,” Ms. Vidal said. “They’re in the business of making mortgages. You need to recoup the money to keep the process moving.”

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Unlike owners who lose their houses, renters do not stand to forfeit years of equity. And many can find comparable rentals.

Lara and Louie Northern, who live in a home that is in foreclosure in a new subdivision here, far from the Strip, say they have never been late on a rent payment. But each day in their four-bedroom house, they wonder whether this will be the day they get an eviction notice telling them they have 72 hours to leave the property.

Though the Northern's lease runs until January 2009, a few weeks ago they packed all nonessential items in their garage — everything but clothes, linens, cookware and furniture — in case they have to leave in a hurry.

“It’s not normal to live like this,” said Mr. Northern, 36, a mail carrier, standing amid empty bookshelves and bare walls. “And the worst part is not knowing if we’re going to have a note on the door tonight, tomorrow or the next day.”

The House on Thursday passed a broad mortgage act that includes protections for renters. The House act, which the lending industry has opposed, would require new owners to continue the leases of tenants for up to six months after foreclosure.

Senator Christopher J. Dodd, Democrat of Connecticut, who introduced similar legislation in the Senate, said in a statement, “A foreclosure doesn’t differentiate between a homeowner and a renter residing in a defaulting property.” Currently, most state or local laws do not provide this protection.

In a statement, the White House said it opposed a number of provisions in the House mortgage bill, but did not single out protection to renters.

Clark County, which includes Las Vegas, has been an epicenter of foreclosures, with nearly 30,000 defaults in the first nine months of this year, up from about 14,000 in the same period in 2006, according to the county recorder’s office.

The county more than doubled in population since 1990, to nearly 2 million from 800,000. That growth, along with rising home prices, made it a magnet for speculators, including small investors who took advantage of low, teaser mortgage rates to buy rental properties for less than they would cost in California.

“A lot of the investors were subprime, but the market was so great they could keep refinancing and make the mortgage payments with no problem,” said Anna Marie Johnson, the director of Nevada Legal Services, whose clients increasingly include displaced tenants.

Homeless shelters in Las Vegas said they had not seen an influx of displaced renters. In St. Louis, Karen

Wallensak, director of Catholic Charities Housing Resource Center, said that “about a dozen” displaced renters had come for help, though none had applied for a place in the organization’s homeless shelters. “We’ve had calls from people literally as the sheriff is at the door changing the locks, and they had no idea they had to move,” she said.

The pressure is particularly acute here because of the prevalence of small speculators and the high rate of foreclosure, exacerbated by a depressed market.

Many renters, like the Northerns, feel blindsided by the news that they could be evicted, especially if they have been diligent in their rent payments. “I don’t know what we could have done differently,” Mr. Northern said.

The couple’s struggle now is to find a new house for themselves and their three children. Like many renters in their position, they suddenly need cash, not just for moving expenses, but for a deposit on a new rental property, which generally means first and last month’s rent. Mr. Northern, who earns \$46,000 a year plus overtime, said they did not have this money, which he estimated at more than \$3,000. He questioned whether they would get their security deposit back from their landlord.

The House bill calls for new owners — usually lenders — to give tenants a 90-day notice before foreclosure, then continue leases for up to six months after. Renters without leases would have 90 days to leave the property. In Clark County, renters who receive federal housing subsidies and have valid leases continue their arrangement with the new owner. Others get three-day notices to vacate.

But even these renters do not have to leave right away, said Robert Gronauer, the county constable. “Usually they can stretch it out for two weeks to two months,” but some go longer, he said.

Wendy Whitman, 45, a divorced mother of two, had planned to move out of her rented house in a gated community called Canyon Mist Estates in September. She had been living without a lease since March and wanted something cheaper to heat and cool. The owner offered to cut her rent and begged her to stay, she said. “I thought I was helping him out,” she said.

Then on Oct. 3 she got a phone message from a credit agency, thinking she was the owner, telling her that a notice of default had been filed and offering to help her save the house. She said this was how she found out the house was in foreclosure. “My mouth hit the floor,” Ms. Whitman said. (Lenders must post notices of default for four consecutive weeks before foreclosing on a property; these notices, in local newspapers, attract both legitimate credit services and scam artists, said lawyers who work with displaced homeowners and tenants.)

Ms. Whitman said she had not told her daughters, 9 and 7, that they would have to leave.

"Renting a house, I should have rights like everybody else," she said. "I paid my rent. That should entitle me to some security, right?" She added, "I hate the fact that I'm put in the position where I may not have a choice of where my kids go to school."

Maj. Matt Belmonte, a space and missile operations officer at nearby Creech Air Force Base, has leased a house in North Las Vegas until June 2008, when he expects to be deployed overseas. He dealt only with a management company and never knew the owner, he said. Then when he requested a signed copy of his lease, the management company said it had not heard from the owner in a while. Major Belmonte, suspicious, searched on the Web site foreclosures.com and found his house.

Even then, the bank and management company would not tell him when the house would be repossessed because he was not the owner, he said. On Oct. 9, he watched as it sold at foreclosure auction. So far, he has refused an offer of \$500 from the mortgage company to move out quickly.

Now, as he searches for a new home, he worries that he will have the same problem again, and have to move again in three months.

"You're really unprotected in who you rent from," he said. "You don't know how overextended they are, or how well they're managing their finances. It didn't work out for me. These folks gambled on interest rates and lost. And now I lost, too."

Edmund L. Andrews contributed reporting.

Correction: November 22, 2007

A front-page article on Sunday about the effect of the mortgage loan crisis on tenants misstated the estimated number of renters evicted because of foreclosures. A survey taken this year by the Mortgage Bankers Association found that one in seven foreclosures was non-owner-occupied, not one in eight.

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