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## Renters get caught in mortgage crunch

By PAUL WENSKE  
The Kansas City Star

Michelle Johnson never expected to lose her home in the subprime mortgage mess.

After all, she rents.

So she was stunned last month when she was served eviction papers at her Kansas City home of five years — not because she did anything wrong, but because her landlord defaulted on *his* loan.

“It’s outrageous. It’s unfair,” said Johnson, who works as a medical billings clerk and was packing last week with her daughter Monica, 14. “We paid our rent.”

Many Americans losing their homes in the country’s foreclosure crisis are like the Johnsons. They never signed an unaffordable mortgage. Their only mistake was renting from a landlord who did.

When the homes slid into foreclosure, lenders — who argue that they aren’t prepared to manage a portfolio of rental properties — evict tenants, sometimes giving them only days to clear out.

While there are no solid statistics, experts are convinced that the number of tenants evicted because of foreclosures is rising, yet another troubling sign of the subprime pain rippling through the U.S. economy.

Experts say an estimated 1.4 million homes expected to enter foreclosure resulted not just from overextended homeowners with shaky credit but from overleveraged investors who sought to profit from the housing boom, then walked away when the market and their investments tanked. Losses could exceed \$223 billion.

A recent Mortgage Bankers Association survey found that about one in five foreclosed homes involves borrowers who do not live at the same address. Missouri and Kansas statistics reflect those findings.

Poorer neighborhoods often fared the worse. More than half the foreclosures in some urban ZIP codes in Kansas City involve owners with different mailing addresses, according to RealtyTrac, an online Web site that follows foreclosures.

“At first we just saw homeowners. Now we’re seeing more tenants at risk of being homeless,” said Pat Gilmore-Wilkins, executive director of the Greater Kansas City Housing Information Center, a counseling agency. “People call us frantic — from both sides of the state line.”

Judith Liben, housing attorney at the Massachusetts Law Reform Institute in Boston, said evicted tenants are collateral damage of a speculative market gone awry — leaving behind devastated families and scarred neighborhoods where vacant houses attract crime and force property values down.

Some states have adopted measures to give such tenants more time to remain in a home. Proposals pending in Congress would require new owners to keep a lease in effect for six months after a foreclosure.

John Meacham, a Mortgage Bankers Association spokesman, acknowledges there’s a growing problem. But he said lenders’ hands are often tied.

“The problem is that lenders aren’t qualified to be landlords,” Meacham said, noting that most lenders want to sell the foreclosed homes as fast as they can and recover their losses.

Besides, he added, most landlords know at least 90 days in advance that their properties are facing foreclosure.

“The landlord has the moral duty to tell the tenant,” Meacham said.

But sometimes they don't. Johnson, her daughter, and fiance Terry Standifer paid \$750 a month for their two-bedroom rental home in the 7300 block of Wabash Avenue.

"We loved living here," Johnson said. "We always took care of the home like it was ours."

She said they didn't suspect anything until they began getting letters last year addressed to someone she didn't know — who she said she later learned was her landlord.

Then the Johnsons received notice on Dec. 18 from a St. Louis law firm giving them 10 days to vacate the premises. If they didn't leave, the notice said, they would be forcefully evicted by the sheriff and face damages, attorney fees and "double the rental value" of the house until they did.

Court records show their landlord had defaulted on one of two loans on the property, which together totaled about \$100,000. Records also showed Johnson's landlord had at one time owned three other urban Kansas City houses, at least two of which also are in foreclosure.

The landlord, Scott Devita, declined comment on the foreclosure. Johnson said she never met or talked with him.

Records show one of the loans on Johnson's home had been sold by the original lender to the Federal National Mortgage Association — better known as Fannie Mae, the giant quasi-governmental entity that buys billions of dollars in mortgages in what's referred to as the secondary loan market.

It's the buying and selling of high-cost loans like stocks that many experts say accounted for problem subprime loans spreading quickly through the economy and causing the current financial emergency.

Fannie Mae officials declined to comment on proceedings against Johnson. They did, however, offer Johnson \$500 to cover moving costs if she agreed to leave quickly, part of a program known as "cash for keys." Fannie Mae officials said they help tenants work "through their transition to a new home."

But Johnson refused the offer.

"You can't move anywhere on \$500," she explained.

Instead, she went to court. In Missouri and Kansas, tenants have fewer rights when a lender starts eviction proceedings based on a loan foreclosure than they do in situations where a landlord is kicking them out for other reasons. Because of that, experts say, many tenants take the moving money instead of going to court.

At a recent eviction hearing, Johnson and Standifer won a delay until Thursday, giving them time to pack and find a new place to live.

Charles L. Stitt, a retired Jackson County Circuit Court judge who continues to hear landlord-tenant cases to ease the workload on other judges, said he's seeing more foreclosure evictions.

"These cases are harder," Stitt said. "Lenders are suing the owner of the property, and they don't know who the tenant is."

Frank O'Gara, a court deputy in the civil process department, said he is handling more foreclosure evictions than ever.

"You really feel bad," O'Gara said. "They (tenants) say, 'Hey, I've been paying my rent.' I explain it's regrettable. However, payments haven't been made to the banks."

Kelly Edmiston, a Federal Reserve economist, said it's not surprising many investment properties are falling into foreclosure. Edmiston said many investors were overleveraged, obtaining first and second mortgages to cover 100 percent of the houses they bought.

"They were betting the houses would continue to appreciate," he said. "It's like a stock in the sense that for a lot of people it was just an investment."

Because such purchases posed more risk, lenders charged investors higher interest rates, akin to the subprime rates they charged first-time homebuyers with poor credit. So when the housing bubble burst, many investors "owed more on their properties than they were worth" and abandoned them, Edmiston said.

In fact, a Mortgage Bankers Association study found that real estate investors were faster than first-time

homebuyers to allow a loan to default.

“Rather than throwing good money after bad by continuing to make payments, these borrowers will stop making payments rather abruptly,” according to the study.

Making matters worse is that many inexperienced investors bought multiple homes, in some cases a dozen or more, said Tim Harrison, an Overland Park real estate consultant who is on a task force dealing with Kansas City’s vacant houses.

Harrison said that in many cases houses were bought and sold in ways that resulted in their values becoming artificially higher than other homes in the neighborhood.

“For years, everyone knew what was going on,” he said. “Houses were treated like commodities instead of homes.”

Johnson and her family have found another rental home in the same neighborhood — but it’s costing them \$2,000 to move.

“I can’t believe no one can do anything about this,” Johnson said. “We can’t be the only ones this is happening to.”

**To help avoid a surprise foreclosure eviction, renters can:**

- Make sure they know how to contact their landlord.
- Research their landlord in county property records, often available online.
- Check online civil court records that may also show foreclosures.
- Seek counseling from a lawyer who handles tenant disputes.

**If served with an eviction notice:**

- Often a lender will offer cash — between \$500 and \$1,500 — to leave early.
- You might negotiate with a lender for more time to find another place to live.
- You can try to buy the house from the lender or out of foreclosure.
- You can choose to go to court to seek a delay of the eviction.
- For housing questions, call the Greater Kansas City Housing Information Center at 816-931-0443.

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To reach Paul Wenske, call 816-234-4454 or send e-mail to [pwenske@kcstar.com](mailto:pwenske@kcstar.com).

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