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The Long Arm of Debt Stretches into Condo Fees, Car Repos

By Jessica Silver-Greenberg

Lenders and lawyers have a get-tough message for borrowers who think foreclosure gets them off the hook.

As The Wall Street Journal reported in a Page One article Saturday, 41 U.S. states and the District of Columbia allow borrowers to be sued for debt that remains if a house is sold at foreclosure for less than the outstanding loan amount. If lenders win in court, these “deficiency judgments” are good in most states for up to 20 years.

Hedge funds, private-equity firms and other investors looking for new ways to bet on the battered housing market are hungry for securities created by bundling hundreds of deficiency judgments at a time, say distressed-debt brokers.

But deficiency judgments aren't just for soured mortgages.

Lawsuits are also piling up against borrowers who still owe money to the bank after their car is repossessed, according to lawyers for

people sued by lenders. In addition, homeowners living in condominium complexes battered by foreclosures are going after unpaid condominium fees.

“We help homeowners so they aren't left holding the bag for deadbeats,” says Ben Solomon, a partner at Association Law Group, a law firm in Miami that has received more than 500 requests in the past year from condo complexes trying to recover fees from homeowners whose condos went into foreclosure.

Sometimes, neighbors who feel left in the lurch help lenders track down borrowers, says Mr. Solomon. His law firm has won 2,640 deficiency judgments for about \$13.6 million so far this year, up 79% from 1,200 judgments for \$7.6 million in the same period of 2010, according to his tally.



A foreclosure sale in Miami earlier this year. Debt from foreclosed homes, condo fees and repossessed cars can persist long after the bank takes back the assets

Residents of Palm Bay Yacht Club, a Miami condo development, started volunteering in April to monitor surveillance cameras to spot neighbors who owe money, says 82-year-old Irv Levenson, a board member and longtime resident whose property values have fallen because of foreclosures at Palm Bay.

Then the spies summon a process server and bang “repeatedly on the deadbeat bum's door” until they can deliver the lawsuit, Mr. Levenson says.