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WRITTEN DECISION – FOR PUBLICATION

ENTERED APR 12 2011 FILED APR 12 2011 CLERK, U.S. BANKRUPTCY COURT SOUTHERN DISTRICT OF CALIFORNIA BY <u>113</u> DEPUTY

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF CALIFORNIA

In re:) BANKRUPTCY NO: 10-17456-MM13
)
ELEAZAR SALAZAR,) CHAPTER: 13
)
Debtor,) AMENDED MEMORANDUM DECISION RE
) MOTION FOR RELIEF FROM AUTOMATIC
) STAY
)
U.S. BANK NATIONAL ASSOCIATION, as) RS #RVP-1
Trustee for the C-BASS Mortgage Loan Asset-)
Backed Certificates, Series 2006-CB2, its) DATE: 1/25/11
assignees and/or successors,) TIME: 11:00 a.m.
) CRTRM: 1
Movant,)
) JUDGE: Margaret M. Mann
ELEAZAR SALAZAR, Debtor; DAVID L.)
SKELTON, Chapter 13 Trustee,)
)
Respondents,)
)
_____)

1 US Bank National Association ("US Bank"), Trustee for the C-BASS Mortgage Loan Asset-
2 Backed Certificates, Series 2006-CB2, nonjudicially foreclosed on the residence of Debtor Eleazar
3 Salazar ("Salazar"), by exercising the power of sale under the deed of trust. At the time it foreclosed,
4 US Bank was not the original beneficiary of record, and it had not recorded an assignment of the deed
5 of trust conveying to it an interest in the deed of trust.

6 After the foreclosure, two lawsuits were filed in state court: Salazar filed to invalidate the
7 foreclosure sale and to seek damages against US Bank and other parties,¹ and US Bank filed to regain
8 possession of the residence through an unlawful detainer action against Salazar. The unlawful detainer
9 suit was on the verge of trial when Salazar filed his chapter 13 bankruptcy case.

10 In his bankruptcy, Salazar seeks to reinstate US Bank's loan against his residence and cure the
11 default, and US Bank seeks relief from stay in the bankruptcy to proceed with its unlawful detainer
12 action.² Salazar opposes stay relief, arguing US Bank does not have standing to seek relief from stay
13 because the foreclosure sale was defective, due to US Bank's failure to record an assignment of its
14 interest before foreclosures as required by California Civil Code section 2932.5.³ US Bank responds
15 that Civil Code section 2932.5 is not applicable to its deed of trust, and MERS' status as the original
16 beneficiary of the deed of trust obviated the recording of the assignment to US Bank.

17 While US Bank meets the minimal test for standing to seek relief from stay, Salazar's
18 foreclosure sale challenge must still be addressed to resolve the merits of US Bank's relief from stay
19 motion. Relying upon controlling California statutory and decisional authority, the Court concludes
20 MERS' original involvement in this loan does not provide talismanic protection against US Bank's
21 foreclosure deficiencies. US Bank's failure to record its beneficiary status before foreclosure left
22 Salazar with equitable title to his residence. Although this equitable title must be finally established in
23

24 ¹ The foreclosure suit was removed to district court, which was remanded to state court after the
federal claims were dismissed.

25 ² The Court has subject matter jurisdiction over this proceeding pursuant to 28 U.S.C. § 1334 (2010).
26 This is a core proceeding under 28 U.S.C. § 157(b)(2)(G) (2010).

27 ³ All statutory references hereafter are to California Codes unless otherwise specified.
28

1 an adversary proceeding rather than a relief from stay motion, Salazar has demonstrated a prima facie
2 case that the foreclosure sale was void. Salazar thus has a significant property interest entitled to
3 protection by the automatic stay, and the Court denies relief at this time.

4 **I. BACKGROUND**

5 Accredited Home Lenders, Inc. ("Accredited") made a loan ("Loan") to Salazar in October 2005
6 secured by his residence located at 1268 Emerald Way, Calexico, California ("Property"). Salazar
7 executed a promissory note ("Note") to Accredited to document the Loan. To secure the Loan, Salazar
8 executed a four party deed of trust ("DOT") among Salazar as "Borrower," Accredited as "Lender,"
9 Chicago Title Company as trustee, and MERS as beneficiary.

10 Under the DOT, the Lender's rights regarding the Loan are pervasive. The Lender is entitled to
11 receive all payments under the Note and to enforce the DOT, including the exclusive right to conduct a
12 nonjudicial foreclosure.⁴

13 MERS has none of these rights under the DOT,⁵ and is not even mentioned in the Note. MERS
14 is not given any independent authority to enforce the DOT under its terms and MERS' status as
15 beneficiary under the DOT is only "nominal." While the Borrower acknowledges in the DOT that
16 MERS can exercise Lender's rights as "necessary to comply with law or custom,"⁶ this

18
19 ⁴ Under the DOT, the Lender has the exclusive right to: "(i) the repayment of the Loan, and all
20 renewals, extensions and modifications of the Note; and (ii) the performance of Borrower's covenants
21 and agreements under this Security Instrument and the Note." In addition, under the covenants executed
22 between Lender and Salazar, Lender is granted exclusive authority to accelerate repayment, "give notice
23 to Borrower prior to acceleration," and "invoke the power of sale" through written notice to the Trustee
24 in the event of default, and appoint successor trustees. DOT at pp. 3, 13.

25 ⁵ The DOT defines MERS as a "separate corporation that is acting solely as a nominee for Lender
26 and Lender's successors and assigns." The DOT states, "MERS is the beneficiary under this Security
27 Instrument." DOT at p. 2.

28 ⁶ The DOT on page three in the description of collateral section, provides that "Borrower understands and
agrees that MERS holds only legal title to the interests granted by Borrower in this Security Instrument, but, *if
necessary to comply with law or custom*, MERS (as nominee of Lender and Lender's successors and assigns) has
the right: to exercise any or all of those interests, including, but not limited to, the right to foreclose and sell the
Property; and to take any action required of Lender including, but not limited to, releasing or cancelling this
Security Instrument." DOT at p. 3 (emphasis added).

1 acknowledgement is not accompanied by any actual allocation of authority to nonjudicially foreclose
2 on the DOT; nor is such authority allocated in any other document in the record.

3 After Salazar defaulted under the Loan, foreclosure proceedings were instituted. In June 2009,
4 MERS signed a substitution of trustee. Whether MERS retained any interest in the Loan after this time
5 is not clear. Both Litton Loan Servicing, LP ("Litton") and Quality Loan Service Corp. ("Quality")
6 were at different times identified as the party that Salazar should contact with questions about the
7 foreclosure. MERS had no apparent role in the foreclosure sale held on December 7, 2009, which was
8 largely run by Litton and Quality based upon the documents in the record. When the Trustee's Deed
9 Upon Sale ("Trustee's Deed") was recorded on December 14, 2009, US Bank was identified as the
10 "foreclosing beneficiary," not MERS. While US Bank has presented evidence that the Note was
11 endorsed in blank, no evidence was offered as to when US Bank was assigned Accredited's interests as
12 Lender in the Note and DOT, and no assignment to US Bank of the beneficial interest in the DOT
13 appears in the public records.

14 While some of the foreclosure claims were pending in district court, the unlawful detainer
15 action came on for trial in state court on September 1, 2010, and was continued to October 1, 2010.
16 This bankruptcy case was filed the day before the continued trial, which stayed the unlawful detainer
17 action. US Bank then filed this relief from stay motion ("Motion") on October 26, 2010, which was
18 heard on November 23, 2010, continued to January 11, 2011, and continued again to January 25, 2011
19 to allow for the submission of evidence and additional briefing.

20 **II. ANALYSIS**

21 To determine whether to grant US Bank's Motion, the Court must first decide whether US Bank
22 has standing to bring it. The Court must then address the merits of the Motion, which will require
23 consideration of whether Salazar retains any interest in the Property that is necessary for an effective
24 reorganization, and whether allowing the unlawful detainer action to proceed in state court will promote
25 the efficient administration of the bankruptcy and limit prejudice to the parties.

26 **A. Standing**

27 Due to the limited scope and expedited nature of a relief from stay proceeding, the standing
28 requirement is not difficult to meet. Section 362(d) of the Bankruptcy Code provides that stay relief

1 may be granted to a "party in interest," and any party affected by the stay should be entitled to seek
2 relief. 3 Collier on Bankruptcy ¶ 362.07[2] (3d ed. rev. 2010). In the Ninth Circuit, challenges to
3 secured claims are typically resolved in plenary proceedings. *Johnson v. Righetti (In re Johnson)*, 756
4 F.2d 738, 740 (9th Cir. 1985) ("The validity of the claim or contract underlying the claim is not
5 litigated during the hearing."), *overruled on other grounds by Travelers Cas. & Sur. Co. v. Pac. Gas &*
6 *Elec. Co.*, 549 U.S. 443 (2007); *Biggs v. Stovin (In re Luz Int'l)*, 219 B.R. 837, 841-42 (B.A.P. 9th Cir.
7 1998). Even so, the moving party must establish a prima facie case of its claim or rights against a
8 debtor or its estate to seek relief from stay. *In re Bialac*, 694 F.2d 625, 627 (9th Cir. 1982); *In re Aniel*,
9 427 B.R. 811, 816 (Bankr. N.D. Cal. 2010).

10 A prima facie case of standing requires the moving party demonstrate an undisputed interest in
11 the bankruptcy case that is hindered by the automatic stay. Standing is lacking where a secured creditor
12 cannot present the rudimentary elements of its claim. *In re Gavin*, 319 B.R. 27, 32 (B.A.P. 1st Cir.
13 2004) (holding the moving party could not trace the chain of title through valid endorsements); *In re*
14 *Wilhelm*, 407 B.R. 392, 398 (Bankr. D. Idaho 2009) ("each Movant must show that it has an interest in
15 the relevant note, and that it has been injured by debtor's conduct"). If the moving party has a right to
16 assert a claim, even though the claim is disputed, standing to seek stay relief may be found. *Brown*
17 *Transp. Truckload v. Humboldt Express*, 118 B.R. 889, 893 (Bankr. N.D. Ga. 1990) (finding the non-
18 creditor had standing for stay relief to pursue action against debtor in another forum); *In re Vieland*, 41
19 B.R. 134, 139 (Bankr. N.D. Ohio 1984) (purchaser at a judicial foreclosure sale acquired some interest
20 in debtor's property and was a party in interest).

21 US Bank is the record title owner of the Property under the recorded Trustee's Deed, even if the
22 foreclosure sale was invalid. US Bank therefore has standing to seek relief from stay. Even though US
23 Bank has established a prima facie case of standing, however, the Court must still determine if US
24 Bank's foreclosure sale was valid to rule on the merits of the Motion.

25 **B. Salazar's Property Interest in the Residence**

26 Whether Salazar may retain valuable equitable title in the Property despite the foreclosure sale
27 is critical to the Motion. *McCarthy, Johnson & Miller v. North Bay Plumbing, Inc. (In re Pettit)*, 217
28

1 F.3d 1072, 1077 (9th Cir. 2000) (whether debtor retained a property interest in registry funds
2 determined whether stay applied). To decide the Motion, the Court must evaluate whether Salazar has
3 equity in the Property necessary for an effective reorganization and whether cause exists to grant relief
4 to US Bank. *Bialac*, 694 F.2d at 627 ("it was within the bankruptcy court's discretion to consider the
5 construction of the note's payment terms in the § 362(d) proceeding if they were important to the issue
6 of valuation"); *In re Bebensee-Wong*, 248 B.R. 820, 823 (B.A.P. 9th Cir. 2000) (court first determined
7 whether the trustee's deed after foreclosure was timely recorded; since foreclosure sale was valid, relief
8 from stay was granted to allow unlawful detainer action to proceed); *cf. In re Hoopai*, No. 04-02511,
9 2005 U.S. Dist. LEXIS 42760, at *11-*15 (D. Haw. 2005) (relief from stay denied to foreclosing
10 creditor because the property might have value to the estate).

11 If US Bank's foreclosure sale was invalid, Salazar has an interest in the Property which militates
12 in favor of continuing the stay. If US Bank was not authorized to foreclose the DOT under Civil Code
13 section 2932.5, the foreclosure sale may be void, and Salazar would not need to tender the full amount
14 of the Loan to set aside the sale. *Bank of America, N.A. v. La Jolla Group II*, 129 Cal. App. 4th 706,
15 710, 717 (5th Dist. 2005) (void foreclosure sale required rescission of trustee's deed returning title to
16 the status quo prior to the foreclosure sale); *Dimock v. Emerald Properties*, 81 Cal. App. 4th 868, 874
17 (4th Dist. 2000) (sale under deed of trust by former trustee void, and tender of the amount due is
18 unnecessary). In this event, Salazar could potentially restructure the Loan and reorganize his financial
19 affairs in his chapter 13 case. The Court emphasizes however, that US Bank's defenses to Salazar's
20 Civil Code section 2932.5 claim must be resolved either in state court or in another proper proceeding
21 as these defenses are not before the Court.

22 1. Assignments Must be Recorded Before Foreclosure

23 US Bank, as the foreclosing beneficiary and assignee of Accredited's interest in the Loan, had to
24 meet both requirements of Civil Code section 2932.5⁷ for the foreclosure to be valid. Under that

25
26 ⁷ Civil Code section 2932.5 provides:

27 Where a power to sell real property is given to a mortgagee, or other encumbrancer, in
28 an instrument intended to secure the payment of money, the power is part of the security
and vests in any person who by assignment becomes entitled to payment of the money

1 statute, first, US Bank had to be entitled to payment of the secured debt. Civ. Code § 2932.5; *see also*
2 Civ. Code § 2936 (Deering 2010); Comm. Code § 9203(a), (g) (Deering 2011); *Carpenter v. Longan*,
3 83 U.S. 271, 274 (1872) (the assignment of the note carries the mortgage with it); *Polhemus v. Trainer*,
4 30 Cal. 686, 688 (1866) (the mortgage always abides with the debt). US Bank claims to be the holder
5 of the Note, which was endorsed in blank by Accredited, and US Bank's status as holder of the Note
6 meets the first requirement of Civil Code section 2932.5.

7 Second, Civil Code section 2932.5 also requires that US Bank's status as foreclosing beneficiary
8 appear before the sale in the public record title for the Property. This second requirement was not met.
9 US Bank offers two primary reasons why a recorded assignment of the DOT is unnecessary: (1) Civil
10 Code section 2932.5 applies to mortgages, and not to its DOT; and (2) MERS' recorded interest as the
11 nominal beneficiary was sufficient to satisfy Civil Code section 2932.5, particularly since the transfer
12 by Accredited to US Bank could be tracked in the publicly accessible MERS system.

13 The Court's analysis leads it to conclude that Civil Code section 2932.5 requires US Bank's
14 assigned beneficial interest be recorded despite MERS' initial role under the DOT, and that the statutory
15 foreclosure scheme trumps MERS' proposed alternative system.

16 **2. Civil Code Section 2932.5 Applies to Deeds of Trust**

17 In claiming Civil Code section 2932.5 does not apply to its DOT, US Bank relies on *Caballero*
18 *v. Bank of America*, No. 10-CV-02973, 2010 U.S. Dist. LEXIS 122847, at *8 (N.D. Cal. 2010) (citing
19 *Stockwell v. Barnum*, 7 Cal. App. 413, 416-17 (2d Dist. 1908)), *Roque v. Suntrust Mortg., Inc.*, No. C-
20 09-00040, 2010 U.S. Dist. LEXIS 11546, at *7 (N.D. Cal. 2010), and *Parcray v. Shea Mortg., Inc.*, No.
21 CV-F-09-1942, 2010 U.S. Dist. LEXIS 40377, at*32 (E.D. Cal. 2010).⁸ These cases note that Civil

22 secured by the instrument. *The power of sale may be exercised by the assignee if the*
23 *assignment is duly acknowledged and recorded.*

24 Civ. Code § 2932.5 (Deering 2011) (emphasis added).

25 ⁸ Despite its respect for these decisions, this Court is not bound by them. *State Compensation Ins.*
26 *Fund v. Zamora (In re Silverman)*, 616 F.3d 1001, 1005 (9th Cir. 2010). While the Ninth Circuit reserved the
27 issue of whether bankruptcy courts are bound by district court decisions within the district where the
28 bankruptcy court sits, it recognized that such a requirement "could create the same problem of subjecting
bankruptcy courts to a non-uniform body of law." *Id.*

1 Code section 2932.5 mentions only assignees of mortgage interests, whereas in those cases, and here,
2 the instrument foreclosed upon was a deed of trust.

3 Historically, a technical distinction existed between deeds of trust and mortgages. For deeds of
4 trust, title vested in the trustee. For mortgages, title remained with the mortgagors. This distinction,
5 however, has been determined to be obsolete. *Bank of Italy Nat. Trust & Sav. Assn. v. Bentley*, 217
6 Cal. 644, 656 (1933) (legal title under a deed of trust, though held by the trustee to the extent necessary
7 for execution of the trust, does not carry any "incidents of ownership of the property"); *Yulaeva v.*
8 *Greenpoint Mortg. Funding, Inc.*, No. S-09-1504, 2009 U.S. Dist. LEXIS 79094, at *4 (E.D. Cal. Sept.
9 3, 2009) (citing 4 B.E. Witkin, *Summary of California Law*, ch. VIII, § 5 (10th ed. 2005)); *N. Brand*
10 *Partners v. Colony GFP Partners, L.P. (In re 240 N. Brand Partners)*, 200 B.R. 653, 658 (B.A.P. 9th
11 Cir. 1996) ("The terminology creates a difference without distinction."); *see also* 1 Roger Bernhardt,
12 *California Mortgages, Deeds of Trust, and Foreclosure Litigation*, § 1.35 (4th ed. 2009); 4 Harry D.
13 Miller & Marvin B. Starr, *Miller and Starr California Real Estate*, § 10:1 n. 9 (3d 2010) (citing
14 *Domarad v. Fisher & Burke, Inc.*, 270 Cal. App. 2d 543, 553 (1st Dist. 1969)) (mortgages and deeds of
15 trust have the same effect and economic function and are "subject to the same procedures and
16 limitations on judicial and nonjudicial foreclosure").⁹

17 The outdated distinction between mortgages and deeds of trust is especially moribund in the
18 context of borrower's rights in the nonjudicial foreclosure context, such as the borrower rights protected
19 by Civil Code section 2932.5. *Bank of Italy*, 217 Cal. at 658 ("[I]mportant rights and duties of the
20 parties should not be made to depend on the more or less accidental form of the security."); *Dimock*, 81
21 Cal. App. 4th at 877 ("[The title distinction] has been ignored in order to afford borrowers with the
22 protection provided to mortgagors."). Civil Code section 2932.5 protects borrowers from confusion as
23 to the ownership of their loans. *Stockwell*, 7 Cal. App. at 416-17; *Bank of America*, 129 Cal. App. 4th

24 _____
25 ⁹ The two other historical distinctions between mortgages and deeds of trust identified in *Bank of Italy*,
26 217 Cal. at 656, are also defunct. Both mortgages and deeds of trusts are now subject to time limitations on
27 enforcement under sections 880.020-887.09 of the Marketable Record Title Act. Civ. Code §§ 880.020-887.09
28 (Deering 2011). Bernhardt, *supra*, § 1.35. In addition, Code of Civil Procedure section 729.010 now provides
for a right of redemption following a judicial sale under either a mortgage or a deed of trust. Civ. Proc. §
729.010 (Deering 2011).

1 at 712 (citing 4 Harry D. Miller & Marvin B. Starr, *Miller and Starr California Real Estate*, § 10:123
2 (3d ed. 2003)) ("Statutory provisions regarding the exercise of the power of sale provide substantive
3 rights to the trustor and limit the power of sale for the protection of the trustor."); *see also* Civ. Code §§
4 2935-2937 (Deering 2010) (providing requirements for the transfer of interests of indebtedness on
5 residential real property that put borrower on notice). Civil Code section 2932.5 must therefore be
6 applied to deeds of trust to ensure trustors are provided the same protection as mortgagors under
7 California law.

8 The borrower concern addressed by Civil Code section 2932.5—that it be able to identify the
9 assignee of its loan—is more exigent, not less, than it was during the Great Depression, when *Bank of*
10 *Italy* was decided. Problems with the residential mortgage foreclosure process have been widely
11 chronicled. *See* Katherine Porter, *Misbehavior and Mistake in Bankruptcy Mortgage Claims*, 87 Tex.
12 L. Rev. 121, 148-49 (2008), *cited in Ameriquest Mortg. Co. v. Nosek (In re Nosek)*, 609 F.3d 6, 9 (1st
13 Cir. 2010) (noting mortgage holders and servicer's "(c)onfusion and lack of knowledge, or perhaps
14 sloppiness, as to their roles is not unique in the residential mortgage industry"); Andrew J. Kazakes,
15 *Developments in the Law: the Home Mortgage Crisis*, 43 Loy. L.A. L. Rev. 1383, 1430 (2010) (citing
16 David Streitfeld, *Bank of America to Freeze Foreclosure Cases*, N.Y. Times, Oct. 2, 2010, at B1)
17 (explaining that after publication of Katherine Porter's study several Banks froze foreclosures); Eric
18 Dash, *A Paperwork Fiasco*, N.Y. Times, Oct. 23, 2010, at WK5 (reporting the repeal of the initial
19 freeze and the problems banks faced in clearing up foreclosure paperwork); Office of the Special
20 Inspector General for the Troubled Asset Relief Program, Quarterly Report to Congress 12 (Jan. 26,
21 2011), *available at* <http://www.sigtaip.gov/> (follow link for "Quarterly Report to Congress").
22 Specifically in the context of loan assignments, there are "serious distributional consequences to all
23 parties in a bankruptcy if a mortgagee cannot prove it holds a valid security interest." *See* Porter,
24 *supra*, at 148-49.

25 Because controlling Supreme Court authority requires this Court to enforce statutory borrower
26 protections regardless of whether nonjudicial foreclosure is sought under a mortgage or a deed of trust,
27 the Court must conclude Civil Code section 2932.5 applies to US Bank's DOT here.
28

1 3. Recorded Assignment Necessary Despite MERS' Role

2 US Bank also claims MERS' status as nominal beneficiary under the DOT obviated the
3 recording of the assignment of the DOT under Civil Code section 2932.5. This claim fails because
4 MERS was not the beneficiary at the time of the foreclosure here, even if it was initially the nominal
5 beneficiary under the DOT. The DOT also does not grant MERS any authority apart from the nominal
6 role.

7 The recitals in the Trustee's Deed identify US Bank alone as the foreclosing beneficiary, and
8 this recital provides "prima facie evidence of the truth of the statements." DOT at ¶ 22.¹⁰ *See also*
9 *Bank of America*, 129 Cal. App. 4th at 831-32 (recitals in a trustee's deed create a presumption of the
10 truth of the statements); *Dimock*, 81 Cal. App. 4th at 877 (deed of trust may authorize that recitals shall
11 be conclusive proof of the truthfulness of the fact). Even though MERS was the beneficiary at the time
12 of inception, it was not so at the time of the foreclosure. In part due to this factual distinction, this
13 Court is not bound by *Gomes v. Countrywide Home Loans, Inc.*, 192 Cal. App. 4th 1149, 1151-58 (4th
14 Dist. 2011), or *Pantoja v. Countrywide Home Loans, Inc.*, 640 F. Supp. 2d 1177, 1188 (N.D. Cal.
15 2009).

16 In *Gomes*, the Court of Appeal held Civil Code section 2924(a)(1) does not establish a cause of
17 action to permit a borrower to test MERS' authority to initiate a nonjudicial foreclosure, where there is
18 no specific factual basis to challenge this authority. Civil Code section 2924(a)(1) permits an array of
19 authorized parties to take the steps to initiate foreclosure, including the trustee, beneficiary and their
20 authorized agents. *Gomes*, 192 Cal. App. 4th at 1156. Neither *Gomes* nor Civil Code section
21 2924(a)(1), applies to the questions here: Whether US Bank as Accredited's assignee has authority to
22 foreclose. This issue is instead addressed by Civil Code section 2932.5. In fact, *Gomes* specifically
23 declined to decide the outcome where the facts demonstrated "the wrong party initiated the foreclosure
24 process." *Id.* at 1155 (distinguishing *Weingartner v. Chase Home Finance, LLC*, 702 F.Supp.2d 1276
25

26 ¹⁰ Paragraph 22 of the DOT, which provides for the Lender's Acceleration and Remedies, includes
27 the following: "The recitals in the Trustee's deed shall be prima facie evidence of the truth of the
28 statements made therein." DOT at p. 13.

1 (D. Nev. 2010) (trustee was not the trustee at the time of the nonjudicial foreclosure); *Castro v.*
2 *Executive Trustee Services, LLC*, No. CV-08-2156-PHX-LOA, 2009 U.S. Dist. Lexis 14134 (D. Ariz.
3 Feb. 23, 2009) (foreclosing party was not the holder of the note); *Ohlendorf v. American Home*
4 *Mortgage Servicing*, No. CIV. S-09-2081 LKK/EFB, 2010 U.S. Dist. Lexis 31098 (E.D. Cal. Mar. 31,
5 2010) (recordation of assignments with backdated effective dates may taint the notice of default)).¹¹

6 *Gomes* thus left open the situation here, where US Bank conducted the nonjudicial foreclosure as
7 beneficiary, but a different party, MERS, was the beneficiary of record.

8 *Gomes* also relied upon the borrower's acknowledgement of MERS' authority to foreclose as
9 nominal beneficiary. *Gomes*, 192 Cal. App. 4th at 1157-58; *see also Pantoja*, 640 F. Supp. 2d at 1189-
10 90. Even if US Bank had not replaced MERS as the foreclosing beneficiary by the time of the
11 foreclosure here, MERS still had no authority to nonjudicially foreclose under Salazar's DOT under its
12 express terms. The Lender, not MERS, had the right to "invoke the power of sale" under the DOT, ¶
13 22, here. This acknowledgement of MERS' authority also did not extend so far as to permit it to
14 foreclose. Salazar's acknowledgement was limited to the situation where MERS' enforcement actions
15 were "necessary to comply with law or custom" (emphasis added). Whatever "necessary to comply
16 with law or custom" means, and there is no evidence in the record to explain it, it should not mean that
17 US Bank or MERS can contract away their obligations to comply with the foreclosure statutes.¹²

18 Salazar's acknowledgment could also not be interpreted as an enforceable waiver of his right as
19 borrower under Civil Code section 2932.5 to be informed of the identity of the assignee. The
20 acknowledgement fails to meet the stringent test for waivers of residential borrower protections in the
21

22 ¹¹ This Court is, in any event, not bound by the *Gomes* decision because it believes the California
23 Supreme Court would have followed its decision in *Polhemus v. Trainer*, 30 Cal. at 688, as well as the
24 statutory requirements of Civil Code sections 2932.5, 2936, and Commercial Code sections 9203(a)-(g),
25 and found that Civil Code section 2932.5 must be complied with despite any designation of MERS as a
26 nominal beneficiary in the DOT. *See Vestar Dev. II, LLC v. Gen. Dynamics Corp.*, 249 F.3d 958, 960
(9th Cir. 2001) (a federal court, in determining how the high court would rule, must consider
"intermediate appellate court decisions, decisions from other jurisdictions, statutes, treatises, and
restatements as guidance," and follow an appellate decision only if there is no convincing evidence that
the state supreme court would decide differently).

27 ¹² MERS was not the payee of the secured debt, and thus could not satisfy the first requirement of
28 Civil Code section 2932.5 in any event.

1 foreclosure context. Under *Cathay Bank v. Lee*, 14 Cal. App. 4th 1533, 1539 (4th Dist. 1993), a waiver
2 of borrower protections must be specific and explain the substance of the statutory rights at issue. In
3 *Cathay Bank, id.*, the court refused to enforce language of a deed of trust authorizing the lender to
4 exercise the power of sale, because it served to waive the guarantor's defense to the deficiency claim.¹³
5 See also *Miller v. United States*, 363 F. 3d 999, 1006 (9th Cir. 2004); *Hoffman v. Blum*, No. C06-2416
6 MHP, 2008 U.S. Dist. LEXIS 7643, at *8 (N.D. Cal. 2008) ("any waiver of an important statutory right
7 must be knowing and intelligent"); *DeBerard Properties v. Lim.*, 20 Cal. 4th 659, 670 (1999) (borrower
8 protection foreclosure provision in Code of Civil Procedure section 580(b) cannot be waived even
9 though it is not included in the list of non-waivable foreclosure provisions detailed in Civil Code
10 section 2953).

11 As a matter of fact, US Bank did not rely on MERS to nonjudicially foreclose on Salazar's
12 residence here. As a matter of law, Salazar's acknowledgment cannot be read as a waiver of his right to
13 be informed of a change in beneficiary status. For both of these reasons, *Gomes*, 192 Cal. App. 4th at
14 1157-58, is distinguishable.

15 4. MERS System is not an Alternative to Statutory Foreclosure Law

16 The Court also rejects US Bank's invitation to overlook the statutory foreclosure mandates of
17 California law, and rely upon MERS as an extra-judicial commercial alternative.¹⁴ The full scope of
18 California's nonjudicial foreclosure law, found at Civil Code sections 2020-2955, exhaustively covers
19 every aspect of the real estate foreclosure process and must be respected. *I. E. Associates v. Safeco*
20 *Title Ins. Co.*, 39 Cal. 3d 281, 285 (1985) (refusing to supplement the notice requirements found in
21 Civil Code section 2924); *Dimock*, 81 Cal. App. 4th at 874 (holding a sale under a deed of trust by
22 former trustee void as failing to comply with Civil Code section 2934); *Moeller v. Lien*, 25 Cal. App.

23 ¹³ *Cathay Bank's* holding, 14 Cal. App. 4th at 1539, was later limited by legislation to commercial
24 transactions. Civ. Code § 2856(e). However, it is still relevant for consumer transactions involving
25 borrowers' residences such as the one before the Court.

26 ¹⁴ The Court notes that circumventing the public recordation system is, in fact, the purpose for which the
27 MERS system was created. *Merscorp, Inc. v. Romaine*, No. 179, 2006 NY Slip Op. 9500, slip op. 6 (Ct. of
28 Appeals 2006). Creation of a private system, however, is not enforceable to the extent it departs from
California law.

1 4th 822, 834 (1994) (holding Civil Code section 2924 includes a myriad of rules relating to notice and
2 right to cure, but no relief from forfeiture under Civil Code section 3275). To overlook statutory
3 foreclosure requirements would require legislative action, of which the Court is not capable. *Westside*
4 *Apts., LLC v. Butler (In re Butler)*, 271 B.R. 867, 873 (Bankr. C.D. Cal. 2002). This Court instead
5 joins the courts in other states that have rejected MERS' offer of an alternative to the public recording
6 system. *In re Agard*, No. 10-77338-reg, 2011 Bankr. LEXIS 488, at *58-*59 (Bankr. E.D.N.Y. Feb.
7 10, 2011); *In re McCoy*, No. 10-63814-fra13, 2011 Bankr. LEXIS 534, at *10 (Bankr. Or. Feb. 7,
8 2011); *MERS v. Saunders*, 2 A.3d 289, 295 (Me. 2010); *LaSalle Bank Nat'l Ass'n v. Lamy*, No.
9 030049/2005, 2006 NY Slip Op 51534U, slip op. 2 (N.Y. Sup. Ct. 2006).

10 US Bank as the foreclosing assignee was obligated to record its interest before the sale despite
11 MERS' initial role under the DOT, and this role cannot be used to bypass Civil Code section 2932.5.
12 Since US Bank failed to record its interest, Salazar has a valid property interest in his residence that is
13 entitled to protection through the automatic stay.

14 **C. Cause Does Not Exist to Grant Relief from Stay**

15 US Bank seeks relief from stay on two statutory grounds: 11 U.S.C. § 362(d)(1) (2011) (cause,
16 including lack of adequate protection of an interest in property), and 11 U.S.C. § 362(d)(2) (2011) (lack
17 of equity and property not necessary for an effective reorganization). Whether the stay should be lifted
18 to permit the unlawful detainer litigation to proceed in state court under 11 U.S.C. §§ 362(d)(1) and (2)
19 requires consideration of the following factors: effective administration of the estate, avoiding
20 prejudice to the parties, and promoting judicial economy. *Benedor Corp. v. Conejo Enters. (In re*
21 *Conejo Enters.)*, 96 F.3d 346, 352 (9th Cir. 1996) (affirming the bankruptcy court's refusal to lift the
22 stay to allow state court litigation to proceed because maintenance of the stay promoted judicial
23 economy by minimizing duplicative litigation and advanced the efficient administration of the estate);¹⁵
24 *In re Kronemyer*, 405 B.R. 915, 921 (B.A.P. 9th Cir. 2009).

25 ¹⁵ Whether the bankruptcy court should abstain from deciding state law issues pending in an
26 imminent state court trial was previously determinative in the stay relief context. *In re Tucson Estates,*
27 *Inc.*, 912 F.2d 1162, 1166 (9th Cir. 1990). After the statutory changes in 28 U.S.C. § 1334(c)(2) and 28
28 U.S.C. § 1334(d), the Ninth Circuit in *Conejo*, 96 F.3d at 352 clarified that so long as the record supports
discretion exercised by the bankruptcy court in denying relief from stay, this factor is no longer
determinative.

1 **1. Effective Administration of the Estate**

2 Maximizing the opportunities for reorganization of the estate is the most important factor in
3 determining whether to grant relief from stay to permit litigation in another forum to proceed. *Conejo*,
4 96 F.3d at 353. Salazar, in his chapter 13 case, seeks to regain title to the Property by invalidating the
5 foreclosure sale and curing the default on the Loan to US Bank. Salazar's reorganization could be
6 thwarted if the Court allows the foreclosure issues to proceed before it determines whether there is
7 equity in the Property, or whether Salazar can restructure US Bank's debt in his reorganization.

8 **2. Prejudice to the Parties**

9 Denying relief from stay at this time is the least prejudicial option for both parties. Even if the
10 stay prohibits US Bank from regaining possession of the Property in the near term, that inconvenience
11 is appropriate because the foreclosure process was flawed. The Court has scheduled a further hearing
12 on relief from stay to determine the economic feasibility of Salazar's plan, and also to order that
13 adequate protection payments be made to US Bank to prevent diminution of the value of its collateral.
14 11 U.S.C. §§ 361, 363(e) (2011); *United Sav. Ass'n of Texas v. Timbers of Inwood Forest Assocs., Ltd.*,
15 484 U.S. 365, 370 (1988) (adequate protection payments can protect valid interests of creditors).

16 In contrast, Salazar could be substantially prejudiced by loss of his property interest if the
17 unlawful detainer action proceeded even though the foreclosure sale may be void. Salazar has
18 established a prima facie case of ownership of the Property, subject to whatever defenses US Bank
19 might bring in the state court proceeding. These rights should be protected by the automatic stay,
20 assuming US Bank's economic interests in the Loan are adequately protected.

21 **3. Considerations of Judicial Economy.**

22 Challenges to US Bank's foreclosure sale are simultaneously pending in state and bankruptcy
23 court, creating the potential for confusion and a waste of judicial resources. Even if not specifically
24 raised in the unlawful detainer proceeding, the validity of the foreclosure sale could be decided by
25 default. *Cheney v. Trauzette*, 9 Cal. 2d 158 (1937); *Seidell v. Anglo-California Trust Co.*, 55 Cal. App.
26 2d 913, 920 (3d Dist. 1942) (challenges to foreclosure sales are barred if not raised in unlawful detainer
27 action). Maintaining the automatic stay until the Court can hear US Bank defenses, and can assess
28 Salazar's reorganization prospects, preserves judicial resources.

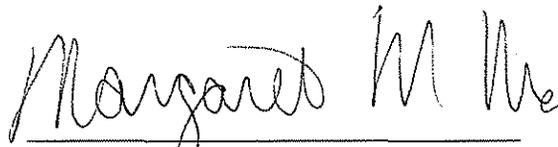
1 **III. CONCLUSION**

2 Even though US Bank has standing to seek relief from stay as the record title owner of the
3 Property, Salazar currently has an equitable title interest for the automatic stay to protect. The Court
4 rejects the claim that MERS' limited role in the DOT provides it carte blanche authority over the
5 nonjudicial foreclosure process. To enable the bankruptcy and foreclosure issues between the parties to
6 be efficaciously addressed, the Court denies the Motion without prejudice. A status conference will be
7 held on this matter on April 21, 2011 at 2:00 p.m. in this Court to determine the amount of the adequate
8 protection payments to be provided to US Bank and to schedule necessary future proceedings
9 consistent with this ruling.

10 This Memorandum Decision will constitute the Court's findings of fact and conclusions of law.
11 Counsel for Salazar is directed to prepare an order in accordance with this Memorandum Decision
12 within ten (10) days of the date of entry.

13 IT IS SO ORDERED.

14
15 Dated: April 12, 2011



16 MARGARET M. MANN, JUDGE
17 United States Bankruptcy Court