

STATE OF MICHIGAN  
COURT OF APPEALS

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FEDERAL HOME LOAN MORTGAGE ASSN,  
Plaintiff-Appellant,

v

MICHAEL R. KELLEY, and KATHRYN  
KELLEY,

Defendants-Appellees,

and

FEDERAL HOUSING FINANCE AGENCY,  
Intervenor-Appellee.

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FOR PUBLICATION  
June 24, 2014  
9:00 a.m.

No. 315082  
Ingham Circuit Court  
LC No. 12-000885-AV

Before: BORRELLO, P.J., and SERVITTO and BECKERING, JJ.

PER CURIAM.

In this foreclosure-related litigation, plaintiff, Federal Home Loan Mortgage Association<sup>1</sup>, (Freddie Mac), appeals by leave granted an Ingham Circuit Court opinion and order reversing the 55th District Court's July 31, 2012 order terminating defendants' possession of residential property located in East Lansing. For the reasons set forth in this opinion, we affirm that portion of the circuit court's order holding that the foreclosing party, CitiMortgage (CMI), was subject to the recordation requirements under MCL 600.3204(3). However, we reverse in all other respects and remand for reinstatement of the district court's order.

I. BACKGROUND

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<sup>1</sup> In the lower courts, plaintiff referred to itself as the Federal Home Loan Mortgage Corporation; however, on appeal, it now refers to itself as the Federal Home Loan Mortgage Association. For purposes of this opinion, we will refer to plaintiff as "Freddie Mac."

### *Underlying Mortgage Transaction*

This dispute involves real property located at 2458 Barnsbury Road, in East Lansing, Michigan (the property). On March 21, 2003, First National Bank of America (First National) loaned defendants \$240,000 for the purchase of the property. Defendants executed a mortgage encumbering the property to First National. The mortgage was recorded on April 24, 2003. On March 26, 2003, First National assigned the mortgage to ABN-AMRO Mortgage Group, Inc. (ABN-AMRO). The assignment was recorded on November 25, 2003. On September 1, 2007, CitiMortgage, Inc. and ABN-AMRO merged and maintained the name CitiMortgage (hereinafter CMI).

### *Freddie Mac and the Federal Housing Finance Agency Conservatorship*

Freddie Mac is a federally chartered corporation that was created as part of the Emergency Home Finance Act of 1970.<sup>2</sup> See PL 91-351, §§ 301-302; 84 Stat 451; 12 USC 1451 *et seq.*; *American Bankers Mortg Corp v Fed Home Loan Mortg Corp*, 75 F 3d 1401, 1404 (CA 9, 1996). Freddie Mac operates in the secondary mortgage market, purchasing and securitizing residential mortgages. *Cty of Sonoma v Fed Housing Finance Agency*, 710 F 3d 987, 989 (CA 9, 2013). Freddie Mac is governed by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act), 12 USC 4501 *et seq. Id.*

In 2008, Congress amended the Safety and Soundness Act by enacting the Housing and Economic Recovery Act of 2008 (HERA). PL 110-289; 122 Stat 2645; as codified at 12 USC 4511 *et seq.* “HERA established the Federal Housing Finance Agency [FHFA], an independent agency charged with supervising [Fannie Mae and Freddie Mac] and the Federal Home Loan Banks.” *Cty of Sonoma*, 710 F 3d at 989. HERA empowered the FHFA to act, under certain circumstances, as a conservator or receiver of Freddie Mac or the Federal National Mortgage Association (Fannie Mae) for purposes of “reorganizing, rehabilitating, or winding up the affairs” of either entity. 12 USC 4617(a)(1) (2). It is undisputed that the FHFA placed Freddie Mac into conservatorship in September, 2008.<sup>3</sup>

### *Foreclosure of the Property*

In June 2011, defendants defaulted on the mortgage and CMI foreclosed on the property under Michigan’s foreclosure by advertisement statute, MCL 600.3201, *et seq.* Freddie Mac purchased the property at an October 20, 2011 sheriff’s sale. Defendants failed to redeem the property within the six-month statutory redemption period and the property vested in Freddie Mac on April 20, 2012. See MCL 600.3236.

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<sup>2</sup> “Freddie Mac” was officially titled the “Federal Home Loan Mortgage Corporation.” See 12 USC 1451, 1452.

<sup>3</sup> The FHFA also simultaneously placed Fannie Mae under conservatorship. See *Herron v Fannie Mae*, 857 F Supp 2d 87 (D DC, 2012).

On May 1, 2012, after expiration of the statutory redemption period, Freddie Mac initiated eviction proceedings in district court pursuant to MCL 600.5704. Defendants challenged the foreclosure, arguing in part that the foreclosure violated their Fifth Amendment due process rights. Defendants maintained that Freddie Mac was a federal actor by virtue of FHFA's conservatorship, and was subject to the due process requirements of the Fifth Amendment and therefore could not foreclose by advertisement. Defendants also argued that CMI's foreclosure was statutorily invalid under the recording act because there was no chain of title evidencing the transfer of the mortgage from ABN-AMRO to CMI. Therefore, according to defendants, CMI did not own the debt and the foreclosure notice failed to properly identify the foreclosing entity.

The district court granted Freddie Mac's motion for summary disposition under MCR 2.116(C)(9) (failure to state valid defense) and MCR 2.116(C)(10) (no genuine issue of material fact). The district court held in relevant part that Freddie Mac was not a governmental actor subject to Fifth Amendment claims and that the chain of title was proper under MCL 600.3204(3) because the merger between ABN-AMRO and CMI did not constitute an "assignment" of the mortgage that necessitated a recording.

Defendants appealed and the circuit court reversed. The circuit court held that Freddie Mac was a governmental entity subject to the Fifth Amendment's notice and hearing requirements. The circuit court reasoned that Freddie Mac "filed tax exemptions as the United States under MCL 207.526(h)(i) and 505(h)(i)," and reasoned that the federal government retained permanent control over all aspects of Freddie Mac. The circuit court stated, "FHFA controls every aspect of [Freddie Mac's] business and its Board of Directors is appointed by and answers to the Director of the FHFA." The court concluded that "the procedures and provisions in place in this case make the conservatorship, in all practicality, permanent." Regarding the chain-of-title, the circuit court held that the foreclosure was invalid because MCL 600.3204(3) requires assignments to be made whenever the foreclosing party is not the original mortgagee, such that assignments must be recorded when a mortgagee merges into another company. The court stated, "ABN-AMRO ceased to exist when it merged with CMI. Because of this, CMI is not synonymous with ABN-AMRO, but is an entirely different entity that is required to be assigned the mortgage under MCL 600.3204(3)."

The circuit court reversed the district court's order awarding possession to Freddie Mac and dismissed the complaint. Freddie Mac applied for leave to appeal and the FHFA moved to intervene. This Court granted both applications.<sup>4</sup> On appeal, Freddie Mac argues that the circuit court erred in holding that it was a governmental entity for constitutional purposes, erred in concluding that the foreclosure failed to comply with MCL 600.3204(3), and, to the extent there was a defect in the chain of title, the court erred in concluding that the foreclosure was void *ab initio* as opposed to merely voidable.

## II. STANDARD OF REVIEW

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<sup>4</sup> *Federal Home Loan Mortgage Assn v Kelley*, unpublished order of the Court of Appeals, issued October 11, 2013 (Docket No. 315082).

“We review de novo a trial court’s decision on a motion for summary disposition to determine whether the moving party is entitled to judgment as a matter of law.” *Cuddington v United Health Servs, Inc*, 298 Mich App 264, 270; 826 NW2d 519 (2012). We review constitutional issues and issues of statutory construction under the same standard. *Great Lakes Society v Georgetown Charter Twp*, 281 Mich App 396, 425; 761 NW2d 371 (2008); *Cuddington*, 298 Mich App at 271.

### III. ANALYSIS

#### A. DUE PROCESS

The Fifth Amendment “appl[ies] to and restrict[s] only the Federal Government and not private persons.” *Pub Utilities Comm v Pollak*, 343 US 451, 461; 72 S Ct 813; 96 L Ed 1068 (1952). Therefore, the threshold question in this case is whether Freddie Mac is a governmental entity subject to a Fifth Amendment claim.

The circuit court concluded that Freddie Mac is a governmental entity subject to Fifth Amendment claims for two reasons: (1) Freddie Mac “filed tax exemptions as the United States under MCL 207.526(h)(i) and 505(h)(i)”; and (2) Freddie Mac is a governmental entity under *Lebron v Nat'l Railroad Passenger Corp*, 513 US 374, 377; 115 S Ct 961; 130 L Ed 2d 902 (1995). Both of these conclusions are erroneous.

With respect to Freddie Mac’s tax status, while MCL 207.505(h)(i) and MCL 207.526(h)(i), provide tax exemptions for certain instruments and transactions involving the United States, Freddie Mac is specifically authorized by federal statute, to be exempt from “all taxation now or hereafter imposed by any . . . State,” except for real property taxes. 12 USC 1452(e). Thus, Freddie Mac would have been exempt regardless of whether it sought an exemption “as the United States.” Moreover, the circuit court did not cite, and defendants do not provide, any authority supporting the position that seeking a tax exemption “as the United States” subjects federally created corporations to constitutional claims under the Fifth Amendment. As the United States Court of Appeals for the Ninth Circuit stated in *Hall v American Nat'l Red Cross*, 86 F3d 919, 922 (CA 9, 1996), “Government-created corporations are often held to be tax-immune government instrumentalities, but courts have also frequently found them not to be subject to constitutional treatment as government actors.”<sup>5</sup> Thus, merely because Freddie Mac filed for tax exemptions as “the United States,” was not dispositive as to whether Freddie Mac is a governmental entity for constitutional purposes. Instead, *Lebron*, 513 US at 374, is controlling on this issue and under the *Lebron* framework, we conclude that Freddie Mac is not a governmental entity.

In *Lebron*, the United States Supreme Court addressed whether the National Railroad Passenger Corporation (commonly known as Amtrak) was a governmental entity for

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<sup>5</sup> “Though not binding on this Court, federal precedent is generally considered highly persuasive when it addresses analogous issues.” *Wilcoxon v Minn Mining & Mfg Co*, 235 Mich App 347, 360 n5; 597 NW2d 250 (1999).

constitutional purposes. In that case, Amtrak refused to display the plaintiff's political advertisement on a large billboard at Penn Station commonly known as "the Spectacular." *Id.* at 377. The plaintiff sued, alleging violations of his First and Fifth Amendment rights. *Id.* at 377-378. At issue was whether Amtrak was a governmental entity subject to the plaintiff's constitutional claims. *Id.* at 378-379.

In resolving this issue, the Supreme Court held that, "where . . . [1] the Government creates a corporation by special law, [2] for the furtherance of governmental objectives and [3] retains for itself permanent authority to appoint a majority of the directors of that corporation, the corporation is part of the Government for [constitutional purposes]."*Id.* at 400. Although Amtrak's authorizing statute expressly stated that Amtrak was not a federal entity, the *Lebron* Court concluded otherwise. The Court reasoned that Amtrak was created by special statute explicitly for the furtherance of governmental goals—i.e. the preservation of passenger trains in the United States. *Id.* at 383, 397-398. Furthermore, six of the eight Amtrak board members were directly appointed by the President of the United States. *Id.* Moreover, the Court reasoned, the government's control of Amtrak was permanent in nature, explaining:

Amtrak is not merely in the temporary control of the Government (as a private corporation whose stock comes into federal ownership might be); it is established and organized under federal law for the very purpose of pursuing federal governmental objectives, under the direction and control of federal governmental appointees. It is in that respect no different from the so-called independent regulatory agencies such as the Federal Communications Commission or the Securities Exchange Commission, which are run by Presidential appointees with fixed terms. [*Id.* at 398.]

In concluding that Amtrak was a federal entity, the *Lebron* Court distinguished *Regional Rail Reorganization Act Cases*, 419 US 102; 95 S Ct 335; 42 L Ed 2d 320 (1974), wherein the Supreme Court held that Conrail was not a federal instrumentality "despite the President's power to appoint . . . 8 of [Conrail's] 15 directors." *Lebron*, 513 US at 399. The *Lebron* Court noted that, in *Regional Rail*, the federal appointees were appointed to the Conrail board to protect federally-backed debt obligations. *Id.* at 399. Furthermore, the appointees were required to operate Conrail "at a profit for the benefit of its shareholders," and full control of the board would shift back to the shareholders once federally-backed debt obligations fell below 50-percent of total indebtedness. *Id.* (quotations and citations omitted). In contrast, "[t]he Government exerts its control [over Amtrak] not as a creditor but as a policy maker, and no provision exists that will automatically terminate control upon termination of a temporary financial interest." *Id.*

In this case, there is no dispute that the government created Freddie Mac by special statute for the purpose of furthering governmental objectives.<sup>6</sup> Defendants do not argue, nor can

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<sup>6</sup> See e.g. 12 USC 4501; *American Bankers Mortgage Corp v Fed Home Loan Mortgage Corp*, 75 F3d 1401, 1406-1407 (CA 9, 1996), ("The congressional purposes for Freddie Mac are clearly designed to serve the public interest by increasing the availability of mortgages on

they prove that, pre-conservatorship, Freddie Mac was a governmental entity. See *American Bankers Mortgage Corp v Fed Home Loan Mortgage Corp*, 75 F3d 1401, 1406-1409 (CA 9, 1996) (holding that pre-conservatorship Freddie Mac lacked sufficient government control under *Lebron* because 13 of its 18 directors were elected annually by common shareholders and its 60 million shares of common stock were publically traded on the New York Stock Exchange).

Instead, defendants argue that the FHFA’s 2008 conservatorship served to transform Freddie Mac into a governmental entity. This argument is not novel and has been repeatedly rejected by federal courts including the United States Court of Appeals for the Sixth Circuit, which recently held that “[u]nder the *Lebron* framework, Freddie Mac is not a government actor who can be held liable for violations of the Fifth Amendment’s Due Process Clause.” *Mik v Fed Home Loan Mortg Corp*, 743 F 3d 149, 168 (CA 6, 2014). This holding aligned with numerous decisions by federal courts across the country, which have soundly rejected the same argument.<sup>7</sup> For the following reasons, we now similarly hold that Freddie Mac, under the conservatorship of the FHFA, is not a governmental entity for constitutional purposes.

As conservator, the FHFA succeeded to “all” of Freddie Mac’s “rights, titles, powers, and privileges,” with authority to operate all of its business “with all the powers of the shareholders, the directors, and the officers. . . .” 12 USC 4617(b)(2)(A)-(B). Although these powers are sweeping, importantly, Congress did not appoint FHFA as *permanent* conservator over Freddie Mac. Instead, the purpose of the conservatorship is to reorganize, rehabilitate or wind-up Freddie Mac’s affairs. 12 USC 4617(a)(2). These terms connote a temporary period of control and defendants point to no statutory language showing that the government intended to effectuate a permanent takeover of Freddie Mac.

The circuit court concluded that although “conservatorship is described as a temporary status of a company, the procedures in place in this case make the conservatorship, in all practicality, permanent,” noting that “there is no determined end date in which [Freddie Mac] will become a private entity, nor is there an automatic provision that will revert [Freddie Mac] to a private entity.” Similarly, defendants point out that in *Regional Rail*, 419 US at 102, the Court held that Conrail was not a federal instrumentality in part because the government’s full voting control would *automatically* shift back to Conrail’s shareholders once the corporation’s federal debt obligations fell below 50-percent of its indebtedness. *Lebron*, 513 US at 399, citing *Regional Rail*, 419 US at 152. Defendants argue that, unlike Conrail, in this case, there is no triggering mechanism that terminates the conservatorship. These arguments are unpersuasive.

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housing for low—and moderate—income families and by promoting nationwide access to mortgages.”)

<sup>7</sup> See e.g. *Narra v Fannie Mae*, No. 2:13-cv-12282 (ED Mich, 2014); *Fed Home Loan Mortg Corp v Shamoone*, 922 F Supp 2d 641 (ED Mich, 2013); *Lopez v Bank of America, N.A.*, 920 F Supp 2d 798 (WD Mich, 2013); *Dias v Fed Nat'l Mortg Assoc*, No. 12-00394 (D Hawaii, 2013); *Matveychuk v One West Bank*, No. 1:13-CV-3464-AT (ND Ga, 2013); *May v Wells Fargo Bank*, No. 4:11-3516 (SD Tex, 2013); *Bernard v Fannie Mae*, No. 12-14680 (ED Mich, 2013); *In re Kapla*, 485 BR 136 (Bankr ED Mich, 2012); *Syriani v Freddie Mac Multiclass Certificates*, No. 12-3035-JFW (CD Cal, 2012); *Herron v Fannie Mae*, 857 F Supp 2d 87, 95-96 (D DC, 2012).

The *Lebron* Court noted that with respect to Conrail, the government was merely acting as its creditor and exerted control over Conrail for the purpose of ensuring a profit for Conrail's shareholders. *Lebron*, 513 US at 399. Notably, the *Lebron* Court did not state that government control is deemed permanent unless the government provides that its involvement will terminate on a specified date or upon the satisfaction of a specified condition. To the contrary, the *Lebron* Court recognized that the indefinite government control over Conrail, pending the satisfaction of certain conditions, did not equate to permanent government control. *Id.* With respect to permanence, the conservatorship of Freddie Mac is analogous to the government's control of Conrail, as it is similarly of indefinite duration pending the satisfaction of certain conditions. See 12 USC 4617(a)(2). Thus, Congress' failure to specify a termination date does not render the FHFA's control permanent under the *Lebron* framework. This is especially true considering the government's control of Freddie Mac was imposed for the inherently temporary purpose of "reorganizing, rehabilitating, or winding up" its affairs. 12 USC 4617(a)(2).

In sum, Freddie Mac was created by special law for governmental purposes; however, although the federal government, through the FHFA, exercises control over Freddie Mac, that control is not permanent in nature. Accordingly, under the *Lebron* framework, Freddie Mac is not a federal entity for constitutional purposes and defendants' due process claim failed as a matter of law.<sup>8</sup> See *Nat'l Airport Corp v Wayne Bank*, 73 Mich App 572, 574; 252 NW2d 519 (1977) ("It is unquestioned that state action is required in order to assert a denial of due process under both the Michigan and United States Constitutions.")

## B. VALIDITY OF FORECLOSURE UNDER MCL 600.3204(3)

Freddie Mac argues that the circuit court erred in holding that the foreclosure was void *ab initio* because the foreclosure did not comply with MCL 600.3204(3).

MCL 600.3204(3) provides as follows:

(3) *If the party foreclosing a mortgage by advertisement is not the original mortgagee, a record chain of title shall exist prior to the date of sale under section 3216 evidencing the assignment of the mortgage to the party foreclosing the mortgage.* [Emphasis added.]

In this case, it is undisputed that the foreclosing party was not the original mortgagee. First National assigned the mortgage to ABN-AMRO, and that assignment was duly recorded. Subsequently, ABN-AMRO merged with CMI, the foreclosing entity. At issue is whether CMI was required to record its interest in defendants' mortgage under MCL 600.3204(3) when it obtained the interest pursuant to the merger.

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<sup>8</sup> Because we conclude that Freddie Mac is not a governmental entity for constitutional purposes, we need not address Freddie Mac's argument that Michigan's foreclosure by advertisement does not violate the Due Process Clause.

In *Kim v JP Morgan Chase Bank, NA*, 493 Mich 98; 825 NW2d 329 (2012), our Supreme addressed a similar issue. In that case, the plaintiffs granted a mortgage to Washington Mutual Bank (WaMu) in 2007. *Id.* at 103. In 2008, WaMu collapsed and the Federal Deposit Insurance Corporation (FDIC) was appointed receiver. *Id.* The FDIC transferred all of WaMu's assets to the defendant, JP Morgan Chase Bank, (Chase) by way of a purchase agreement. *Id.* Chase did not record an assignment evincing the transaction, meaning that WaMu was the last entity to record its interest in the plaintiffs' mortgage. *Id.* Subsequently, Chase foreclosed on the plaintiffs' property and the plaintiffs challenged the foreclosure in court, arguing, in part, that Chase failed to comply with MCL 600.3204(3) when it failed to record an assignment of the mortgage from the FDIC to Chase. *Id.* at 103-104.

At issue was whether Chase was required to record the transfer of the mortgage from the FDIC to Chase under MCL 600.3204(3). In resolving this issue, our Supreme Court noted that, under the statute, a mortgage obtained by an assignment must be recorded. *Kim*, 493 Mich at 106. In contrast, historically, mortgages obtained by operation of law did not need to be recorded. *Id.* Relying on *Miller v Clark*, 56 Mich 337; 23 NW 35 (1885), the *Kim* Court explained that "a transfer that takes place by operation law is one that occurs unintentionally, involuntarily, or through no affirmative act of the transferee." *Kim*, 493 Mich at 110, 117. The Court concluded that Chase did not acquire the plaintiffs' mortgage from the FDIC by operation of law because the transfer was effectuated through a voluntary purchase agreement, which necessitated affirmative conduct on the part of the transferee. *Id.* at 110. The Court explained as follows:

Defendant acquired WaMu's assets from the FDIC in a voluntary transaction; defendant was not forced to acquire them. Instead, defendant took the affirmative action of voluntarily paying for them. Had defendant not willingly purchased them, it would not have come into possession of plaintiffs' mortgage. WaMu's assets did not pass to defendant 'without any act of defendant's own' or 'regardless of [defendant's] actual interest. [Id. at 110-111.]

Accordingly, Chase was required to record the transaction under MCL 600.3204(3). *Id.*

In this case, like in *Kim*, CMI acquired ABN-AMRO's assets—including defendants' mortgage—in a voluntary transaction and was not forced to acquire the assets. Specifically, CMI took the affirmative action of voluntarily entering into a merger agreement with ABN-AMRO. CMI was not forced to merge with ABN-AMRO. Instead, similar to *Kim*, where Chase voluntarily signed the purchase agreement, here, CMI voluntarily signed the merger agreement. ABN-AMRO's assets did not pass to CMI without any act on the part of CMI and it cannot be said that defendants' mortgage was transferred to CMI "unintentionally, involuntarily, or through no affirmative act of [CMI.]" *Kim*, 493 Mich at 110. Therefore, CMI did not acquire the mortgage by operation of law. *Id.*

Freddie Mac argues that, unlike the transfer in *Kim*, the transfer of the mortgage from ABN-AMRO to CMI occurred pursuant to a merger and therefore CMI's interest in defendants' mortgage vested without additional action by CMI. In support of this argument, Freddie Mac references language from the following portion of *Kim*:

12 USC 1821(d)(2)(G)(i)(I) empowered the FDIC to merge [the mortgagee] with another financial institution such as defendant. Had a merger occurred *under that statutory provision*, defendant would have a strong argument that it had merely stepped into the shoes of [the mortgagee]. It would have had no need to engage in a transfer of any of [the mortgagee]’s assets. And the transaction would have occurred without any voluntary or affirmative act by defendant, given that the FDIC may, at its discretion, merge a failed bank with another institution. The transaction could have constituted a transfer by operation of law under traditional banking and corporate law.

But here, a merger did not occur . . . [instead] the FDIC relied on a different statutory provision . . . [*Id.* at 111-112 (emphasis added) (footnotes omitted).]

Contrary to Freddie Mac’s argument, this language does not support the broad proposition that all mortgages obtained pursuant to mergers in general should be considered obtained “by operation of law.” Although the Court referenced “traditional banking and corporate law,” and cited to a Michigan statute governing mergers in a footnote, the essence of the Court’s discussion focused on mergers initiated by the FDIC under 12 USC 1821. Specifically, the Court noted that, Chase would have had a strong argument that it obtained the mortgage by operation of law “[h]ad a merger occurred under [12 USC 1821].” The Court referenced a specific type of merger. It did not refer to mergers in general. This is because 12 USC 1821(d)(2)(G)(i)(I) grants the FDIC discretionary authority to merge a failed institution into another federally insured institution without any affirmative act on the part of the merged entities. As the Court explained, “the transaction would have occurred without any voluntary or affirmative act by [Chase] given that the FDIC may, at its discretion, merge a failed bank with another institution.” *Id.* “Hence, although the FDIC could have effectuated a merger in reliance on subsection (d)(2)(G)(i)(I), it explicitly chose not to do so.” *Id.* at 112.

Thus, contrary to Freddie Mac’s argument, *Kim* does not stand for the broad proposition that mortgages obtained by means of a merger are *per se* obtained by operation of law. Rather, *Kim*’s discussion of merger was limited to mergers initiated under 12 USC 1821, the statute at issue in that case. In contrast to the merger discussed in *Kim*, the merger in this case involved a voluntary transaction on the part of the transferee—CMI. As such, CMI did not acquire the mortgage by operation of law.

In sum, pursuant to *Kim*, 493 Mich at 109-110, we conclude that CMI did not acquire defendants’ mortgage by operation of law. Rather, CMI obtained an interest in the mortgage after voluntarily entering into a merger agreement with ABN-AMRO. Accordingly, the circuit court did not err in concluding that CMI was required to record the transfer under MCL 600.3204(3).<sup>9</sup> See *id.* at 113 (“[b]ecause defendant acquired plaintiffs’ mortgage through a

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<sup>9</sup> Given our conclusion that CMI acquired the mortgage through a voluntary transfer, we decline to address whether MCL 600.3204(3) applies to mortgages obtained by operation of law.

voluntary transfer, and given that it was not the original mortgage, it was subject to the recordation requirement of MCL 600.3204(3).”)

### C. DEFECT RENDERED THE FORECLOSURE VOIDABLE

After concluding that CMI failed to comply with MCL 600.3204(3), the circuit court reversed the district court’s order awarding possession of the property to Freddie Mac and dismissed Freddie Mac’s complaint. In doing so, the circuit court necessarily held that the foreclosure was void *ab initio* as opposed to merely voidable. Freddie Mac argues that the circuit court erred. We agree.

In *Kim*, 493 Mich at 115, our Supreme Court held that “defects or irregularities in a foreclosure proceeding result in a foreclosure that is voidable, not void *ab initio*.” In this regard, defects under the recording act will not render a mortgage invalid “if the defect does not harm the homeowner.” *Id.* Thus, “[t]o set aside the foreclosure sale, [the homeowner] must show that they were prejudiced by [the mortgagee’s] failure to comply with MCL 600.3204.” *Id.* “To demonstrate such prejudice, [the homeowner] must show that they would have been in a better position to preserve their interest in the property absent [the mortgagee’s] noncompliance with the statute.” *Id.* at 115-116.

Here, the circuit court erroneously held that the foreclosure was void *ab initio* rather than voidable. On appeal, defendants do not argue that they were prejudiced by the alleged foreclosure defects. Instead, according to defendants, the foreclosure violated their Fifth Amendment due process rights rendering the foreclosure void *ab initio*. Defendants argue that a due process violation necessarily amounts to prejudice. This argument is devoid of legal merit.

As discussed above, a defect in a foreclosure proceeding renders the foreclosure voidable. *Id.* To obtain relief, defendants were required to show prejudice. They failed to do so. We have already concluded that Freddie Mac is not a federal entity subject to Fifth Amendment due process claims. Therefore, defendants’ cannot prove the only prejudice that they allege—i.e. a violation of their due process rights. Accordingly, defendants were not entitled to relief and the district court properly entered an order in favor of Freddie Mac terminating defendants’ possession of the property albeit for the wrong reasons.<sup>10</sup> See *Gleason v Mich Dep’t of Trans*, 256 Mich App 1, 3; 662 NW2d 822 (2003) (“A trial court’s ruling may be upheld on appeal where the right result issued, albeit for the wrong reason.”).

### IV. CONCLUSION

In summary, we conclude that Freddie Mac is not a governmental entity for constitutional purposes and defendants’ due process claim therefore failed as a matter of law. However, because CMI obtained an interest in defendants’ mortgage through a voluntary transaction, and because CMI was not the original mortgagee, the circuit court properly held that CMI was

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<sup>10</sup> Given our resolution of this issue, we need not address Freddie Mac’s argument that defendants’ arguments were barred by the doctrine of laches.

subject to the recordation requirement under MCL 600.3204(3). Nevertheless, CMI's failure to record the transfer rendered the foreclosure voidable and because defendants did not allege that the defect amounted to prejudice, they were not entitled to any relief and the district court properly entered an order terminating defendants' possession of the property. Accordingly, we reverse the circuit court's order and remand for reinstatement of the district court's order terminating defendants' possession of the property.

Affirmed in part, reversed in part and remanded for further proceedings consistent with this opinion. Neither party having prevailed in full, neither may tax costs. MCR 7.219(A). We do not retain jurisdiction.

/s/ Stephen L. Borrello  
/s/ Deborah A. Servitto  
/s/ Jane M. Beckering