More foreclosures left in legal limbo

Experts fear banks' problems with documents could prolong housing bust

By Alan Zibel
THE ASSOCIATED PRESS

WASHINGTON — A mushrooming crisis over potential flaws in foreclosure documents is threatening to throw the real estate industry into chaos, as Bank of America on Friday became the first bank to stop taking back tens of thousands of foreclosed homes in all 50 states.

The move, along with another decision on foreclosures by PNC Financial Services Inc., adds to growing concerns that mortgage lenders have been evicting homeowners using flawed court papers, without verifying the information in them.

Charlotte-based Bank of America Corp., the nation's largest bank, said Friday it would no longer complete foreclosures in all 50 states as it reviews documents used to process foreclosures. That applies to homes that the bank takes back itself and those that it transfers to investors such as mortgage giants Fannie Mae and Freddie Mac.

A week earlier, the company had said it would only do so in the 23 states where foreclosures must be approved by a judge.

The bank did so in reaction to mounting pressure from public officials inquiring about the accuracy of foreclosure documents. A document obtained last week by the Associated Press showed a Bank of America official acknowledging in a legal proceeding that she signed thousands of foreclosure documents a month and typically didn't read them. The official, Renee Hertzler, said in a February deposition that she signed up to 8,000 such documents a month.

A company spokesman, Dan Frahm, said the bank still believes its documents are correct but wants to satisfy officials' concerns. "Our ongoing assessment shows the basis for our past foreclosure decisions is accurate," he said.

Senate Majority Leader Harry Reid, D-Nev., who had called for such a suspension, applauded the bank "for doing the right thing by suspending actions on foreclosures while this investigation runs its course." Also Friday, Sen. Christopher Dodd, D-Conn, the chairman of the Senate Banking Committee, said he would hold a hearing on the issue next month.

"American families should not have to worry about losing their homes to sloppy bureaucratic mismanagement or fraud," Dodd said. "Regulators at the federal, state, and local levels have a responsibility to uphold the law and protect consumers from unfair foreclosure, and lenders have a duty to not cut corners around the law."

Banking and housing analysts, meanwhile, fear the foreclosure document problems could prolong the housing bust, and hundreds of thousands of inevitable foreclosures will be pushed off into some legal limbo for years.

"If you are looking at the key in this country to economic stability, it's the housing industry," said banking analyst Nancy Bush of NAB Research. "This is a huge mess that helps nothing."

See LOANS on page 9A



NICK UT / The Associated Press

Thousands of people wait in line at the Los Angeles Convention Center for free mortgage help. Potential flaws in foreclosure documents are threatening to throw the process into a crisis.

LOANS

FROM PAGE 8A

And some analysts feel that uncertainty about foreclosures could make potential buyers change their mind about purchasing foreclosed properties. That's because of fears that the former owners will turn around and sue.

However, there could be a silver lining to the problem. A delay in foreclosures could actually prop up home prices in the short term because fewer low-priced homes would pour onto the market in the coming six months. When those properties ultimately do go up for sale, the overall economy could be in better shape, said Mark Zandi, chief economist at Moody's Analytics.

"The irony is, it may actually support the recovery," Zandi said. "It may be that when those properties actually hit the market, the economy is in a better place,"

Also Friday, PNC Financial Services Group Inc. said it is halting most foreclosures and evictions in 23 states for a month so it can review whether documents it submitted to courts complied with state laws. An official at the Pittsburgh-based bank confirmed the decision Friday, which was reported earlier by *The New York Times*.

PNC became the fourth major U.S. lender to halt some foreclosures. In addition to PNC and Bank of America, Ally Financial's GMAC Mortgage unit and JPMorgan Chase & Co. announced similar moves in the past two weeks.