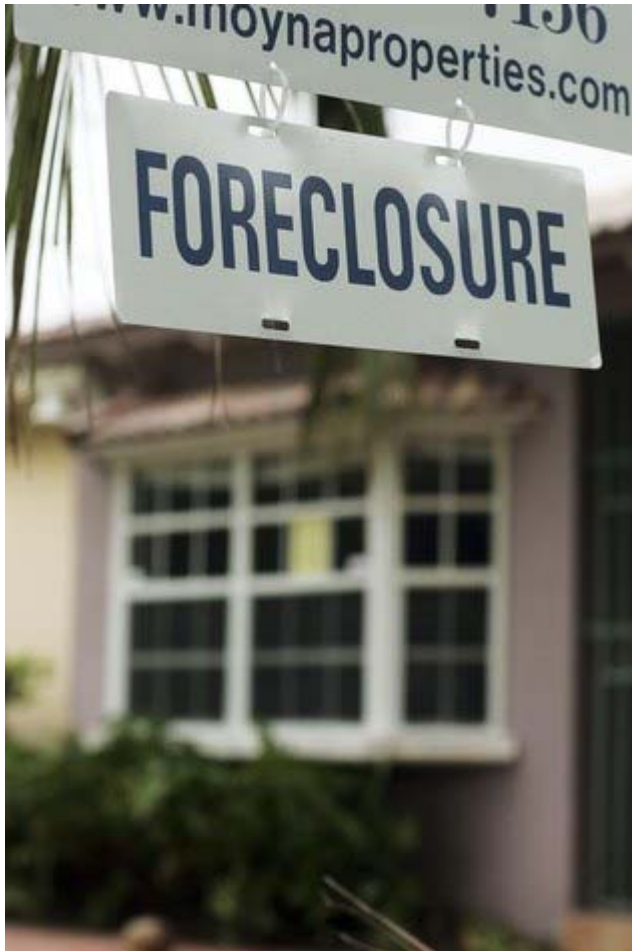


Foreclosure freeze widens as fears grow

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JOE RAEDLE/GETTY IMAGES

A foreclosure sign hangs in front of a home December 14, 2006 in Miami, Florida.

Thousands of foreclosure sales -- which have become the engine of South Florida's housing market -- have been thrown into a tailspin by jarring testimonies of bank employees who signed legal documents by the thousands without properly reviewing them.

The result: Allegations of fraud and forgery are surfacing daily, and the ramifications of banks' shoddy bookkeeping are beginning to manifest in what has become an uncharted foreclosure environment.

Banks have frozen foreclosure proceedings, title insurers are blacklisting bank-owned properties, judges are denying summary judgments and distressed homeowners are arming themselves with attorneys in attempts to delay or stave off foreclosure.

"This is going to change everything," said Shari Olefson, Fort Lauderdale attorney and author of *Foreclosure Nation: Mortgaging the American Dream*.

On Friday, Bank of America announced it would be halting all foreclosure sales nationwide, the aftermath of revelations by so-called "robo-signers."

Other lenders -- JPMorgan Chase and GMAC -- have also suspended their foreclosure operations, and some potentially tainted Fannie Mae foreclosure sales are being delayed as well. Together, these lenders own more than 3,000 properties for sale in South Florida -- more than two-thirds of the inventory.

There is mounting speculation that more lender suspensions are yet to come.

While the nation's other top residential mortgage lenders -- Wells Fargo and Citibank -- have maintained that their foreclosure processes are clean, recent depositions show more lenders may soon be facing the same allegations that have hampered other banks.

For example, at least two former Citi employees have confessed to signing thousands of mortgage documents per day, opening the lender up to "robo-signer" allegations. Some of those documents contain crucial information like the identity of the note holder, and signers have to confirm that they have personal knowledge of the case.

For now, Citibank is standing its ground.

"At this point, we have no reason to believe our employees haven't been following our procedures, so we do not believe a suspension is necessary," Citibank spokesman Mark Rodgers said in a statement.

Wells Fargo has echoed those sentiments in a statement of its own, saying that the company's "affidavit procedures and daily auditing demonstrate that our foreclosure affidavits are accurate."

MORE REVIEW

Bank of America stopped foreclosure sales and extended its review of foreclosure documents to all 50 states on Friday.

"We will stop foreclosure sales until our assessment has been satisfactorily completed," the bank said in a statement. "Obviously, they perceived the cost to proceed [with foreclosures] as being higher than the cost to not proceed," Olefson said. "And that's pretty scary because we know the cost to not proceed is huge."

Halting the foreclosure sales means the bank will continue to bear the costs of maintaining properties it has reclaimed, and won't be able to cash in on bank-owned sales, which move relatively quickly and often above asking prices.

Game-changing revelations from bank employees have piled up in the past month, and legal experts say more are likely to come as Attorney General Bill McCollum carries out a wide-sweeping investigation into shoddy foreclosure law practices.

A sworn statement from a foreclosure "mill" worker leaked this week details a stunning account of unabashed fraud at the Law Offices of David J. Stern, a Plantation-based firm that handled more than 100,000 foreclosure cases in the last two years.

Tammie Lou Kapusta, a paralegal who was fired in July 2009, told McCollum's staff that Stern's firm systematically forged signatures, back-dated documents, filed false attorney fees and ignored critical flaws in legal mortgage documents.

Jeffrey Tew, lawyer for Stern's firm, said the firm denies all of the allegations, and that Kapusta was "fired for cause," making her credibility questionable.

"That puts her in the category of a disgruntled employee," he said. "She's not an objective unbiased witness. She is out for blood."

Kapusta told McCollum's staff that she had files and e-mails to corroborate her testimony.

Because Stern's firm handled foreclosure processes for several major mortgage holders --

including GMAC and Fannie Mae -- allegations like Kapusta's could have a massive ripple effect.

For those in the market for a new home, the developments have put a black mark on the hottest sector of South Florida's housing market.

FREEZE EFFECT

Joel Flores, who has been searching for a foreclosure deal for months, said he's begun to see the effect of bank freezes.

``What I've noticed is the amount of homes [available] has decreased, mainly from GMAC and some of these other banks," he said. Flores, whose girlfriend is six months pregnant, said the banks' legal problems will likely make him miss being a homeowner before his child is born in February.

``Looks like I'll just have to rent," he said.

Real estate agents are also feeling the pinch. Bank-owned homes make up about 40 percent of sales in South Florida, and a good portion of them have been blocked for at least 30 to 90 days.

NEEDING A ROOF

Judy Zeder, an agent with Esslinger-Wooten-Maxwell Realty, said she had 18 pending such sales with Bank of America, many of them scheduled for this month. The bank-owned market has been dominated by investors, but Zeder said her buyers actually need a roof over their heads.

``Most of our buyers are people who really need housing. The reason they're buying these foreclosures is because they've been completely shut out of the market," Zeder said. ``If they're not closing, a lot of them will be very upset."

The foreclosure sales slowdown threatens to leave hundreds of local properties in a state of vacancy and abandonment for months, or even years more.

Indeed, buying a foreclosure may have just become riskier, because it's unclear how the legal battles over newly disputed title-ownership will play out.

Miami foreclosure defense attorney Dennis Donet received a letter from GMAC this week about a property that has already foreclosed and sold at auction.

It read: ``The undersigned law firm has recently been advised that the information contained in the Affidavit may not have been properly verified by the affiant."

That property sold to an undisclosed buyer in August and if the former owner challenges the foreclosures, that sale could be canceled down the road, sparking a fresh round of litigation, Donet said.

On both sides of the legal spectrum, attorneys are playing mental chess, weighing multiple

scenarios on how the courts will react.

Defense lawyers are welcoming new clients by the droves, as more homeowners seek to fight back against foreclosing banks. Judges, many of whom were brought on this year to cut down the massive backlog of foreclosure cases, will be forced to deal with even more strain on an overburdened court.

In Miami-Dade, judges were supposed to use state funds to eliminate 52,000 cases from the court's dockets by June 30, 2011.

"That deadline?" Donet said. "I think that's gone out the window."