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Mortgage foreclosure uproar sweeps up Northeast Ohioans

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Michael and Pamela Negrea have battled GMAC for most of the past decade over two payments that weren't credited to them properly years ago. They have been foreclosed on three times, even though they've never been late with a payment.

With Michelle Jarboe

CLEVELAND, Ohio -- Michael and Pamela Negrea have never been late on a mortgage payment in the 15 years they've owned their home in Eastlake. But they've been foreclosed on three times.

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Martin and Kirsten Davis, meanwhile, lost their home in Cleveland to foreclosure two years ago. The reason: a mess that started when they accidentally paid 14 cents too little on

their monthly payment.

And Michael Rendes of Berea had his mortgage sold last year to Bank of America. The bank

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foreclosed on him in November, after insisting for months that it didn't hold his loan and wouldn't accept his payments.

Tales like these portray the ugly side of the world of mortgage finance, a world embroiled in controversy amid claims of fraudulently signed foreclosure documents. As a result, many major banks have suspended foreclosures; state and federal officials are launching investigations; and experts everywhere fear this could wallop the limping economy again.

Indeed, the possibility that bank employees illegally "robo-signed" thousands of foreclosures without even reading the information shows the production-line mentality not just of foreclosures, but of the entire mortgage process. It's as simple as this: Many banks during the last decade or so have approved, closed, bought, sold and traded mortgages like baseball cards at a pace so dizzying that they couldn't keep up with their customers, payments or foreclosures.

Now, it's possible that thousands or even millions could have lost their homes in error.

Martin Davis wonders whether anyone truly read his case file before his foreclosure was approved. He refinanced his home on the Cleveland-Garfield Heights border in 2003 with People's Choice Mortgage, and the loan soon was sold to Ocwen Financial. The second month, he accidentally paid \$595 instead of \$595.14.

Ocwen imposed \$2,200 worth of fees and penalties, which Davis couldn't afford to pay and couldn't get wiped out despite countless phone calls. The home remodeler soon received a foreclosure notice and filed for bankruptcy to stall the action. He lost his home in February 2008 and is now renting a home in Parma.

"I've wondered myself whether they actually went through the paperwork," said Davis, 44. "Why should I have lost my home over 14 cents?"

"We went through so much," Davis said. "Every night we prayed that they wouldn't take our house. It was all we had."

Ocwen, as well as other banks involved in these foreclosures, would not comment about the cases.

Economy could suffer

The current halt in foreclosures could sucker-punch the economy again by clogging the real estate market and stalling the nation's ability to figure out the true value of homes.

"We had the dot.com bubble. We had Sept. 11. We had the mortgage meltdown. Now this foreclosure crisis. This may well be the biggest of them all," said Ty Young, a financial adviser and housing expert in Atlanta.

"If banks can't foreclose, they can't lend. And we may not find the bottom of the market for some time," Young said. "This could shut down our entire economy."

While Young's pessimism is more extreme than many, there's a universal feeling among experts that there will be some pain.

At real estate powerhouse Howard Hanna, employees have been busy pulling bank-owned properties off the real estate listings at the request of numerous loan holders and servicers like Chase, GMAC and Fannie Mae, said Ohio President Howard "Hoby" Hanna.

With sales of these properties stalled until December or later, some buyers who had locked in loans with low interest rates are walking away, Hanna said. Other buyers, in love with a foreclosed house, are holding on and



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




Martin Davis lost his home in Cleveland to foreclosure two years ago after mistakenly paying 14 cents too little on his monthly payment.

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hoping to ride out the delays.

Hanna worries that a halt in foreclosure sales will hurt the housing market, which could be flooded with distressed properties once the paperwork issues are resolved. "I think the slowdown may have pushed a complete national housing recovery back by six months," he said.

Others say the foreclosure mess could take months or years to resolve, delaying the sales of hundreds of thousands of homes for who knows how long and pushing values down another 20 percent or more. For sure, home values won't rise until foreclosures go from being 40 percent of sales nationally (as they've been this year) to less than 10 percent of sales.

How long recovery takes depends on how deep this scandal goes. Almost every day since the story broke a month ago, it has grown more complicated. And uglier.

It started with GMAC (now Ally) suspending foreclosures in 23 states like Ohio, where the legal i's have to be dotted before courts approve evictions and sales. That followed an admission by a GMAC employee that he signed thousands of foreclosure documents without reading them. Now the worries have prompted lenders like JPMorgan Chase, Bank of America and PNC Bank to suspend foreclosures.

Meanwhile, Chase last week announced that it would no longer use the Mortgage Electronic Registration System, a Virginia company that was virtually unknown until a couple of weeks ago. Many big banks use MERS to convert home loans into investments and trade them. There are now questions about whether MERS proceeded improperly with foreclosures.

Also last week, a coalition of attorneys general representing all 50 states launched an investigation. And there's little doubt that more lenders will voluntarily suspend foreclosures.

The moratorium may buy more time for people like the Negreas in Eastlake, who have battling GMAC for most of the past decade over two payments that weren't credited to them properly years ago when their mortgage sold from one bank to another.

GMAC didn't win the first two foreclosure cases but filed for the third time last year.

Pamella Negrea, 57, is glad the improprieties of the foreclosure system are coming to light. "It's like, 'Oh my gosh. Thank you, they finally got caught.' " [\(Read the Negreas' full story.\)](#)

Although the Negreas have never missed a payment, their case is unusual. Even consumer advocates acknowledge that most foreclosures stem from homeowners falling delinquent. But for now, much of the process is under scrutiny while companies sort out what was proper and what was not, and the ripples through the economy could be significant.

Banks are likely to tighten lending if they don't have proceeds from foreclosures and if they're worried about their ability to foreclose as easily in the future.

In addition, consumers may be squeamish about buying foreclosed homes now. Few people know it, but someone who loses a home in a court-ordered foreclosure in Ohio has up to a year to try to have the decision reversed -- even if the home has been sold to someone else.

The previous owner would have to prove there are sufficient grounds for a reversal, and fraudulently filed documents could be one of those grounds, said Stephen Bucha, chief magistrate for Cuyahoga County Common Pleas Court, which oversees foreclosures.

If the old homeowner wins, the new owner could lose the house. Bucha said that's part of the risk of buying a house at sheriff's sale. "There's a fairly slim chance of that, but there's still a real risk

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Joshua Gunter,
The Plain Dealer

A moving-sale sign still lies in the yard of Martin Davis' former home.

How Northeast Ohio banks are handling the matter

Some banks nationally are under fire for possibly falsifying foreclosure documents. Here's a look at what the largest mortgage originators in Greater Cleveland say they are doing.

Bank of America

The nation's largest bank became the first to stop sales of foreclosed homes in all 50 states while it reviews documents it used to evict homeowners and sell their homes.

it may all be undone at some point," he said.

Expect to hear more in the weeks ahead about title insurance. The industry is bracing for a flood of possible claims.

Title insurance, part of nearly every real estate transfer, protects the buyer's ownership in the property. If it turns out that the previous owner -- the bank, in the case of a foreclosure -- had done something improper to get the deed, then the insurance company might have to pay the original homeowner who was foreclosed on.

Properties deteriorating

Robert Klein, founder and chairman of Safeguard Properties in Valley View, worries about vacant homes that can't be sold right now. Safeguard inspects and maintains foreclosed properties on behalf of lenders and servicers.

With sales on hold, these vacant properties will continue to deteriorate, he said, and will be targets for vandalism, causing problems for cities and hurting property values in neighborhoods. "I think this is going to have a very, very negative impact when it comes to the communities from a blight point of view."

Scott Cohara, a Realtor with ERA Lantz Associates Inc. in Parma who primarily handles foreclosed properties in Cuyahoga and surrounding counties, said everything changed almost overnight.

"Properties that were at the closing table ready to transfer were stopped dead in their tracks" as the files are reviewed for accuracy, Cohara said. Buyers who are under contract to purchase foreclosures are worried.

Cohara has given them two options -- cancel the contract and have their earnest money returned in full, or extend the contract and wait out the process.

Among those whose foreclosure is in limbo for the moment are Michael and Carol Rendes, both 49, who bought their 1,350-square-foot home in Berea in January 2006. But the couple says the foreclosure isn't even justified.

Their loan originally was with subprime lender Argent Mortgage, then LaSalle Bank, then Wilkshire Financial. The loan was sold to Bank of America in September 2009, although the couple said they weren't initially notified. They made their September and October payments to Wilkshire.

"I had no clue. I just made my payment," Michael Rendes said. "I knew I had a mortgage." Wilkshire then told him the loan had been sold. He called Bank of America many times, but bank employees couldn't find the couple in the system. They tried using names, Social Security numbers, the parcel number, dates of birth, everything.



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Amy Sancetta, Associated Press

A foreclosure auction sign hangs on a home in Chagrin Falls.

Their two payments were cashed but apparently not forwarded to Bank of America, or at least not posted to the couple's account. In November, they received a letter that they were in default.

The couple had the money to get caught up, but they said Bank of America wouldn't take it.

"It's a nightmare," Rendes said. "I'm paying lawyers. I'm going to the Justice Center all of the time. I'm almost to the point where I want to take that house apart and tell them to

shove it."

Stories like the Rendes' are common, particularly for customers of the mega-banks.

Bucha, the Cuyahoga County chief magistrate, has seen it for years.

"How many millions of loans do some of these banks have?" Bucha asked. "All of these loans were generated at a time when it was the Wild West" -- a time when almost anyone with a heartbeat could get a mortgage and there was almost no regulation. "Anytime you have a gigantic bureaucracy like this, you're going to have mistakes."

Over the years, Bucha has seen cases where the paperwork wasn't in order and he rejected the foreclosures.

Bucha added that the robo-signing fiasco may go beyond bureaucracy and could prove to be fraudulent in some cases.

Harold Williams, managing attorney for the consumer law unit at the Legal Aid Society of Cleveland, said the assembly-line process of foreclosures has been a disaster waiting to happen.

"We've been seeing this at least for a decade or more," he said. "You see over and over that these [documents] don't have a date on them. . . . And you see the same signatures over and over."

"People who were in a position to know something about this are appearing to be shocked." He added that banks should have to prove the foreclosure information is accurate before proceeding; courts shouldn't just take their word for it now that they've already lied.

Former Federal Reserve Bank official Walker Todd said all foreclosures should be stopped nationwide until the mess is sorted out and the causes are remedied.

Much of the problem, he said, stemmed from banks being allowed to convert loans into investments, sell them in pieces and transfer them electronically at a frantic pace.

"The Fed should have called a halt to this years ago," said Todd, a former assistant general counsel at the Federal Reserve Bank of Cleveland and a research fellow at the American Institute for Economic Research in Great Barrington, Mass. "They have a systemic problem. There's a kind of disease affecting the mortgage market. They need a systemic cure."

Plain Dealer reporter Sandra Livingston contributed to this report.

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