Ally Financial legal issue with foreclosures may affect other mortgage companies

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Some of the nation's largest mortgage companies used a single document processor who said he signed off on foreclosures without having read the paperwork - an admission that may open the door for homeowners across the country to challenge foreclosure proceedings.

The legal predicament compelled Ally Financial, the nation's fourth-largest home lender, to halt evictions of homeowners in 23 states this week. Now Ally officials say hundreds of other companies, including mortgage giants Fannie Mae and Freddie Mac, may also be affected because they use Ally to service their loans.

As head of Ally's foreclosure document processing team, 41-year-old Jeffrey Stephan was required to review cases to make sure the proceedings were legally justified and the information was accurate. He was also required to sign the documents in the presence of a notary.

In a sworn deposition, he testified that he did neither.

The reason may be the sheer volume of the documents he had to hand-sign: 10,000 a month. Stephan had been at that job for five years.

How the nation's foreclosure system became reliant on the tedious work of a few corporate bureaucrats is still a matter that mortgage lenders are trying to answer. While the lenders may have had legitimate cause to foreclose, the mishandling of the paperwork has given homeowners ammunition in their fight against foreclosure and has drawn the attention of state law enforcement officials.

Ally spokesman James Olecki called the problem with the documents "an important but technical defect." He said the papers were "factually accurate" but conceded that "corrective action" may have to be taken in some cases and that others may "require court intervention."

Olecki said the company services loans "from hundreds of different lenders," but he declined to provide names.

Spokesmen for Fannie and Freddie confirmed Tuesday after inquiries from The Washington Post that they use Ally, formerly called GMAC, to oversee some mortgages. The companies have launched internal reviews to assess the scope of any potential issues.

Ally, Fannie and Freddie - all troubled mortgage companies that received extraordinary bailouts by the federal government during the financial crisis - declined to say how many loans might be affected. The Treasury Department, which owns a majority stake in Ally and seized Fannie and Freddie in 2008, also declined to comment.

Fannie and Freddie, created by Congress to finance mortgages and encourage homeownership, have in recent years been repossessing houses at record numbers. Fannie alone reported recently that 450,000 of its single-family loans were seriously delinquent or in the foreclosure process as of June 30. That's nearly 5 percent of the loans it guarantees.

Lawyers defending homeowners have accused some of the nation's largest lenders of foreclosing on families without verifying all of the information in a case, but it has been hard for them to stop foreclosure proceedings.

Ally's moratorium comprises only the 23 states - none in the Washington area - that mandate a court judgment before a lender can take possession of a property. But if Stephan signed documents related to foreclosures in states without this requirement (it's unclear whether he did), it could help a much broader range of borrowers.

Iowa Assistant Attorney General Patrick Madigan, chair of a national foreclosure prevention group composed of state attorneys general and lenders, said the fallout from the Ally review could be enormous because Stephan's actions could be considered an unfair and deceptive practice.

"If servicers are submitting court documents that aren't true or that have not been verified, that is of great concern," Madigan said.

Stephan's job at Ally was arguably one of the least enviable in the mortgage business: formally signing off on foreclosure papers that his company would submit to the courts to get approval to evict delinquent homeowners and resell their homes.

From his office in suburban Philadelphia, Stephan oversaw a team of 13 employees that brought documents to him for his signature at a rapid clip. Stephan did not respond to messages left at his work and home.

His official title was team leader of the document execution unit of Ally's foreclosure department, but consumer advocates call him the company's "super robot signor" or "affidavit slave."

In sworn depositions taken in December and June for two separate court cases involving families trying to keep their homes, Stephan revealed his shortcuts when reviewing the files. He said he would glance at the borrower's names, the debt owed and a few other numbers but would not read through all the documents as legally required. He would then sign them. The files were packed up in bulk and sent off for notarization several days later.

Stephan testified he did not know how the "summary judgment" affidavits he signed were used in judicial foreclosure cases.

At the rate Stephan was reviewing files, if he worked an eight-hour day he would have had an average of only 1.5 minutes for each document.

"A ridiculous amount of time for something so critically important," said Thomas Cox, an attorney in Maine who was one of those who deposed Stephan. He added that Maine and Florida law enforcement officials are investigating the matter.

Stephan was the only employee signing papers for foreclosures that were to be submitted to courts that did not involve bankruptcies. The latter cases, which were more complex, were handled by a separate department.

Olecki said Stephan still works for Ally but added, "We cannot comment further about his position."

While several large lenders contacted by The Post declined to talk about the document review process for foreclosures, attorneys working on behalf of homeowners said the setup at Ally was not unusual.

Christopher Immel, an attorney in Florida who deposed Stephan for a case in Palm Beach County, said he thinks Stephan was not a rogue employee but one that was performing his job responsibilities as the company told him to do.

"GMAC has a business model to do this, and Stephan was just one small part of it," Immel said. "He was under the impression it was okay to do this."

Staff researcher Julie Tate contributed to this report.