

Dubbed "[Mortgagegate](#)" - a nod to the earlier scandal-ridden crisis touched off by Watergate - this latest crisis involves such big lenders as Bank of America Corp. (NYSE: [BAC](#)), Citigroup Inc. (NYSE: [C](#)) and GMAC LLC (NYSE: [GMA](#)), which are alleged to have conducted negligent foreclosure practices.

Money Morning Contributing Editor Shah Gilani [reported last week about the allegedly fraudulent business practices employed by lenders and their hired "robo-signers"](#) that led to thousands of questionably reviewed foreclosure documents.

But Gilani warned that the headlines aren't telling the full story.

[On the surface, the problem looks like foreclosures have been conducted based on improperly processed paperwork. That is a gross understatement,](#)" wrote Gilani.

Besides failing to correctly review documents, banks and lenders also formed a company called Mortgage Electronic Registration Systems (MERS) to act as the nominee for many mortgage lenders. MERS in turn could charge a fee whenever changing the titleholder on a mortgage, collecting money that would normally go to the local government.

Now lawsuits are popping up around the country against MERS - one alleges that MERS owes California as much as \$60 billion to \$120 billion in unpaid land-recording fees.

Banks this week fought back against claims that their foreclosure processes were negligent, and ended a foreclosure moratorium in states where court appointments were not necessary.

Bank of America said Monday it would resume 100,000 foreclosures in 23 states, but said it is still reviewing cases in 27 others that don't require a judge's approval. The bank said initial "thorough" reviews had turned up no errors in processing.

But while banks contend that the early fears over Mortgagegate were overblown, consumer advocates and lawyers wonder how any bank could conduct a complete review of the documents so quickly. Many state attorneys general are skeptical about lenders' actions and the White House announced Monday that a task force would be investigating the foreclosure process, as would the Federal Housing Administration (FHA).

["We've been in discussions with some of the major servicers, and as part of that they've assured us that they are fixing this problem, but we're not just going to take their word for it,"](#) Patrick Madigan, a spokesman for Iowa Attorney General Tom Miller, told ***The Wall Street Journal***.

Lawyers claim their clients have evidence that mandatory foreclosure documents were lost or thrown out.

"This wasn't just a simple little mistake of forgetting to dot the 'i,'" Peter Ticktin, a lawyer in Deerfield Beach, Fla., told ***The New York Times***. **"There was a whole system put in place to make false affidavits.** How are they going to erect a new system to do 102,000 affidavits unless they are going to use the same old law firms to make a second generation of bad affidavits?"

While lawyers are seeking clients who might have a case against lenders, bondholders are also fighting against banks to recover losses on mortgage-bond deals with flawed paperwork, and real estate agents are watching sales fall by as much as 60% due to properties tied up in foreclosure.

"[T]he odds that a financial tsunami will result from Mortgagegate are building each day," said Gilani. "If this storm strikes with its full fury, it could be the kind of credit-crisis aftershock that undermines the tentative handhold that the U.S. recovery is so desperately clinging to."