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By Michael J. de la Merced May 14, 2012 7:47 am

The mortgage unit of Ally Financial filed for bankruptcy on Monday morning, a move aimed at removing the lender's biggest obstacle to its turnaround efforts.

The division, Residential Capital, sought Chapter 11 protection in federal court in Manhattan. In a news release, ResCap emphasized it would continue its daily operations without interruption, including servicing home loans.

ResCap has cast a long shadow over its parent company. The unit was considered a primary reason Ally failed the Federal Reserve's stress test of banks earlier this year.

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The mortgage division's long-awaited filing could lift the biggest weight from Ally, which has sought to focus on its profitable bank and auto finance operations. ResCap's filing is meant to end years of payouts, totaling billions of dollars, aimed at keeping the business afloat.

It could also allow the lender to reconsider going public, helping the federal government to shed some of its 74 percent stake. The Treasury Department injected about $17 billion into the company, previously known as GMAC, through three rounds of investments. It is still owed about $12 billion.

Timothy G. Massad, the Treasury Department's assistant secretary for financial stability, said in a statement: "While it is unfortunate that a Chapter 11 filing became necessary for ResCap, we believe that this action puts taxpayers in a stronger position to continue recovering their investment in Ally Financial."

The division will be kept afloat during its bankruptcy case by a $1.45 billion loan arranged by Barclays and a $150 million credit line from Ally.

"Since we are owned by the government, and our shareholders are American taxpayers, putting billions of dollars into a marginal business didn't make a lot of sense," Michael A. Carpenter, Ally's chief executive, told DealBook in an interview by phone.

As part of the transaction, the Fortress Investment Group will bid more than $2.4 billion for most of ResCap's assets, while Ally will bid for a $1.6 billion portfolio of mortgages. The two offers will essentially kick off a court-supervised auction of the mortgage division's assets, which could ultimately raise more than the expected $4 billion in proceeds.

In an unusual move, Ally and ResCap said they had reached a global settlement of claims between the two. Under the terms of the agreement, Ally will provide its subsidiary with $750 million in cash to help the unit pay for potential legal claims.

The pact is aimed at cutting off any argument that Ally should cover legal claims at the subsidiary. The lender is expected to contend that ResCap has long operated as an independent unit, with its own board, and that the settlement should shield it from any additional payouts.

To help smooth out the bankruptcy proceedings, ResCap has reached agreements with a group of bondholders that currently owns about $781 million of the unit's debt, as well as plaintiffs suing the business over 290 mortgage-backed securities put together by ResCap.

Ally has long identified ResCap as one of its biggest problems. The mortgage unit, formally created in 2005, became one of the biggest subprime mortgage lenders in the country and was hit especially hard by the financial crisis.

Under Mr. Carpenter, a former senior executive at Citigroup, Ally has largely rebounded by focusing on its popular online lending arm and remaining a major lender to car dealers. Last month, it reported that first-quarter net income had more than doubled, to $310 million.

Ally added on Monday that, with ResCap now in Chapter 11, it would pursue a potential sale or spinoff of its international operations, which include businesses in Canada, Europe and South America.

It is meant to generate proceeds to help pay down the firm's obligations to the federal government. Freed from obligations tied to ResCap, Ally may be free to pursue an initial public offering, a sale to a private equity firm or some other kind of transaction.

"We are committed to repaying the U.S. taxpayer," Mr. Carpenter said. He later added, "The company that remains will be a powerhouse."

ResCap's Chapter 11 Filing