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Citigroup joins the mortgage modification nation

By Lauren Beale

Citigroup, which owns about 1.5 million mortgages nationwide with a balance of about $175 billion, is stepping up its mortgage modification efforts, reports the Los Angeles Times' E. Scott Reckard.

Citigroup Inc. today plans to announce a six-month program to reach out to 500,000 high-risk mortgage customers who are current on their payments but someday may require loan modifications to stay in their homes.

The New York bank said it would focus on areas with high unemployment and where housing prices have fallen sharply, including California, Arizona, Florida, Michigan, Indiana and Ohio....

The outreach program initially will focus on Citi-owned loans. It said it was negotiating with investors to apply the program to loans it services....

The idea is to reduce the first mortgage payment to no more than 40% of a borrower's pre-tax income by first reducing interest rates, then extending the term of the loan and finally reducing the loan balance.

But critics of such loan modifications say they are fraught with risk.

"Consumers should make sure that they are getting a true loan modification and not a repayment plan," said Lou Pizante, chief executive officer of Irvine's Mavent, which markets automated compliance engine software for the mortgage industry. "Unlike a loan modification, which works like a new and more affordable loan, repayment plans reduce current payments by tacking principal and interest owed onto the back of an existing loan. Lenders can then classify the loan as performing. But the payment shock is just deferred and the borrower usually ends up ultimately owing a lot more."