

# Citigroup's Foreclosure Alternatives Can Still Hurt Your Credit: Don't Believe the Hype!

By Lynnette Khalfani-Cox on Feb 11th 2010 3:55PM

“Foreclosure Alternatives,” **the new foreclosure alternative program announced today by Citigroup**, may help cash-strapped homeowners in some regards, but it is also erroneously being touted as a way to do “less” damage to person’s credit rating. Moreover, in many ways, the new initiative will benefit Citigroup itself far more than it will their

borrowers.

Under its foreclosure alternative program, Citigroup would allow a homeowner at risk of foreclosure to stay in his or her home for six months — as long as the homeowner turns over the deed to the property. During the six-month period, the homeowner must keep the property in good condition. After that, the homeowner must move. Citigroup will provide relocation counseling and pay \$1,000 or



more in relocation expenses. Citi will also consider covering other costs too, such as taxes, insurance or homeowner association fees incurred while the homeowner remains in the house.

While these are all clearly benefits that would aid financially-troubled homeowners, Citi's new foreclosure alternative program is also being hailed as a way to help individuals and couples minimize the impact of foreclosure on their credit scores.

### **Credit Misconceptions**

An Associated Press story states: "In a normal foreclosure, a lender assumes legal control of the property and evicts the homeowner. But Citi's program, like other 'deed in lieu of foreclosure' efforts, allows the homeowner to avoid a completed foreclosure. While the owner must still leave the home after six months, the program results in a less severe hit to the borrower's credit score."

Unfortunately, the misconception that a deed in lieu of foreclosure does less damage to your credit scores than a regular foreclosure is simply not true.

According to officials from Fair Isaac, the company that created FICO credit scores, "The common alternatives to foreclosure, such as short sales and deeds-in-lieu of foreclosure are all noted as 'not paid as agreed' accounts and considered the same by your FICO score."

Information on the company's website, **myfico.com**, goes on to explain: "This is not to say that these may not be better options for you from a financial perspective, just that they will be considered no better or worse for your FICO score."

Citigroup is launching its Foreclosure Alternatives initiative in six states, including Florida, Illinois, Michigan, New Jersey, Ohio and Texas. The company says roughly 1,000 homeowners are expected to participate, though up to 20,000 borrowers may be eligible. Depending on the success of the program, it may be rolled out nationwide.

In my view, Citigroup is to be applauded for at least offering people who are on the verge of foreclosure an easier way to transition out of a home — along with some financial help and counseling in the process.

But let's be clear. Programs like Foreclosure Alternatives by Citigroup are implemented primarily because they benefit the lender — not the borrower. As I explained in my book *Your First Home, The Smart Way to Get It and Keep It*, banks loathe having loan defaults and foreclosures mainly for two reasons. The first is financial; the second is regulatory.

### **Banks Are In the Lending Business — Not the Business of Owning Property**

Banks obviously sell mortgages and earn a profit (i.e. interest) on those loans. More important, foreclosures and people

walking away from their mortgages are extremely costly for lenders. ACORN, the Association of Community Organizations for Reform Now, estimates that banks suffer an average loss of \$58,000 for every foreclosed property. This is due to the lost interest, legal fees, eviction expense and other costs a bank incurs during foreclosure – such as repairing a home, marketing it for resale and paying an agent’s sales commission. Therefore, responsible lenders know that it is definitely not financially prudent to return a home to its inventory.

Citigroup’s senior mortgage executive, Sanjiv Das, acknowledged as much, asking AP: “Why should we all go through the foreclosure process and evict people?” Avoiding foreclosure, Das said, is “less painful for our borrowers as well as for us.”

What’s more, lenders know that federal regulators frown on financial institutions with too many bad loans on their books. So they always want to keep foreclosures at a minimum.

These two reasons explain why banks are interested in preventing outright foreclosures. They also explain Citi’s motivations in launching Foreclosure Alternatives, which is directed at people at least 90 days behind on their mortgages who don’t qualify for a modification or a short sale.

I’m not saying that Citigroup isn’t also acting responsibly toward their customers, because Citi’s aid will

definitely offer homeowners some peace and security during a period of economic and personal upheaval. What I am suggesting, however, is that there is a growing awareness among lenders that they need to cut their financial losses and get more creative about tackling the nation’s growing foreclosure problem. Foreclosure Alternatives and programs like it will help lenders reach these goals.

And with an estimated three million foreclosure filings expected in 2010, according to Realtytrac, I predict that more large lenders will emulate Citigroup’s Foreclosure Alternatives program. When they do, it’s important for those facing tough economic times to consider all their options, seek out ways to more quickly bounce back from financial setbacks such as foreclosure and to recognize what these programs can and can’t offer from a financial and credit-rating standpoint.

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**Lynnette Khalfani-Cox**, an award-winning financial news journalist and former Wall Street Journal reporter for CNBC, has also been featured in top newspapers including the Washington Post, USA Today, and the New York Times, as well as magazines ranging from Essence and Redbook to Black Enterprise and Smart Money. Check out her New York Times bestseller, **‘Zero Debt: The Ultimate Guide to Financial Freedom.’**