



Citigroup, Senators in Talks to Let Judges Modify Mortgages

WASHINGTON -- [Citigroup](#) Inc. is leading other lenders in advanced talks with key senators on legislation that would allow judges to set new repayment terms for millions of mortgage holders who wind up in bankruptcy court, people involved in the talks say.

A person close to Citigroup said that it is still negotiating details of an agreement with lawmakers, and that it hasn't made a final decision to embrace the "cramdown" legislation. But the efforts mark a surprising change of direction by the financial-services industry. Banks have consistently fought such legislation. They say that cramdowns, when bankruptcy judges force lenders to modify mortgages, would raise borrowing costs for all home buyers.

"All tools to address the worsening foreclosure crisis are on the table," said Edward Yingling, president and chief executive of the American Bankers Association, the banking industry's main trade and lobbying group.

Jerry Howard, president of the National Association of Home Builders, said in an interview that his organization has reversed its years long opposition to cramdowns, as foreclosures choke the market for new homes.



"Until you stop the trickle of inventory onto the market through foreclosure, supply will increase more than it should," Mr. Howard said. "This is an about-face for our organization."

Many congressional Democrats and President-elect Barack Obama have supported changing the law, saying banks that have accepted federal aid should be doing more to help homeowners wrestling with debts they can't pay. The U.S. government last year pumped a total of \$45 billion in fresh capital into Citigroup and also agreed to shoulder hundreds of billions of dollars of potential losses on the company's risky assets.

While specifics are still being negotiated, a bill allowing court-ordered home-mortgage workouts has the potential to help several million Americans now at risk of losing their homes, its architects say.

Legislation allowing bankruptcy restructuring of individual mortgages was introduced in the House and Senate on the opening day of the new Congress Tuesday. The Senate bill was introduced by Sen. Dick Durbin (D., Ill.), the Senate's second-ranking Democrat and a close ally of Mr. Obama, and has the support of Senate Banking Committee Chairman Christopher Dodd (D., Conn.).



"The question that faces us now is this: After committing over one trillion dollars in taxpayer money to address the financial crisis, why don't we take a step that would indisputably reduce foreclosures and that would cost taxpayers nothing?" Sen. Durbin said in a statement introducing the legislation.

A measure allowing court-ordered mortgage workouts could be passed separately, or as part of Congress's coming economic-stimulus package. Senate negotiators say Citigroup's endorsement of the measure is important for bringing other big lenders on board quickly, improving the measure's chance of passing with the stimulus bill.

"We think it would be great to put this on the stimulus, and the bank support will make it all the easier to accomplish that," said Sen. Charles Schumer (D., N.Y.), who, as one of Citigroup's home-state senators and key player on the Senate Banking Committee, is brokering the talks.

The reversal by lenders reflects new political realities in Washington, and a judgment that banks may lose less in the long run by negotiating a compromise on an issue that resonates with Americans squeezed by job losses and credit problems. The proposal appears to have wide support in the new, more Democratic Congress.



For Citigroup, one of the nation's biggest mortgage lenders, the stakes are high. The bank faces tough scrutiny by the new Congress, where Democratic leaders have questioned the bank's efforts to help struggling homeowners.

The negotiations on the cramdown issue, say people involved, reflect the bank's desire to "get out in front" of the growing foreclosure problem and show Democrats its willingness to be constructive on an important issue.

Financial-industry representatives have been working with housing advocates at the Center for Responsible Lending, another key broker in the discussions.

Source: [ELIZABETH WILLIAMSON](#) and [DAVID ENRICH](#) / Wall Street Journal / *Damian Paletta contributed to this article.*