July 2009

GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-09-837, a report to congressional committees

TROUBLED ASSET RELIEF PROGRAM

Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable

Why GAO Did This Study

GAO's sixth report on the Troubled Asset Relief Program (TARP) focuses on the Department of the Treasury's (Treasury) efforts to establish its Home Affordable Modification Program (HAMP). This 60-day report examines (1) the design of HAMP's program features with respect to maximizing assistance to struggling homeowners, (2) the analytical basis for Treasury's estimate of the number of loans that are likely to be successfully modified using TARP funds under HAMP, and (3) the status of Treasury's efforts to implement operational procedures and internal controls for HAMP. For this work, GAO reviewed documentation from Treasury and its financial agents and met with officials from Treasury, its financial agents, and other organizations.

What GAO Recommends

GAO recommends that the Secretary of the Treasury; (1) consider methods for monitoring compliance with and the effectiveness of its counseling requirement; (2) reevaluate the basis and design for HPDP; (3) regularly update assumptions and projections underlying the estimated number of borrowers likely to be helped by HAMP; (4) staff vacant positions within HPO, and evaluate its staffing levels and competencies; (5) finalize a comprehensive system of internal control over HAMP; and (6) systematically assess servicer's capacity to meet HAMP's requirements during program admission. Treasury stated it would consider GAO's recommendations as it moved forward.

View GAO-09-837 or key components.
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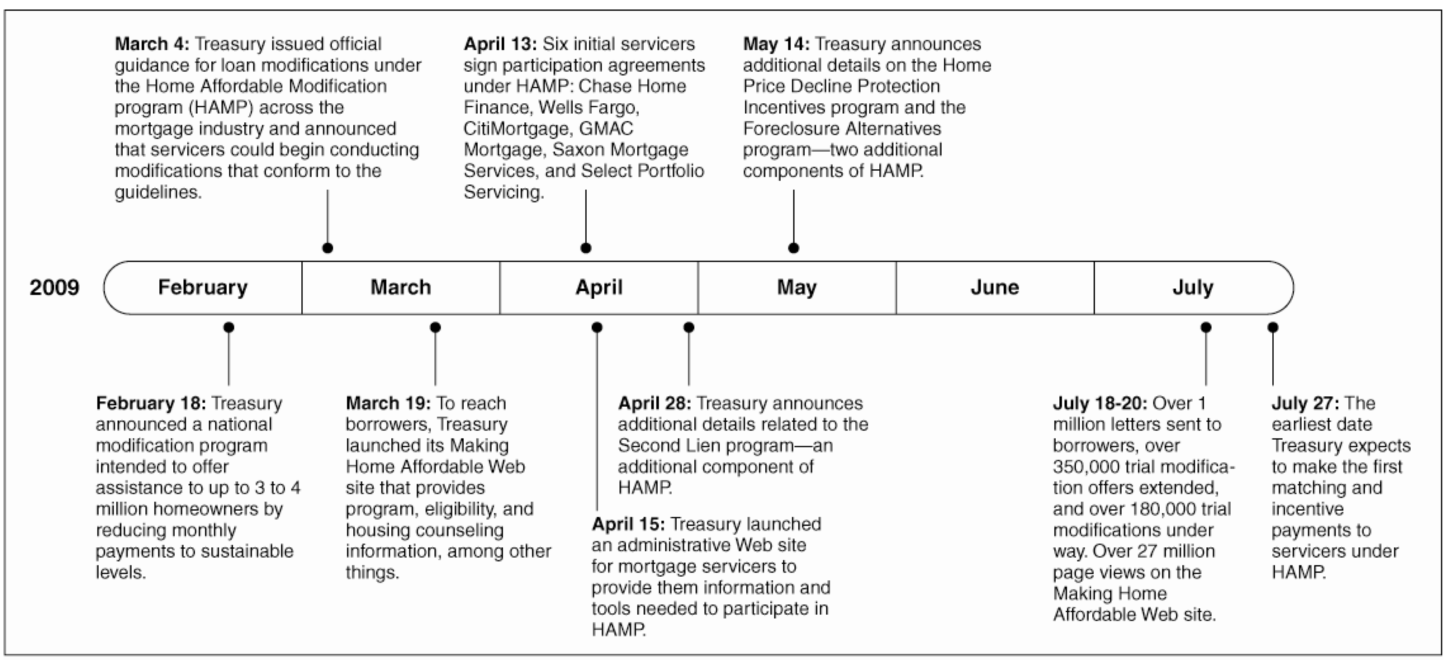
What GAO Found

Under HAMP, Treasury will use up to $50 billion in TARP funds to (1) modify the first-lien mortgages of homeowners in danger of foreclosure, (2) encourage the modification of mortgages in areas experiencing serious declines in property values, (3) reduce or pay off second-lien mortgages for homeowners with loans modified under HAMP, (4) arrange deeds-in-lieu or short sales as alternatives to foreclosure; and (5) provide incentive payments to encourage refinancing under the HOPE for Homeowners program. The first-lien mortgage modification effort is the largest and most developed part of HAMP, and Treasury and its financial agents are establishing the operational infrastructure for this effort. However, one of the requirements under the first-lien program—that borrowers with high levels of household debt agree to obtain counseling—may not fully meet Treasury's goals. Specifically, Treasury does not plan to systematically monitor whether borrowers who are told they must obtain counseling actually receive it, in part, because it does not wish to deny a loan modification to borrowers that have demonstrated they are able to make modified payments. Also Treasury does not plan to assess the effectiveness of its counseling requirement in limiting redefaults. The other four HAMP subprograms had been announced but were not fully designed or operational. Treasury announced the $10 billion Home Price Decline Protection (HPDP) program, which is intended to encourage investors to modify mortgages in areas experiencing steep declines in home prices. But, Treasury officials told us that they had not yet developed estimates of the number of modifications that would result from the HPDP, and said that in some cases, the HPDP payments would go to some loan modifications that would likely have been made without this incentive. Because none of the expenditures under HPDP would be recouped, it is crucial that Treasury ensure that funds are spent only when needed to encourage modifications that would not be made without this incentive.

Treasury's estimate of the number of borrowers who would likely be helped under its HAMP loan modification program reflects uncertainty created by data gaps and the need to make numerous assumptions, and this projection may be overstated. In addition, Treasury has not specified its plans for systematically updating key assumptions and calculations. Treasury announced that up to 3 to 4 million borrowers who were at risk of default and foreclosure could be offered a loan modification under HAMP. But Treasury's projection of a participation rate of 65 percent of the target group—borrowers who were at least 60 days delinquent in their loans or in imminent danger of default—which is based roughly on a 90 percent servicer representation rate and a 70 percent borrower response rate, may be high. The loan modification program most similar to HAMP—FDIC's IndyMac Bank program—has a peak borrower response rate of only 50 percent. Additionally, servicer participation in HAMP has not yet reached the 90 percent coverage rate projected by Treasury, and borrowers cannot participate unless their servicers do. Also, not all homeowners offered a loan modification will remain current on their modified mortgages—further reducing the number of homeowners that may avoid foreclosure through the HAMP program. Lastly, Treasury did not provide detailed information and documentation essential to adequately support its assumptions. The lack of adequate documentation and specification of the assumptions makes it difficult to assess the reliability of Treasury's estimates and, going forward, may hinder efforts to evaluate how well the program is meeting its objectives.

Treasury has taken a number of important steps toward implementing operational procedures and internal controls for HAMP but has not finalized all of the associated processes and is not systematically evaluating servicers' capacity during program admission. Treasury officials have developed and continue to refine key operational procedures and internal controls, including establishing an organizational structure for overseeing HAMP, delegating implementation authorities and responsibilities to its financial agents, and drafting work flows for processes such as those associated with the payment of incentives. As of July 20, 2009, about 180,000 borrowers have entered into trial modifications but HAMP incentive payments will not be made until July 27 at the earliest—pending successful completion of the 90-day trial periods (see timeline below of major HAMP events). While Treasury has delegated some administrative and oversight responsibilities to its financial agents, such as program administration and compliance responsibilities, it has retained authority for overall HAMP implementation, led by the Homeownership Preservation Office (HPO) with support from other Treasury offices. However, HPO continues to have a large number of unfilled positions. Treasury has also begun to develop performance measures for HAMP, but many of the specifics of these measures, such as how success will be defined, have yet to be determined. In addition, Treasury and its financial agents do not have systematic processes or controls in place to consistently evaluate the capacity of servicers to fulfill specific HAMP requirements during the program admittance process. Yet concerns have been raised by Treasury, the Congressional Oversight Panel, and federal banking regulators about servicers' capacity to fulfill program requirements and implement HAMP. Because servicers are not fully evaluated during the admittance process, Treasury is unable to adequately identify, assess, and address any potential risks that may prevent them from fulfilling program requirements. But, unlike other TARP programs, such as the Capital Purchase Program, HAMP expenditures—which are projected to be up to $50 billion—are not investments that will be partially or fully repaid, but rather, expenditures that, once made, will not be recouped. For this reason, a system of effective internal control over program expenditures is of critical importance.

Timeline of Major HAMP Events from February 18, 2009, through July 27, 2009



Source: Treasury, OFS.