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Highlights

Highlights of GAO-10-634, a report to congressional committees

June 2010

TROUBLED ASSET RELIEF PROGRAM

Further Actions Needed to Fully and Equitably Implement Foreclosure Mitigation Programs

Why GAO Did This Study

Congress created the Troubled Asset Relief Program (TARP) to, among other things, preserve homeownership and protect home values. In March 2009, the U.S. Department of the Treasury (Treasury) announced the Home Affordable Modification Program (HAMP) as its cornerstone effort to achieve these goals. This report examines (1) the extent to which HAMP servicers have treated borrowers consistently and (2) the actions that Treasury has taken to address the challenges of trial modification conversions, negative equity, redefaults, and program stability. GAO obtained information from 10 servicers that account for 71 percent of HAMP funds and spoke with Treasury, Fannie Mae, and Freddie Mac officials.

What GAO Recommends

GAO recommends that Treasury expeditiously move to establish (1) specific imminent default criteria, (2) additional guidance for servicers' quality assurance programs, (3) requirements for tracking HAMP complaints, (4) communications to inform borrowers to use the HOPE Hotline if they have incorrectly been denied HAMP, (5) consequences for noncompliance with HAMP requirements, (6) reporting of principal forgiveness activity, (7) performance measures and goals for all HAMP-funded programs, and (8) a prudent design for remaining programs. Treasury plans to provide the Congress a detailed description of the actions it has taken and intends to take regarding GAO's recommendations.

View GAO-10-634 or key components.
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What GAO Found

While one of Treasury's stated goals for HAMP was to standardize the loan modification process across the servicing industry, GAO found inconsistencies in how servicers were treating borrowers under HAMP that could lead to inequitable treatment of similarly situated borrowers. First, because Treasury did not issue guidelines for soliciting borrowers for HAMP until a year after announcing the program, servicers notified borrowers about HAMP anywhere from 31 days to more than 60 days after a delinquency. Many borrowers also complained that they did not receive timely responses to their HAMP applications and had difficulty obtaining information about the program. Treasury has recently issued guidelines on borrower communications, and plans to monitor compliance with the guidelines. Second, Treasury has emphasized the importance of reaching borrowers before they are delinquent but has not issued guidelines for determining when borrowers are in imminent danger of default. As a result, the 10 servicers that GAO contacted reported 7 different sets of criteria for determining imminent default. Third, while Treasury required servicers to have internal quality assurance procedures to ensure compliance with HAMP requirements, Treasury did not specify how loan files should be sampled for review or what the reviews should contain. As a result, some servicers did not review trial modifications or HAMP denials as part of their quality assurance procedures. Fourth, Treasury has not specified which HAMP complaints should be tracked, and several servicers track only certain types of complaints. Fifth, Treasury has not clearly informed borrowers that the HOPE Hotline can be used to raise concerns about servicers' handling of HAMP loan modifications and to challenge potentially incorrect denials, likely limiting the number of borrowers who have used the hotline for these purposes. Finally, Treasury does not have clear consequences for servicers that do not comply with program requirements, potentially leading to inconsistencies in how instances of noncompliance are handled.

In March 2010, GAO reported that Treasury faced several additional challenges as it continued to implement HAMP, including (1) converting trial modifications to permanent status, (2) addressing the growing issue of negative equity, (3) reducing redefaults among borrowers with modifications, and (4) ensuring program stability and effective management. While Treasury has taken some steps to address these challenges, it urgently needs to finalize and implement remaining program components and ensure the transparency and accountability of these efforts. First, Treasury has taken steps to increase the number of conversions to permanent modifications, but conversion rates continue to be low. As of the end of May 2010, servicers had converted only 347,000 temporary modifications (31 percent of the total eligible) to permanent status. In addition, as servicers focused on conversions, the number of new trial modifications declined. Roughly 30,000 trial modifications were started in May 2010, down from nearly 63,000 in March 2010. Second, Treasury also announced a principal forgiveness component for HAMP to assist borrowers with negative equity; however, this program will be voluntary, and Treasury will need to quickly implement reporting of when servicers consider principal forgiveness but choose not to offer it. Such reporting must provide sufficient program transparency and address potential questions of whether borrowers are treated equitably. Third, to help limit redefaults, Treasury requires that borrowers with high total debt agree to obtain counseling. In July 2009, GAO recommended that Treasury monitor and assess the effectiveness of this requirement. However, borrowers continue to have high total debt-to-income ratios (64 percent) after HAMP modifications, underscoring the importance of monitoring and assessing HAMP's counseling requirement. Finally, GAO has recommended that Treasury give high priority to staffing the office responsible for overseeing HAMP implementation and evaluating staffing levels and competencies. However, Treasury has reduced staffing levels in this office from 36 to 29 full-time positions. GAO believes that having sufficient staff is critical to Treasury's ability to design and implement HAMP-funded programs quickly and effectively. For example, Treasury has been slow to implement its previously announced programs, including its second-lien modification and foreclosure alternatives programs. Because the number of foreclosures has remained high, Treasury has announced additional HAMP components that must be prudently designed and implemented as expeditiously as possible (see table 1). These include the previously discussed principal reduction component of HAMP, a forbearance program for unemployed borrowers, a new Federal Housing Administration refinance program, and a program to fund efforts to preserve homeownership and protect home values in the 10 states hardest hit by the foreclosure crisis.

Going forward, as Treasury continues to design and implement new HAMP-funded programs, it will be important to develop sufficient capacity—including staffing resources—to plan and implement programs, establish meaningful performance measures, and make appropriate risk assessments. In particular, Treasury needs to establish performance measures and goals for all HAMP-funded programs so that Treasury officials and others can effectively assess the design and outcomes of these programs and Congress can provide effective oversight. Treasury's HAMP program is part of an unprecedented response to a particularly difficult time in our nation's mortgage markets that has left many homeowners struggling. As part of its ongoing oversight of TARP, GAO will continue to monitor Treasury's implementation and management of HAMP and other programs designed to help homeowners and their communities.

Table 1: HAMP-Funded Programs

Program	Program Description	Program Status
HAMP First-Lien Modification	First-lien loan modifications	• Announced in March 2009 • Implemented in April 2009 • 109 servicers have signed agreements • More than 1.2 million trials started—340,000 active permanent modifications, 468,000 active trials, 430,000 trial cancellations, and 6,400 permanent modification cancellations through May 2010 • $132 million disbursed in incentive payments as of May 17, 2010
HAMP Second-Lien Modification	Second-lien loan modifications for HAMP first-lien borrowers	• Announced in March 2009 • Implemented in March 2010 • 7 servicers have signed agreements • No incentive payments have been made as of May 17, 2010 • Expected cost and number of borrowers to be helped unknown
Home Affordable Foreclosure Alternatives	Incentives for short sales or deeds-in-lieu of foreclosure	• Announced in March 2009 • Implemented in April 2010 • No incentive payments have been made as of May 17, 2010 • Expected cost and number of borrowers to be helped unknown
Housing Finance Agency (HFA) Hardest-Hit Fund	Funding for state housing finance agencies in the 10 states hardest-hit by the foreclosure crisis	• Announced in February and March 2010 • Implementation date yet to be determined • $2.1 billion designated for 10 state HFAs • Expected number of borrowers to be helped unknown
HAMP Principal Reduction	Principal reduction for HAMP-eligible borrowers with high loan-to-value ratios	• Announced in March 2010 • Estimated implementation by Fall 2010 • Expected cost and number of borrowers to be helped unknown
HAMP Unemployed Borrowers	Temporary principal forbearance for unemployed borrowers	• Announced in March 2010 • Estimated implementation in July 2010 • No expected TARP funds and number of borrowers to be helped unknown
Federal Housing Administration (FHA) Refinance	Principal reduction and loan refinancing into an FHA loan	• Announced in March 2010 • Estimated implementation by Fall 2010 • $14 billion designated, but number of borrowers to be helped unknown

Source: Treasury.