

Why GAO Did This Study

Two years after the Department of the Treasury (Treasury) first made available up to \$50 billion for the Making Home Affordable (MHA) program, foreclosure rates remain at historically high levels. Treasury recently introduced several new programs intended to further help homeowners. This report examines (1) the status of three of these new programs, (2) characteristics of homeowners with first-lien modifications from the Home Affordable Modification Program (HAMP), and (3) the outcomes for borrowers who were denied or fell out of first-lien modifications. To address these questions, GAO analyzed data from Treasury and six large MHA servicers.

What GAO Recommends

GAO recommends that Treasury require servicers to advise borrowers to contact servicers about second-lien modifications and ensure that servicers demonstrate the capacity to successfully implement Treasury's new programs. GAO also recommends that Treasury consider methods to better capture outcomes for borrowers denied or canceled from HAMP first-lien modifications. Treasury acknowledged challenges faced by servicers in implementing the program, but felt that certain criticisms of MHA were unwarranted. However, we continue to believe that further action is needed to better ensure the effectiveness of these programs.

View [GAO-11-288](#) or key components. For more information, contact Mathew J. Scire` at (202) 512-8678 or sciremj@gao.gov.

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TROUBLED ASSET RELIEF PROGRAM

Treasury Continues to Face Implementation Challenges and Data Weaknesses in Its Making Home Affordable Program

What GAO Found

The implementation of Treasury's programs to reduce or eliminate second-lien mortgages, encourage the use of short sales or deeds-in-lieu, and stimulate the forgiveness of principal has been slow and limited activity has been reported to date (see table). This slow pace is attributed in part to several implementation challenges. For example, servicers told GAO that the start of the second-lien modification program had been slow due to problems with the database Treasury required them to use to identify potentially eligible loans. Additionally, borrowers may not be aware of their potential eligibility for the program. While Treasury recently revised its guidelines to allow servicers to bypass the database for certain loans, servicers could do more to alert HAMP first-lien modification borrowers about the new second-lien program. Implementation of the foreclosure alternatives program has also been slow due to program restrictions, such as the requirement that borrowers be evaluated for a first-lien modification even if they have already identified a potential buyer for a short sale. Although Treasury has recently taken action to address some of these concerns, the potential effects of its changes remain unclear.

In addition, Treasury has not fully incorporated into its new programs key lessons from its first-lien modification program. For example, it has not obtained all required documentation to demonstrate that servicers have the capacity to successfully implement the newer programs. As a result, servicers' ability to effectively offer troubled homeowners second-lien modifications, foreclosure alternatives, and principal reductions is unclear. Finally, Treasury has not implemented GAO's June 2010 recommendation that it establish goals and effective performance measures for these programs. Without performance measures and goals, Treasury will not be able to effectively assess the outcomes of these programs.

Activity Under the Second-lien, Foreclosure Alternative, and Principal Reduction Programs as of December 31, 2010

| Program | Date announced | Implementation date | Funding allocation | Reported activity as of December 31, 2010 |
|--|----------------|---------------------|----------------------|---|
| Second-lien Modification | March 2009 | March 2010 | Nearly \$133 million | \$2.9 million in incentives paid |
| Home Affordable Foreclosure Alternatives | March 2009 | April 5, 2010 | \$4.1 billion | \$9.5 million in incentives paid |
| Principal Reduction Alternative | March 2010 | October 1, 2010 | \$2.0 billion | Activity not yet reported ^a |

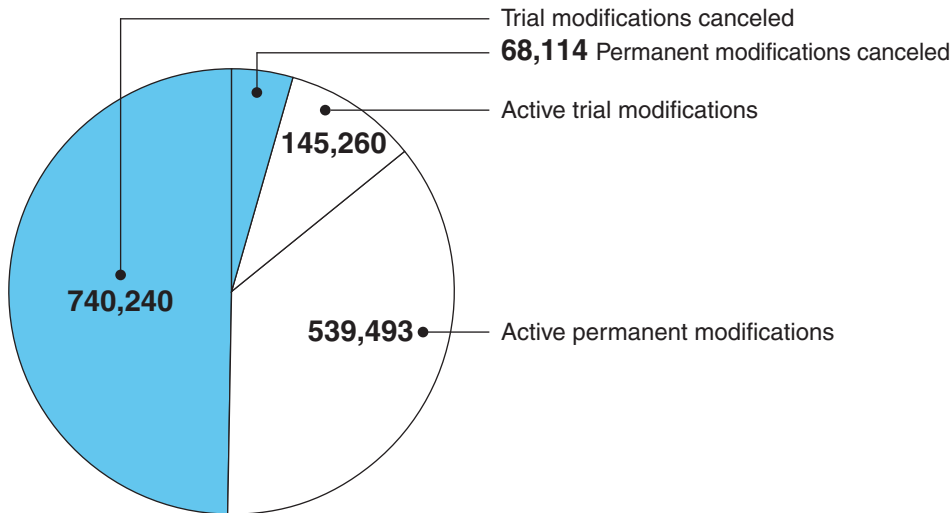
Source: Treasury.

^aPRA incentives are paid on an annual basis contingent upon successful performance of the modified mortgage during the preceding 12 months.

Treasury's data provide important insights into the characteristics of borrowers participating in the HAMP first-lien modification program, but data were sometimes missing or questionable. As shown in the figure, more homeowners have been denied or canceled from HAMP trial loan modifications than have received permanent modifications. To understand which borrowers HAMP has been able to help, GAO looked at Treasury's data on borrowers in HAMP trial and permanent modifications. These data showed that HAMP borrowers had reduced income and high debt, but the reliability and integrity of some of Treasury's information was questionable. For example, Treasury's data on borrowers' loan-to-value ratios at the time of modification ranged from 0 to 999, with 1 percent of TARP-funded active permanent modifications reporting ratios over 400 percent. In addition, race and ethnicity data were not available for a significant portion of borrowers. Treasury said that it was refining and strengthening data quality checks and that the data have improved and will continue to improve over time. Treasury's success in improving the quality and completeness of HAMP data will be critical to its ability to evaluate program results and achieve the goals of preserving homeownership and protecting home values.

While it appears that most borrowers who were denied or canceled from HAMP first-lien trial modifications have been able to avoid foreclosure to date, weaknesses in how Treasury requires servicers to report data make it difficult to understand what ultimately happens to these borrowers. First, Treasury's system for reporting outcomes requires servicers to place borrowers in only one category, even when borrowers are being evaluated for several possible outcomes, with proprietary modifications reported first. As a result, the proportion of borrowers reported receiving proprietary modifications is likely to be overstated relative to other possible outcomes, such as foreclosure starts. Further, Treasury does not require servicers to distinguish between completed and pending actions, so that some reported outcomes may not be clear. Without more accurate information on the outcomes of borrowers who are denied HAMP modifications, have them canceled, or redefault, Treasury's ability to determine whether further action is needed to assist struggling homeowners is diminished.

Number of Active and Canceled Trial and Permanent Modifications through January 2011



Source: Treasury.