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United States Government Accountability Office
Washington, DC 20548

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Congressional Committees

Subject: *TROUBLED ASSET RELIEF PROGRAM: Results of Housing Counselors Survey on Borrowers' Experiences with the Home Affordable Modification Program*

To restore stability and liquidity to the financial system, Congress established the $700 billion Troubled Asset Relief Program (TARP) and directed the Department of the Treasury (Treasury) to use the authorities granted under TARP to, among other things, preserve homeownership and protect home values.[1] In February 2009, Treasury announced that up to $50 billion in TARP funds had been allocated to help struggling homeowners avoid potential foreclosure. However, the number of borrowers facing potential foreclosure has remained at historically high levels. In fact, in the first 2 years of the TARP-funded Home Affordable Modification Program (HAMP), more borrowers were denied or canceled from trial loan modifications than were given permanent modifications.[2] In three prior reports, we looked at the implementation of HAMP and made several recommendations that were intended to address the challenges that Treasury faced in implementing the program.[3]

To better understand the experience of borrowers seeking HAMP modifications, we conducted a Web-based survey of housing counselors through the National

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[1]Pub. L. No. 110-343, 122 Stat. 3765 (2008), codified at 12 U.S.C. §§ 5201 et seq. The Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, Div. A, 123 Stat. 1632 (2009), amended the act to reduce the maximum allowable amount of outstanding troubled assets under the act by almost $1.3 billion, from $700 billion to $698.741 billion. The Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010) (1) reduced Treasury's authority to purchase or insure troubled assets to a maximum of $475 billion and (2) prohibited Treasury, under the Emergency Economic Stabilization Act, from incurring any additional obligations for programs or initiatives that had not been introduced before June 25, 2010.

[2]The Home Affordable Modification Program is the key component under Treasury's Making Home Affordable (MHA) program.

[3]GAO is required to report at least every 60 days on findings resulting from, among other things, oversight of TARP's performance in meeting the purposes of the act, the financial condition and internal controls of TARP, the characteristics of both asset purchases and the disposition of assets acquired, the efficiency of TARP's operations in using appropriated funds and TARP's compliance with applicable laws and regulations. 12 U.S.C. § 5226(a). Under this statutory mandate, we have issued three reports on Treasury's use of TARP funds to preserve homeownership and protect home values. See GAO, *Troubled Asset Relief Program: Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable*, GAO-09-837 (Washington, D.C: July 23, 2009); *Troubled Asset Relief Program: Further Actions Needed to Fully and Equitable Implement Foreclosure Mitigation Programs*, GAO-10-634 (Washington, D.C.: June 24, 2010); and *Troubled Asset Relief Program: Treasury Continues to Face Implementation Challenges and Data Weaknesses in Its Making Home Affordable Program*, GAO-11-288 (Washington, D.C.: Mar. 17, 2011).

Foreclosure Mitigation Counseling Program (NFMC) to obtain the counselors' perspectives of borrowers' experiences with HAMP.[4] NFMC is administered by NeighborWorks America and funds approximately 130 grantees and 1,700 subgrantees to conduct foreclosure mitigation counseling. We reported on some of the survey's findings in our March 2011 report but expand on them in this correspondence.[5] The survey was designed to obtain information on (1) borrowers' overall experiences with HAMP, (2) HAMP trial modification denials, (3) HAMP trial modifications, (4) the HAMP Solution Center, (5) ways Treasury could improve HAMP, and (6) proprietary (non-HAMP) modifications. This correspondence summarizes the results of each of the six survey segments. The survey and a more complete tabulation of the results from 396 counselors can be viewed at GAO-11-368SP.

Survey Methodology

We conducted a Web-based survey of housing counselors who worked for a network of approximately 130 non-profit housing agencies that receive funding through NFMC. Although NFMC counselors are not the only counselors that work with borrowers seeking HAMP modifications, it is one of the largest federally-funded networks of counselors who conduct foreclosure mitigation counseling. Because there was no readily reliable database of borrowers who had sought HAMP modifications, we surveyed housing counselors as a proxy for borrowers. We asked the counselors to report on their experiences between June 1, 2010, and the time of the survey (October 21 through November 5, 2010). We received over 500 responses out of an estimated 3,500 counselors who could have potentially responded. To identify experienced counselors who had direct experience with HAMP matters, we asked screening questions early in the survey to ensure that respondents had at least 3 months of foreclosure counseling experience and had counseled at least five borrowers on HAMP. Just over 500 counselors went to our Web site and began the survey. After removing 109 surveys from counselors who lacked sufficient experience or who had not finished the surveys, we had 396 completed counselor surveys for analysis.

Because NeighborWorks could not provide the exact number of counselors who could have responded to the survey, and because the extent to which all NFMC counselors are involved in HAMP counseling is not known, we could not calculate a precise response rate.[6] However, because we are reporting on the results from only 396 counselors who self-selected to participate out of an estimated potential pool of over 3,500 counselors, we looked for similarities between the respondents and information that NeighborWorks provided on NFMC counselors and the borrowers

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[4]NeighborWorks America was established under Title VI of the Housing and Community Development Amendments of 1978, Pub. L. No. 95-557, 92 Stat. 2080, 2115 (1978) as a congressionally chartered nonprofit organization dedicated to improving distressed communities.

[5]GAO-11-288.

[6]The survey was conducted through an online member site for NFMC counselors, which is maintained by NFMC. According to NeighborWorks, at the time of the survey there were 4,864 registered subscribers on the site. While the majority of subscribers were counselors, subscribers also included others such as counseling program administrators and Treasury and other agency staff. NeighborWorks estimated that about 25 percent of subscribers were non-counselors.

they serve. For example, we compared the geographic distribution of counselors responding to our survey to information provided by NeighborWorks on the geographic distribution of borrower served by NeighborWorks counselors and found that the distribution was roughly similar.[7] In addition, the experiences of borrowers who contact counselors might not necessarily be representative of all borrowers who attempt to obtain a HAMP first-lien modification because many borrowers will contact their servicers directly and may never utilize the services of an NFMC counselor or any other counselor. Also, borrowers seeking the help of counselors may be more likely to have questions or concerns about the HAMP program than borrowers who do not seek such help. As a result, these results cannot be generalized to the experience of all borrowers seeking HAMP modifications. However, the data provide insights into the experiences of counselors and the borrowers they have worked with regarding the HAMP first-lien program as of the time of the survey.

We conducted this performance audit from July 2010 through May 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Background

HAMP first-lien mortgage modifications are available to qualified borrowers who occupy their properties as their primary residence, took out their loans on or before January 1, 2009, and have a first-lien mortgage payment of more than 31 percent of their gross monthly income (calculated using their front-end debt-to-income [DTI] ratio).[8] Eligible borrowers must first complete a 90-day trial modification period before receiving a permanent modification. During the trial period, borrowers must make all of their modified payments in full and on time in order to be eligible for conversion to a permanent modification.

Borrowers seeking a HAMP loan modification work directly with their loan servicers but can also seek the assistance of a housing counselor at any point during the application process. Housing counselors can help borrowers determine whether they may be eligible for HAMP and answer questions about the program. In addition, counselors can submit borrowers' HAMP applications to servicers and help submit

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[7]The geographic coverage for counselors responding to our survey was nearly the same as the distribution of NeighborWorks borrowers' served in six of nine U.S. Census Divisions. Counselors from the South Atlantic Division states and Pacific Division states counselor were slightly less well-represented in our survey when compared to borrowers counseled in these states, while counselors from the Mountain Division states were slightly overrepresented. We compared the distribution of counselors responding to our survey with the overall population of borrowers served by NeighborWorks counselors as a proxy because NeighborWorks could not provide a precise number of counselors or their geographic locations.

[8]The front-end DTI ratio used for the HAMP program is the percentage of a borrower's gross monthly income required to pay the borrower's monthly housing expenses which include mortgage principal, interest, taxes, insurance, and if applicable, condominium, co-operative, or homeowners' association dues.

complaints to servicers or Treasury. For instance, borrowers may seek help on the process for submitting a complaint if they feel they were wrongly denied a HAMP modification. Finally, HAMP requirements stipulate that borrowers obtain counseling if the monthly payments on their total debt are more than 55 percent of their gross monthly income.

On its HAMP Web site, Treasury refers borrowers to the Homeowners HOPE Hotline as a resource to help them understand their options and obtain a referral to counseling agencies approved by the Department of Housing and Urban Development.[9] These include counseling agencies funded by NeighborWorks America. Counselors in the NeighborWorks America network provide both in-person and telephone counseling and are located nationwide. Treasury has provided some guidance and assistance for intermediaries, including counselors, in working with borrowers who are seeking HAMP modifications and has established the HAMP Solution Center for housing counselors to call with borrower complaints. The HAMP Solution Center is operated by Fannie Mae, the Making Home Affordable (MHA) program administrator, and assists counselors primarily by serving as a liaison with servicers.

Borrowers' Overall Experiences with HAMP

Borrowers can contact counselors for a number of reasons. They may have simple questions about their options if they are experiencing financial difficulties, or they may need assistance contacting servicers about obtaining a HAMP first-lien modification or some other type of foreclosure mitigation assistance. Our questionnaire asked housing counselors to list the three most common reasons borrowers contacted them about HAMP.[10] The most frequently cited reasons were:

- lost documentation (59 percent)—servicer claims to have lost HAMP application documentation;
- long trial periods (54 percent)—borrower has been in a HAMP trial modification for more than 3 months;
- wrongful denials (42 percent)—borrower feels he or she was wrongly denied a HAMP modification;
- difficulty contacting servicer (37 percent)—borrower is having difficulty contacting the servicer; and
- questions about HAMP (32 percent)—borrower has questions about the program or application.

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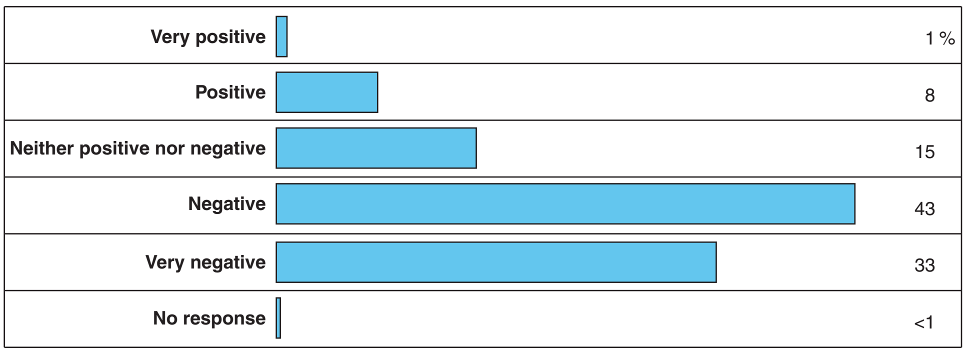
[9]The Homeowners HOPE Hotline is operated by the Homeownership Preservation Foundation (HPF)—an independent national nonprofit that focuses on helping distressed homeowners navigate financial challenges, avoid mortgage foreclosure, and find the path to sustainable homeownership.

[10]Several times in the survey, counselors were asked to select and rank the first, second, and third most frequent or important response. These three high-ranked items were counted for each counselor and summed across all counselors, then divided by the total number of counselors responding to the question to determine the percentages reported.

Consistent with the frequency with which counselors reported that borrowers had contacted them because of concerns they had with the HAMP process, roughly 76 percent of the 394 counselors responding to this question characterized borrowers' overall experiences with HAMP—from the time they first inquired to the point at which they received a decision—as "negative" or "very negative."[11] In contrast, less than 9 percent of counselors described borrowers' overall experience with HAMP as "positive" or "very positive" (fig. 1). Roughly 40 percent of the 312 counselors that provided written comments on their experiences with HAMP said that they had experienced difficulties working with servicers—for example, receiving inconsistent or confusing information or speaking to a different representative each time they called the servicer.

Figure 1: Counselors' Views of Borrowers' Overall Experiences with HAMP, from June 1 to November 5, 2010



Source: GAO Survey of Housing Counselors.

Note: Percentages may not sum to 100 percent due to rounding. We asked counselors to report on their experiences from June 1, 2010, to the time of the survey, which was administered from October 21, 2010, through November 5, 2010.

Roughly 39 percent of the 312 respondents who provided written comments said that borrowers' overall negative experiences were related to documentation issues with servicers that said paperwork had been lost or needed to be resubmitted.[12] In addition, roughly 30 percent of the 312 counselors who provided written comments on their experiences with HAMP cited the lengthy decision-making processes when asked to explain their ratings of borrowers' overall experience with HAMP.

[11]Some counselors did not respond to each question. Thus, we report the number of responding counselors (N=XXX) when it is other than the total of 396.

[12]According to NeighborWorks representatives, the HOPE Loan Port may improve the problem of lost documentation and shorten the decision-making process. The HOPE Loan Port is a Web-based portal developed by the HOPE Now alliance of loan servicers to streamline the collection of loan modification applications, including HAMP applications. Through March 29, 2011, over 18,000 applications had been submitted through the HOPE Loan Port with most of the activity occurring after the survey was administered. Borrowers working through counselors can upload and directly submit their applications to their servicers. NeighborWorks officials told us that because the system did not allow incomplete documentation to be submitted and all documents had to be submitted together, the portal had largely resolved the problem of lost documentation for the counselors who had used it.

HAMP Denials of Trial Modifications

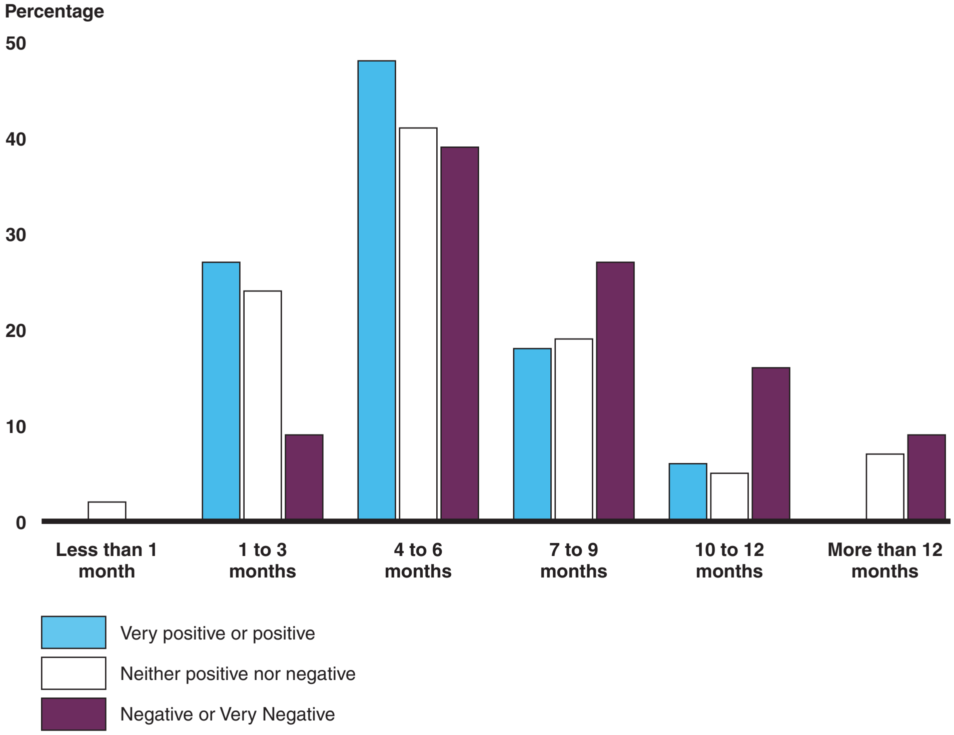
Many counselors responding to our survey cited concerns about HAMP trial modification denials, including long waiting periods and denials resulting from miscalculations of borrowers' income.

Long Decision Periods Cited

According to Treasury's HAMP guidelines, servicers are required to notify borrowers that they have been approved for or denied a trial modification within 30 days of receiving a *complete* HAMP application package. However, over 86 percent of counselors who responded to our survey said that it typically took 4 months or more for borrowers to receive a decision about a HAMP trial modification from the time the borrower requested it. Nearly 46 percent of the counselors said that the process typically took 7 months or more. When asked to identify the three principal reasons for such delays, over 80 percent of counselors ranked banks' requests for updated financial information as one of the three primary reasons. According to HAMP guidelines, income documentation must be no more than 90-days old when servicers receive it. In addition, roughly 73 percent of counselors cited servicers losing documentation as one of the three primary reasons for long decision periods.

As shown in figure 2, we further explored the association between counselors' reporting on the length of the decision process and their rating of borrowers' overall HAMP experiences and found that counselors who reported negative borrower experiences also reported lengthy decision times for HAMP trial modifications. For example, more than half of counselors who rated borrowers' overall experiences as "very positive" or "positive" also reported decision times for trial modifications of 6 months of less. Twenty-seven percent reported decision periods of 1 to 3 months and 48 percent reported decision periods of 4 to 6 months. In contrast, over half of counselors who reported "very negative" or "negative" borrower experiences reported decision times for trial modifications of 7 months or more. Twenty-seven percent reported decision periods of 7 to 9 months, 16 percent reported decision periods of 10 to 12 months, and 9 percent reported decision periods of more than 12 months.

Figure 2: Counselors' Responses on Length of Decision Process about HAMP Trial Modifications and Overall Borrower Experiences, from June 1 to November 5, 2010



Source: GAO Survey of Housing Counselors.

Note: Percentages may not sum to 100 due to rounding. We asked counselors to report on their experiences from June 1, 2010, to the time of the survey, which was administered from October 21, 2010, through November 5, 2010.

Miscalculation of Income Issues Identified

Counselors expressed concerns about potential miscalculations of borrowers' income that resulted in denials for HAMP trial modifications. As of September 30, 2010, around the time we administered the survey, roughly 974,000 borrowers had been denied or had not accepted HAMP trial modifications, compared with roughly 496,000 borrowers who had received permanent HAMP modifications. According to Treasury, borrowers were often denied HAMP trial modifications because their total monthly housing payments were already below 31 percent of their gross monthly income. When asked how often borrowers they had worked with were denied for this reason, roughly 60 percent of the counselors responding to this question said "often" or "sometimes." Of these 60 percent, over half of the counselors (53 percent) said that a substantial number of these denials were related to servicers' miscalculations of borrowers' gross monthly income. When asked to list the three reasons for their concern about income miscalculations, these counselors cited miscalculating self-employment income (61 percent), using the income of one or more nonborrower (not a cosigner) in the income calculation (60 percent), and including income from unemployment and other benefit programs (59 percent).[13] Straightforward miscalculations of annual income (e.g., confusing biweekly, semi-monthly, and weekly pay) were also cited as a concern (53 percent).

Trial Modifications

Counselors Reported Long HAMP Trial Periods

HAMP guidelines require that borrowers successfully complete a 90-day trial period, during which they make all the required payments on time before they can become eligible for conversion to a permanent modification. However, as of September 30, 2010—around the time of our survey— 76,500 active trials (44 percent of all active trials) had been in place for 6 months or more. Nearly all of the counselors we surveyed (96 percent) said trial periods typically lasted longer than 3 months, and 50 percent of these counselors said that trial periods typically lasted 7 months or more. When asked the primary reason that trial modifications lasted longer than 3 months, over 43 percent of counselors said that they did not know, because the servicer did not disclose the reasons. Nearly 30 percent said that the servicer informed the borrower or counselor that it had a backlog of HAMP applications, suggesting that the servicer did not have the capacity to handle the volume of HAMP applications. According to Treasury's monthly Servicer Performance Reports, the number of trial modifications that have lasted 6 months or more has improved in recent months. As of the end of March 2011, roughly 26,400 active trials (about 19 percent of all active trials) had been initiated at least 6 months earlier—a marked decrease from the 44 percent that Treasury reported in September 2010.

Counselors Cited Documentation Issues as a Factor in Canceling Trial Modifications

Treasury has reported that one of the most common reasons for canceling trial modifications is insufficient documentation. However, Treasury indicated that it was unable to determine whether borrowers had not submitted the required documentation or servicers had lost or misplaced it. According to 96 percent of the counselors we surveyed, "servicer continues to request borrower's updated financial documentation" was one of the three principal challenges borrowers faced in providing the required documentation. In addition, over 78 percent of the counselors ranked "servicer lost the borrower's documentation" as one of the three highest challenges (fig. 3).

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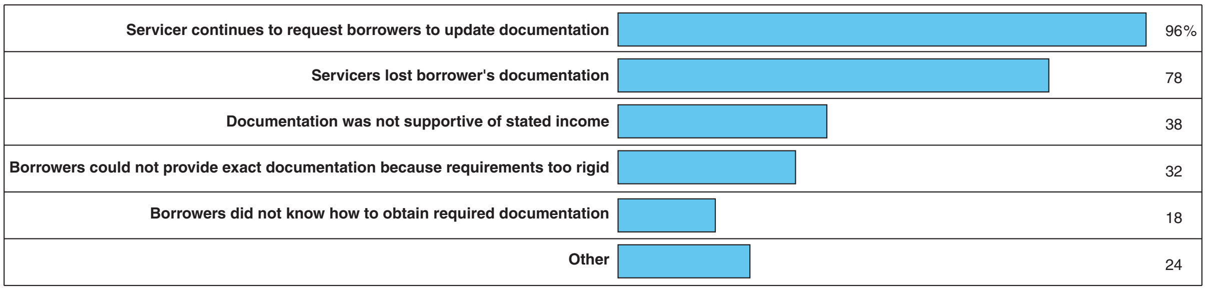
[13] According to HAMP guidelines, servicers should include nonborrower household income in monthly gross income if it is voluntarily provided by the borrower and if there is documentary evidence that the income has been, and reasonably can continue to be, relied upon to support the mortgage payment. In addition, Treasury's initial HAMP guidelines indicate that servicers should include unemployment and other benefits in the calculation of borrowers' monthly gross income. Beginning August 1, 2011, servicers have been required to evaluate unemployed borrowers for the Home Affordable Unemployment Program first and are not to include unemployment benefits in their evaluations for HAMP.

Figure 3: Principal Challenges Reported by Counselors for Borrowers in Providing Required HAMP Documentation, from June 1 to November 5, 2010



Source: GAO Survey of Housing Counselors.

Note: Percentages sum to over 100 because counselors were allowed to choose three options. We asked counselors to report on their experiences from June 1, 2010, to the time of the survey, which was administered from October 21, 2010, through November 5, 2010.

HAMP Solution Center

Borrowers can submit complaints about HAMP to the HOPE Hotline, and complaints that cannot be resolved at this level can be escalated to the HAMP Solution Center.[14] The HAMP Solution Center also handles escalated complaints received from housing counselors, government offices, and other third parties acting on behalf of borrowers.[15] According to Treasury, roughly 21,000 complaints had been escalated to the HAMP Solution Center as of February 2011, with roughly a quarter of these submitted by housing counselors. Treasury officials told us that of these escalated complaints, roughly 17,000 had been resolved, with 32 percent of the resolved cases resulting in a permanent HAMP modification, consideration for a HAMP trial modification, or the initiation of a trial modification. Among the 206 counselors who had referred at least one complaint to the HAMP Solution Center since June 1, 2010, roughly 42 percent said that the center had been "ineffective" or "very ineffective" in resolving it. An additional 26 percent said the HAMP Solution Center was "neither effective nor ineffective" at resolving these complaints, and 26 percent said it was "effective" or "very effective." When asked to provide a brief explanation for their ratings of the center, 89 counselors provided comments. Roughly 25 percent of this group of counselors cited responses related to negative experiences with HAMP Solution Center agents, such as not hearing back or taking too long to respond. In addition, roughly 20 percent of counselors said that HAMP Solution Center staff do not have authority to resolve complaints.

In November 2010, Treasury issued new program guidelines that aimed to strengthen the HAMP complaint process, including the HAMP Solution Center. The guidelines went into effect as of February 1, 2011, and require servicers to maintain more

[14]In addition to helping borrowers obtain preliminary information about their eligibility for MHA programs, including HAMP, the HOPE Hotline connects borrowers with detailed denial questions or complaints to MHA Help, a team of housing counselors that work with borrowers and servicers to resolve escalated cases and complaints.

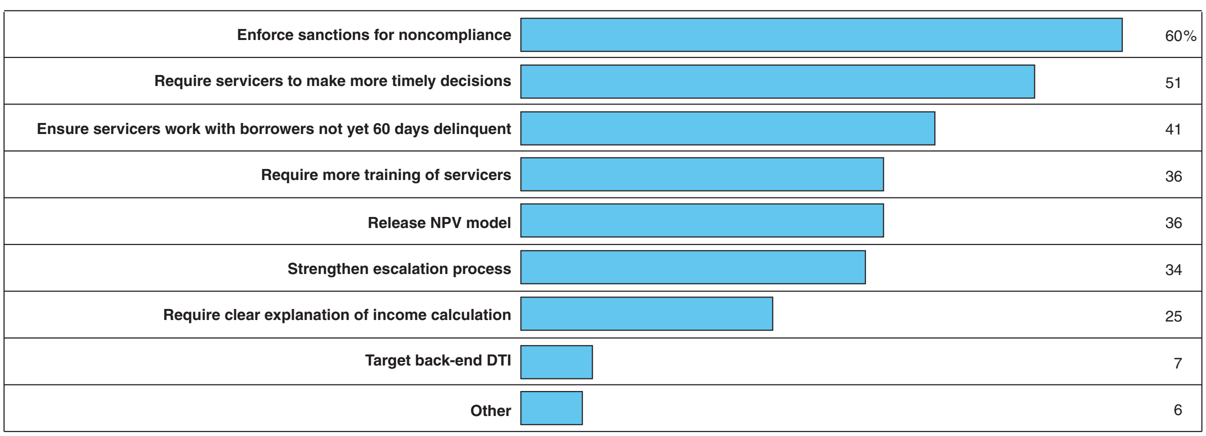
[15]The HAMP Solution Center does not handle complaints regarding Fannie Mae and Freddie Mac loans. Each of these two government-sponsored enterprises has established special teams internally to handle escalated complaints.

comprehensive documentation on cases brought to them by the HAMP Solution Center and to regularly update HAMP Solution Center staff on the status of complaints. In addition, the guidelines allow HAMP Solution Center staff to either concur or disagree with a servicer's claim that a case has been resolved. The servicer may also not consider the case resolved until the Solution Center staff agrees with the proposed resolution. Written evidence of the Solution Center's concurrence must be retained in the servicing file.

Ways Treasury Could Improve HAMP

We asked housing counselors to rank the three actions Treasury could take to improve the rate of successful modifications. We provided various options that we had identified based on our prior work and relevant research and asked counselors to identify any additional options. As shown in figure 4, counselors most often said that Treasury should enforce sanctions on servicers that did not comply with HAMP guidelines (60 percent). In June 2010, we reported that Treasury had not yet clearly stated the consequences of noncompliance with HAMP and recommended that Treasury expeditiously finalize them. Treasury told us that it had asked servicers to rectify issues associated with noncompliance and in some cases had withheld financial incentives but had not yet finalized consequences for noncompliance. Counselors also cited the need for Treasury to require servicers to make more timely decisions (51 percent) and to ensure that servicers worked with borrowers who were not yet 60 days delinquent (41 percent).

Figure 4: Counselors Views on Actions Treasury Could Take to Improve HAMP, from June 1 to November 5, 2010



Source: GAO Survey of Housing Counselors.

Note: Percentages sum to over 100 because counselors were allowed to choose three options. We asked counselors to report on their experiences from June 1, 2010, to the time of the survey, which was administered from October 21, 2010, through November 5, 2010.

According to Treasury officials, the agency has taken recent actions to address some of these concerns. For example, the guidelines that it implemented in February 2011 are intended to strengthen the complaint escalation process. In addition, the officials noted that effective May 1, 2011, servicers would be required to develop and adhere to a written policy describing the basis for determining a borrower's monthly gross income. Treasury officials also told us that as a continuation of its ongoing compliance activities, which evaluate servicer performance against MHA program guidelines, Treasury is developing and will release compliance assessments for each of the 10 largest MHA servicers. Treasury officials said that these assessments, which would summarize the performance evaluations of each of those 10 servicers' compliance with MHA requirements, were intended to make servicers' performance more transparent to the public.

Proprietary Modifications

As we noted in our March 2011 report, borrowers who are not helped by HAMP may be helped by non-HAMP, or proprietary modifications, which may offer greater flexibility.[16] Specifically, servicers told us that their proprietary modifications had fewer documentation requirements, fewer eligibility requirements, and more flexibility around the DTI threshold. To better understand the characteristics of proprietary modifications, we asked about the terms and characteristics of the modifications the counselors considered effective. Sixty-four percent of housing counselors who responded to our survey noted that effective proprietary modifications differed from HAMP modifications in that they assisted borrowers with front-end DTI ratios below 31 percent. In addition, 58 percent of counselors noted that, unlike HAMP, effective proprietary modifications also had targets for acceptable total debt levels.

The survey results are consistent with our earlier findings. Specifically, we previously reported that servicers were not consistent in their treatment of borrowers and that Treasury had not done enough to hold servicers accountable for their performance. Among other things, we recommended that Treasury finalize and issue consequences for servicer noncompliance with HAMP requirements and finalize and implement benchmarks for performance measures under the first-lien modification program. Fully implementing these recommendations will help Treasury ensure that borrowers are treated consistently and that servicers are held accountable for their performance. We will continue to monitor Treasury's implementation of our prior recommendations for providing greater accountability and transparency for HAMP.

Agency Comments and Our Evaluation

We provided a draft of this report to Treasury for its review and comment, and we received written comments from the Acting Assistant Secretary for Financial Stability, which are reprinted in enclosure I. We also received technical comments from Treasury, which were incorporated into the report as appropriate. In its written comments, Treasury stated that the survey results shed light on a group of counselors' perceptions of the experiences some borrowers have had with HAMP, including the HAMP Solution Center. However, Treasury also pointed out that the survey was conducted in October 2010 and asked respondents about experiences dating back to June 2010 and noted that a 7- to 12-month lag in data could significantly affect the applicability of the results. But Treasury noted that many of the concerns raised—for instance about lost documentation—were still issues and agreed with many of the specific actions identified in the survey for improving HAMP.

[16] GAO-11-288.

Treasury noted in its comment letter that improvements had been made to HAMP since the time of the survey. Specifically, the backlog of trial modifications lasting 6 months or longer had improved, as was noted in the draft report. Treasury also noted that since June 2010 servicers have been required to verify borrowers' income prior to offering a trial modification, resulting in a substantial decrease in the length of trial modifications. While the survey asked counselors to report on their experiences since June 2010, Treasury notes that many of the responses related to the length of trial modifications were likely based on trial periods started in previous months. In addition, Treasury cited additional program improvements that had been implemented or were underway that would not have been reflected in our survey results. Specifically, Treasury noted that it planned to release compliance assessments for the 10 largest MHA servicers to provide greater transparency regarding servicer performance. Treasury also noted that it had issued additional servicer guidelines that addressed decision-period requirements for trial modifications, calculation of borrower income, and borrower and third-party complaint and escalation processes. Additionally, Treasury indicated that it had been working to develop and release a publicly accessible version of the net present value model used to assess borrower eligibility for HAMP. We acknowledged several of these actions in the draft report, but the extent to which these steps have improved borrowers' experiences with HAMP since the time of the survey remains unclear.

Finally, Treasury noted concerns with the survey process. For example, the survey results do not directly characterize borrowers' experiences with HAMP, but rather counselors' views of borrower experiences. We also made this observation in our draft report. Further, Treasury noted that the survey did not attempt to determine whether there was any correlation between negative responses and denials of HAMP modifications. As we stated, borrowers seeking the help of counselors may be more likely to have concerns about HAMP than borrowers who do not seek such help, and the high proportion of counselors reporting negative borrower experiences is consistent with this notion. Treasury also said that the survey results were based on a small percentage of respondents and that borrowers seeking assistance may also seek assistance through other means such as the HOPE hotline. As a result, it is not clear what proportion of borrowers who have applied or received HAMP modifications is represented by the survey. The draft report acknowledged that the survey results do not generalize to the experiences of all borrowers seeking HAMP modifications but noted that the data provide insights into the experiences of counselors and borrowers they have worked with as of the time of the survey. For example, 111 of the 396 counselors (28 percent) that responded to our survey indicated that they had counseled over 100 borrowers each on HAMP-related matters since June 1, 2010, or more than 11,000 borrowers for this group of counselors.

We are sending copies of this report to the appropriate congressional committees. This report will also be available at no charge on our Web site at http://www.gao.gov. Should you or your staff have questions concerning this report, please contact me at (202) 512-8678 or sciremj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in enclosure II.

Mathew J. Scirè
Director
Financial Markets and
Community Investment

Enclosures

List of Congressional Committees

The Honorable Daniel K. Inouye
Chairman
The Honorable Thad Cochran
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable Tim Johnson
Chairman
The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Kent Conrad
Chairman
The Honorable Jeff Sessions
Ranking Member
Committee on the Budget
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The Honorable Harold Rogers
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The Honorable Norman D. Dicks
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The Honorable Paul Ryan
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The Honorable Chris Van Hollen
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Committee on the Budget
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The Honorable Spencer Bachus
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The Honorable Barney Frank
Ranking Member
Committee on Financial Services
House of Representatives

The Honorable Dave Camp
Chairman
The Honorable Sander Levin
Ranking Member
Committee on Ways and Means
House of Representatives

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

May 13, 2011

Thomas J. McCool
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Washington, DC 20548

Dear Mr. McCool:

Thank you for providing the Department of the Treasury ("Treasury") an opportunity to review and comment on your draft correspondence titled the *Results of Housing Counselors Survey on Borrowers' Experiences with HAMP* ("Draft Correspondence").

We appreciate the GAO's ongoing efforts in assessing the housing programs initiated under Treasury's Troubled Asset Relief Program ("TARP"). Your reports and recommendations are well-balanced, insightful and constructive. Many of the recommendations and information in the reports have helped guide our efforts in the housing programs, programs that have faced many challenges in implementation due to the unprecedented size and scope of the problems they are designed to address.

The survey results shed light on a group of counselors' perceptions of the experiences some borrowers have had with the Home Affordable Modification Program ("HAMP"), including the HAMP Solution Center ("HSC"). We agree with the statement in the Draft Correspondence that "these results do not generalize to the experience of all borrowers seeking HAMP modifications." Moreover, we note the age of the data -- the survey was conducted in October of 2010, and asked respondents about experiences dating back to June of 2010 - and the fact that a number of improvements have been made to the program since the survey. During the two years that HAMP has been operating, we have continually enhanced the program relative to concerns raised in the survey. A seven to twelve month lag in data, therefore, may significantly affect the applicability of the results. The following are detailed comments that outline these improvements and resulting concerns with the survey process and the integrity of its results:

I. <u>Improvements to HAMP since the Time of the Survey</u>

Several metrics that had a significant effect on driving the negative perceptions of HAMP that you cite have improved since you conducted the survey. The report does not make this clear. For example, the backlog of trial modifications has decreased significantly. The GAO pointed out the association between counselors reporting "negative" borrower experiences and length of decision times for trial modifications. As the GAO noted, as of February 2011, the percentage of

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trial modifications lasting six months or longer has been cut in half since June of 2010, from 44 percent of all active trials to 22 percent.

In addition, we implemented one of the most significant changes to the program, the requirement for the servicer to verify a borrower's income prior to offering a trial period, in June of 2010. Prior to June, we allowed borrowers to enter trial period plans with a verbal statement about income and subsequently send in their income documentation while in their trial period plan. Although the survey inquired about experiences with HAMP and HSC since June 2010, many of the responses that related to length of trial modifications were based on trial periods started in previous months. After the change to verified income, one of the only reasons for denial of a permanent modification is a borrower's failure to make his or her trial period payments. The change resulted in a substantial decrease in the length of decision times for trial modifications. Again, this change would have had an impact on the number of "positive" responses from counselors.

We agree with many of the specific actions to improve HAMP that the GAO listed. In fact, Treasury has already implemented some of these improvements, and other actions are underway, including:

- Improving Compliance: Treasury has a robust compliance program, with compliance agents performing reviews as often as monthly for the largest servicer organizations. A priority of our compliance program has been to ensure that homeowners are appropriately assisted and that servicers are meeting their obligations under the program. In doing so, we require remedial action where needed to correct areas of non-compliance. As a continuation of our ongoing compliance operations, Treasury is developing and intends to release compliance assessments for each of the ten largest Making Home Affordable ("MHA") participating servicers. These assessments will summarize the performance evaluations of each of those servicers' respective compliance with MHA requirements and is designed to provide greater transparency regarding servicer performance.

  As you know, Treasury has no authority to impose penalties for non-compliance with MHA as a regulator would for violations of law. However, under the contracts associated with MHA, Treasury already has taken non-financial remedial action to require servicers to correct areas of non-compliance. In addition, pursuant to the MHA contracts, Treasury intends to begin withholding financial incentives for servicers not in compliance with program requirements.

- More Timely Decisions: Treasury requires servicers to decide to offer the borrower a trial modification or issue a non-approval notice within 30 days after receipt of a borrower's complete HAMP application. This guidance, released in Supplemental Directive 09-08, became effective January 1, 2010 and, as previously discussed, decreased the decision times that resulted in the backlog of trial modifications.

- Clear Explanation of Income Calculation: Treasury issued Supplemental Directive 11-01, which requires servicers to develop and adhere to a written policy and procedures that describe the basis on which the servicer will determine a borrower's monthly gross income.

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This requirement is intended to ensure that similarly situated borrowers will be treated consistently regarding income calculation. This guidance became effective May 1, 2011.

- Require Servicers to Work with Borrowers 31 or More Days Delinquent: Servicers are required to contact borrowers who are 31 or more days delinquent on their mortgage payments with information about HAMP. This requirement, released in Supplemental Directive 10-02 and effective June 1, 2010, requires servicers to contact borrowers early in their delinquency when home retention options are more viable.

- Strengthen Escalation Process: In November 2010, Treasury issued new program guidelines in Supplemental Directive 10-15, which took effect February 1, 2011, to strengthen the complaint and escalation process for both borrowers and third party advocates.

- Release of NPV Model: Treasury has been working to develop and release an NPV model accessible to the public over a website and expects to release it shortly.

We have also worked to improve servicers' performance related to lost documentation, an issue cited by survey respondents as one of the most common reasons borrowers contacted them about HAMP. While we agree that lost documentation remains an issue, Treasury's work to improve servicers' processes has led to a decline in borrower calls to the HOPE Hotline regarding lost documentation.

II. Specific Concerns with the Survey Process and Results

As discussed above, the survey collected data on experiences dating back almost one year and many improvements have been implemented since that time. In addition, we have the following specific concerns about the survey and the integrity of its results:

- Third Party Respondents: As the GAO points out in the Draft Correspondence, "[b]ecause there was no readily reliable database of borrowers who have sought HAMP modifications, [the GAO] surveyed housing counselors as a proxy for borrowers." Therefore, the survey results do not characterize borrowers' actual experiences with HAMP, but rather counselors' interpretations of borrower experiences.

- Adverse sample: As the GAO acknowledges, "borrowers seeking the help of counselors may be more likely to have questions or concerns about HAMP than borrowers that do not seek such help." While the results indicated 76 percent of respondents characterized their experience with HAMP as "negative" or "very negative", the survey did not attempt to ascertain whether there was any correlation between "negative" responses and whether the borrowers were denied a HAMP modification.

- Small Percentage of Respondents: The survey results are based on 396 completed counselor surveys. As the GAO points out, it "could not calculate a precise response rate" because NeighborWorks America, which administers the National Foreclosure Mitigation Counseling Program ("NFMC"), could not provide the exact number of counselors and

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cannot provide information on the extent to which all NFMC counselors are involved in HAMP counseling. Even assuming the estimated pool of 3,500 counselors is correct, the survey results are based on responses from approximately 11 percent of the NFMC counselor population. In addition, while many borrowers seeking assistance or interested in filing a complaint may use counselors, some may call the HOPE Hotline, go to their servicer directly or use other intermediaries. It is also not clear what proportion of borrowers who have applied for or received MHA modifications is represented by the survey.

Treasury is committed to improving HAMP to help ensure borrowers' experiences with the program are positive, and we thank the GAO for providing feedback and ongoing assessments of HAMP's performance. We look forward to continuing to work with you and your team.

Sincerely,

Tim Massad

Timothy G. Massad
Acting Assistant Secretary for Financial Stability

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Enclosure II: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contacts named above, Harry Medina, John Karikari (Lead Assistant Directors); Tania Calhoun; Emily Chalmers; William Chatlos; Grace Cho; Rachel DeMarcus; Marc Molino; Jared Sippel; Winnie Tsen; and Jim Vitarello made important contributions to this report.

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