United States Government Accountability Office

Report to Congressional Committees

October 2014

TROUBLED ASSET RELIEF PROGRAM

Treasury Could Better Analyze Data to Improve Oversight of Servicers' Practices

GAO-15-5

GAO Highlights

Highlights of GAO-15-5, a report to congressional committees

Why GAO Did This Study

Treasury introduced MHA in early 2009 and has allocated $38.5 billion in TARP funds to help struggling homeowners avoid potential foreclosure. The Emergency Economic Stabilization Act of 2008 requires GAO to report every 60 days on TARP activities. This 60-day report examines (1) the status of TARP-funded housing programs, (2) Treasury's efforts to monitor and evaluate HAMP denial and redefault rates among servicers, and (3) the status of the implementation of GAO's prior recommendations related to TARP-funded housing programs. To do this work, GAO reviewed program documentation, analyzed HAMP loan-level data, and interviewed knowledgeable Treasury officials.

What GAO Recommends

GAO recommends that Treasury conduct periodic evaluations to help explain differences among MHA servicers (1) in the reasons they gave for denying applications for HAMP trial modifications and (2) in HAMP loan modification redefault rates. Such evaluations would help inform compliance reviews of individual servicers and help identify any needed program policy changes. Treasury agreed to consider making changes to its analytical methods for evaluating data on denial and redefault rates among individual servicers.

View GAO-15-5. For more information, contact Mathew Scirè at (202) 512-8678 or sciremj@gao.gov.

October 2014

TROUBLED ASSET RELIEF PROGRAM

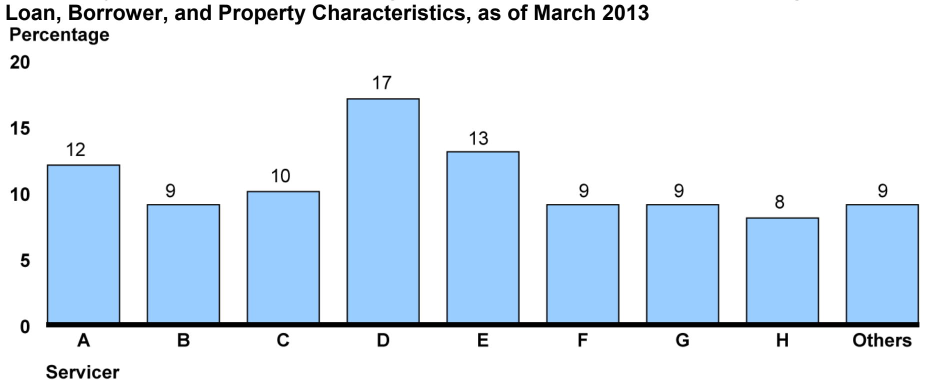
Treasury Could Better Analyze Data to Improve Oversight of Servicers' Practices

What GAO Found

Through June 2014, the U.S. Department of the Treasury (Treasury) had disbursed about one-third of the $38.5 billion in Troubled Asset Relief Program (TARP) funds allocated to housing programs. However, the number of new borrowers added to the Home Affordable Modification Program (HAMP), the key component of the Making Home Affordable (MHA) program, began to decline in late 2013 after remaining relatively steady since 2012. Treasury has taken steps to assist more homeowners and also to address upcoming interest rate increases for borrowers already in the program (after 5 years, interest rates on modified loans may gradually increase to the market rate at the time of the modification). For example, Treasury has extended the HAMP deadline for a third time to at least December 31, 2016, and required servicers to inform borrowers about upcoming interest rate changes.

Treasury monitors HAMP denial and redefault rates, but its evaluation of data to help explain the reasons for differences among servicers is limited. GAO's analysis of HAMP data found wide variation among servicers in reasons for denials of trial modifications. Some of these variations may be due to differences in servicer practices that would not necessarily be identified by Treasury's compliance review process or analysis for reporting errors. GAO also identified wide variations in the probability of redefault even after controlling for differences in servicers' loan, borrower, and property characteristics, using available data (see figure). Federal internal control standards state that analyzing relationships among data helps inform control and performance monitoring activities. Without more fully evaluating servicer data, Treasury may miss opportunities to identify and address servicer weaknesses and assist and retain as many borrowers as possible.

Probability of HAMP Redefault for Large Servicers and Others after Controlling for Certain Loan, Borrower, and Property Characteristics, as of March 2013



Source: GAO analysis of Treasury data. | GAO-15-5

Finally, Treasury has implemented most of GAO's past recommendations but has not fully implemented several that are intended to improve its oversight of the TARP-funded housing programs. For example, Treasury requires servicers to have controls in place for monitoring compliance with fair lending laws. But Treasury officials told us that they did not plan to assess these controls as GAO recommended because other federal agencies assess compliance with fair lending laws. Without such assessments, Treasury cannot determine whether servicers are complying with Treasury's requirement. As stated previously, implementing this recommendation and others would improve Treasury's oversight of TARP housing programs and help ensure that they assist and retain the greatest number of borrowers.

Contents

Abbreviations

2MP	Second Lien Modification Program
CFPB	Bureau of Consumer Financial Protection
DTI	debt-to-income ratio
EESA	Emergency Economic Stabilization Act of 2008
FHA	Federal Housing Administration
HAFA	Home Affordable Foreclosure Alternatives
HAMP	Home Affordable Modification Program
HPDP	Home Price Decline Protection
HPO	Homeownership Preservation Office
LEP	limited English proficiency
LTV	loan-to-value
MHA	Making Home Affordable
MHA-C	Making Home Affordable Compliance
NPV	net present value
PRA	Principal Reduction Alternative
RHS	Rural Housing Service
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
TARP	Troubled Asset Relief Program

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

October 6, 2014

Congressional Committees

The U.S. Department of the Treasury (Treasury) continues to use funds under the $700 billion Troubled Asset Relief Program (TARP) authorized by the Emergency Economic Stabilization Act of 2008 (EESA) to address weaknesses in the U.S. housing market that continue to hamper the economic recovery.[1] Treasury announced in 2009 that up to $50 billion would be used to help as many as 3 million to 4 million struggling homeowners avoid potential foreclosure, but subsequently reduced the amount to $38.5 billion. The cornerstone program under Treasury's Making Home Affordable (MHA) efforts is the Home Affordable Modification Program (HAMP), which provides financial incentives for borrowers, servicers, and mortgage holders/investors to modify first-lien mortgages. These modifications are intended to prevent foreclosure by reducing homeowners' monthly mortgage payments to affordable levels. Treasury has also allocated TARP funds to state housing finance agencies to help borrowers in the areas most affected by the housing crisis and provided TARP funds to support the Department of Housing and Urban Development's Federal Housing Administration (FHA) refinance program for borrowers in negative equity positions.

About 30,000 borrowers are expected to complete the initial 5 years of their HAMP loan modification in 2014. Under the terms of the program, interest rates may gradually increase for some HAMP modifications after borrowers complete this initial 5-year period. As a result, many borrowers could see their monthly mortgage payments rise. Treasury estimates that at least 752,000 HAMP loan modification recipients will have their monthly mortgage payments increase. Questions have been raised about Treasury's preparations for this increase, including the extent to which borrowers who may struggle to make the higher payments will have

[1]Pub. L. No 110-343, 122 Stat. 3765 (codified at 12 U.S.C. §§ 5201-5261). 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 EESA, from incurring any additional obligations for a program or initiative unless already introduced prior to June 25, 2010. § 1302, 124 Stat. at 2133 (codified at 12 U.S.C. § 5225(a)).

assistance available to them, and about Treasury's efforts to communicate information about the change to borrowers.

Since its implementation, HAMP's participation rates have remained low relative to initial estimates of the number of homeowners the program was expected to assist. The original deadline for HAMP was December 31, 2012, at which time 1.1 million borrowers had received a permanent loan modification. Treasury's initial estimate of the number of homeowners who could be assisted under HAMP was 3 million to 4 million. Treasury has made several efforts to increase the number of borrowers participating in the programs. For instance, it has extended the application deadline three times for participation in MHA programs and made policy changes to expand eligibility requirements and help borrowers with existing permanent HAMP loan modifications stay current on their payments and thus avoid redefaulting. However, questions have been raised about the extent to which there are differences among individual servicer's practices in reviewing applications and helping existing borrowers that may result in greater incidences of HAMP loan modification application denials and borrower redefaults on permanent loan modifications.

In previous reports, we looked at Treasury's design and implementation of HAMP and other MHA and TARP-funded housing programs and made several recommendations to improve Treasury's oversight of the programs and the programs' effectiveness.[2] This 60-day report examines (1) the status of TARP-funded housing programs and Treasury's efforts to assist borrowers who complete the initial 5 years of their HAMP loan modification, (2) Treasury's efforts to monitor and evaluate HAMP loan modification denial and redefault rates among servicers, and (3) the status of the implementation of our prior recommendations on TARP-funded housing programs.

To address these objectives, we reviewed periodic reports on funding allocation and disbursement and program participation issued by Treasury and the Congressional Budget Office, analyzed TARP housing-related program documentation, and interviewed Treasury officials on program activities and future plans. We also reviewed Treasury and third-party analyses of the scope and impact mortgage interest rate increases will have on borrowers with certain types of HAMP loan modifications. To assess Treasury's monitoring and evaluation of HAMP loan modifications, we analyzed MHA program documentation, including supplemental directives for recent MHA program changes and the MHA program handbook. We also interviewed Treasury officials and staff who were contracted to conduct Treasury's compliance activities about their data analyses and compliance activities related to comparing denial and

[2]Under, ESSA, GAO is required to report at least every 60 days on findings resulting from the oversight of, among other things, 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. Pub. L. No. 110-343, § 116(a), 122 Stat. 3765, 3783-85 (codified at 12 U.S.C. § 5226(a)). Under this statutory mandate, we have reported 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 Equitably Implement Foreclosure Mitigation Programs*, GAO-10-634 (Washington, D.C.: June 24, 2010); *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); *Troubled Asset Relief Program: Further Actions Needed to Enhance Assessments and Transparency of Housing Programs*, GAO-12-783 (Washington, D.C.: July 19, 2012); and *Troubled Asset Relief Program: More Efforts Needed on Fair Lending Controls and Access for Non-English Speakers in Housing Programs*, GAO-14-117 (Washington, D.C: Feb. 6, 2014). We also issued an additional report on foreclosure mitigation efforts, including Treasury's TARP-funded housing programs. See GAO, *Foreclosure Mitigation: Agencies Could Improve Effectiveness of Federal Efforts with Additional Data Collection and Analysis,* GAO-12-296 (Washington, D.C.: June 28, 2012).

redefault rates among servicers. In addition, we analyzed loan-level data from Treasury's HAMP database that included information reported by servicers on borrowers who were denied HAMP loan modifications through March 2013 or who redefaulted on HAMP permanent loan modifications through March 2013, which represents data that we had collected for a prior report. We also analyzed Treasury's publicly available loan-level data through July 2014. These analyses allowed us to identify the reasons borrowers were denied HAMP loan modifications for eight large servicers and to compare redefault rates for permanent HAMP loan modifications among these same servicers. To assess actions taken by Treasury in response to our prior TARP-housing-related recommendations, we interviewed Treasury officials. To independently verify these responses, we analyzed changes to Treasury's documentation including program guidance, performance reports, and compliance review procedures and results. For additional information on our scope and methodology, see appendix I.

We conducted this performance audit from April 2014 through October 2014 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

Treasury's Office of Homeownership Preservation within the Office of Financial Stability, which administers Treasury's TARP-related efforts, is tasked with finding ways to help prevent avoidable foreclosures and preserve homeownership. Treasury has established three initiatives funded under TARP to address these issues: MHA, the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund), and support for loans insured by FHA through the FHA Refinance of Borrowers in Negative Equity Positions (FHA Short Refinance).

Making Home Affordable Programs

Treasury allocated $29.8 billion in TARP funds to MHA to be used to encourage the modification of eligible mortgages and to provide other relief to distressed borrowers. Only loans originated on or before January 1, 2009, and that meet other requirements are eligible for assistance under the MHA program. MHA consists of several programs designed to help struggling homeowners and prevent avoidable foreclosures.

- *HAMP first-lien modifications.* The largest component of MHA is the first-lien modification program. The program was intended to help eligible borrowers stay in their homes and avoid potential foreclosures by reducing the amount of their monthly payments to affordable levels. Modifications are available for single-family properties (one to four units) with mortgages no greater than $729,750 for a one-unit property. Borrowers are eligible only if companies servicing their mortgages participate in the program.[3] To determine whether a participating loan servicer is required to modify a loan, HAMP uses a standardized net present value (NPV) model to compare expected cash flows from a modified loan to the same loan with no modifications, using certain assumptions. If the expected cash flow with a modification is positive (i.e., more than the estimated cash flow of the unmodified loan), the participating loan servicer is required to make the loan modification. Treasury uses TARP funds to provide both one-time and ongoing incentives to mortgage investors, loan servicers, and borrowers for up to 5 years after a loan is modified. These incentives are designed to increase the likelihood that the program will produce successful modifications over the long term and take into consideration servicers' and investors' costs for making the modifications.

  The HAMP first-lien modification program has two components—the original HAMP Tier 1 and an additional first-lien modification known as HAMP Tier 2. Announced in March 2009, HAMP Tier 1 is generally available to qualified borrowers who occupy their properties as their primary residence and whose first-lien mortgage payments are more than 31 percent of their monthly gross income, as calculated using the front-end debt-to-income (DTI) ratio.[4] HAMP Tier 2, which was announced in January 2012, is available for both owner-occupied and rental properties, and borrowers' monthly mortgage payments prior to modification may be less than 31 percent DTI.

[3]Only financial institutions that signed a Commitment to Purchase Financial Instrument and Servicer Participation Agreement on or before October 3, 2010, are eligible to receive TARP financial incentives under the MHA program. Treasury pays the incentives for HAMP modifications for loans not owned or guaranteed by the housing enterprises Fannie Mae or Freddie Mac. Fannie Mae and Freddie Mac bear the cost of HAMP modifications for loans they own or guarantee.

[4]For first-lien mortgages, the front-end DTI ratio under HAMP is the percentage of a borrower's gross monthly income that is required to pay monthly housing expenses (mortgage principal, interest, taxes, insurance, and, if applicable, condominium or cooperative fees or homeowners associations dues).

As part of the HAMP Tier 1 modification, servicers reduce a borrower's interest rate until the DTI is 31 percent or the interest rate falls to 2 percent.[5] The new interest rate is fixed for the first 5 years of the modification. It then gradually increases by increments of no more than 1 percent per year until it reaches the cap, which is the Freddie Mac Primary Mortgage Market Survey rate at the time of the evaluation for the modification. The interest rate is then fixed at that rate for the remaining loan term. In contrast, under HAMP Tier 2 the interest rate is adjusted to the weekly Freddie Mac Primary Mortgage Market Survey Rate at the time of the modification and remains fixed for the life of the loan.[6]

For both HAMP Tier 1 and Tier 2, borrowers must demonstrate their ability to pay the modified amount by successfully completing a trial period of least 3 months before a loan is permanently modified and any government payments made. Borrowers who default on a permanent HAMP loan modification—that is, who miss three or more consecutive mortgage payments—no longer qualify for their current program, and the borrower, servicer, and investor do not continue to receive incentives for that loan. Borrowers who complete the initial 5 years of their HAMP Tier 1 modification or who redefault on a HAMP Tier 1 modification may be eligible for a HAMP Tier 2 modification under certain conditions. These include having undergone a change in circumstances or having entered into a permanent HAMP Tier 1 loan modification at least 12 months earlier.

- *The Second Lien Modification Program (2MP).* According to Treasury, 2MP is designed to work in tandem with HAMP modifications to provide a comprehensive solution to help borrowers afford their mortgage payments. Under 2MP, when a borrower's first lien is

[5]Servicers are not required to reduce interest rates below 2 percent. Interest rate reduction is one step in the HAMP Tier 1 standard modification waterfall. Under the waterfall, servicers must first capitalize accrued interest and certain expenses paid to third parties and add this amount to the loan balance (principal) amount. Next, servicers must reduce the interest rate until the 31 percent DTI target is reached or the interest rate is reduced to 2 percent. If the interest rate reduction does not result in a DTI ratio of 31 percent, servicers must then extend the maturity and/or amortization period of the loan up to 40 years. Finally, if the target DTI ratio is still not reached, the servicer must forbear, or defer, principal until the payment is reduced to the 31 percent target, subject to an excessive forbearance cap.

[6]The interest rate is rounded up to the nearest 0.125 percent. When the program was announced the rate also included a risk adjustment established by Treasury of 50 basis points. Beginning July 1, 2014, Treasury reduced the risk adjustment to zero basis points.

modified under HAMP and the servicer of the second lien is a 2MP participant, that servicer must offer modification and/or full or partial extinguishment of the second lien.[7] Treasury provides incentive payments to second lien mortgage holders in the form of a percentage of each dollar in principal reduction on the second lien. Treasury doubled the incentive payments offered to second lien mortgage holders for 2MP permanent modifications that included principal reduction and had an effective date on or after June 1, 2012.

- *Principal Reduction Alternative (PRA).* In October 2010, PRA took effect as a component of HAMP to give servicers more flexibility in offering relief to borrowers whose homes were worth significantly less than their mortgage balance. Under PRA, Treasury provides mortgage holders/investors with incentive payments in the form of a percentage of each dollar in principal reduction. Treasury had tripled the PRA incentive amounts offered to mortgage holders/investors for permanent modifications with trial periods effective on or after March 1, 2012. Participating servicers of loans not owned by the housing enterprises Fannie Mae or Freddie Mac must evaluate the benefit of principal reduction for mortgages with a loan-to-value (LTV) ratio that is greater than 115 percent when evaluating a homeowner for a HAMP first-lien modification.[8] Servicers must adopt and follow PRA policies that treat all similarly situated loans in a consistent manner but are not required to offer principal reductions, even when the NPV calculations show that the expected value of the loan's cash flows would be higher with a principal reduction than without it. When servicers include principal reduction in modifications under PRA, the principal reduction amount is initially treated as noninterest-bearing principal forbearance. If the borrower is in good standing on the first, second, and third anniversaries of the effective date of the modification's trial period, one-third of the principal reduction amount is forgiven on each anniversary.

- *Home Affordable Foreclosure Alternatives (HAFA) Program.* Under this program, servicers offer foreclosure alternatives (short sales and deeds-in-lieu of foreclosure) to borrowers who meet the basic eligibility requirements for HAMP and do not qualify for a HAMP trial

[7]Servicers that hold the second lien do not need to be servicers for the related first lien to participate in 2MP.

[8]An LTV ratio for a mortgage is the ratio of the mortgage amount to the value of the home.

modification, do not successfully complete a HAMP trial modification, default on a modification (miss three or more consecutive payments), or request a short sale or deed-in-lieu.[9] The program provides incentive payments to investors, servicers, and borrowers for completing these foreclosure alternatives.

- *Home Affordable Unemployment Program.* This program offers assistance to borrowers who are suffering financial hardship due to unemployment. Borrowers are eligible for a 12-month forbearance period during which monthly mortgage payments are reduced or suspended. Servicers can extend the forbearance period at their discretion if the borrower is still unemployed. Borrowers who later find employment or whose forbearance period expires should be considered for a HAMP loan modification or a foreclosure alternative, such as the HAFA program. No TARP funds are provided to servicers under this program.

- *FHA and the Department of Agriculture's Rural Housing Service (RHS) modification programs.* These programs are similar to HAMP Tier 1 and cover FHA-insured and RHS-guaranteed mortgage loans. If a modified FHA-insured or RHS-guaranteed mortgage loan meets Treasury's eligibility criteria, the borrower and servicer can receive TARP-funded incentive payments from Treasury.[10]

In 2009, Treasury entered into agreements with Fannie Mae and Freddie Mac to act as financial agents for MHA. Fannie Mae serves as the MHA program administrator and is responsible for developing and administering program operations, including registering, executing participation agreements with, and collecting data from servicers and

[9]In a short sale, a homeowner sells a house rather than going into foreclosure. Proceeds from short sales are generally less than the mortgage amount, so the homeowner must have the lender's permission for the sale. Under a HAFA short sale, a lender must forgive the shortfall between the loan balance and net sales proceeds and release the lien on the subject property. Under a deed-in-lieu of foreclosure, the homeowner voluntarily conveys all ownership interest in the home to the lender as an alternative to foreclosure proceedings. Under HAFA, a deed-in-lieu must satisfy the borrower's entire mortgage obligation in addition to releasing the lien on the subject property.

[10]If a borrower's monthly mortgage payment is reduced by 6 percent or more through FHA-HAMP or for a RHS-guaranteed mortgage loan and the loan is in good standing, a servicer will receive an annual pay-for-success fee for a period of 3 years and a borrower will receive a pay-for-performance payment annually for the first 5 years after the first trial loan payment due date.

providing ongoing servicer training and support. Freddie Mac serves as Treasury's compliance agent and has a designated independent division, Making Home Affordable Compliance (MHA-C), that is responsible for assessing servicers' compliance with program guidelines, including conducting on-site and remote servicer loan file reviews and audits.

Hardest Hit Fund Programs

Treasury established the Hardest Hit Fund program in February 2010, 1 year after announcing MHA. The goal of the program is to fund innovative measures developed by state housing finance agencies and approved by Treasury to help borrowers in states hit hardest by the aftermath of the housing bubble. By September 2010, Treasury had completed the full allocation of $7.6 billion in funds across 18 states and the District of Columbia.[11] States were selected for funding either because their unemployment rates were at or above the national average or they had experienced housing price declines of 20 percent or more that left some borrowers owing more on their mortgages than the value of their homes. Although the type of assistance provided varies by state, all states use some portion of their funds to help unemployed homeowners make mortgage payments. Other states have programs of principal reduction to help make mortgage payments more affordable, reduce or eliminate borrowers' second liens, and provide transition assistance to borrowers leaving their homes.

FHA Short Refinance

Under TARP, Treasury and FHA established the FHA Short Refinance program. The program took effect in September 2010 and provides underwater borrowers—those with properties that are worth less than the principal remaining on their mortgage—whose loans are current and are not insured by FHA with the opportunity to refinance into an FHA-insured mortgage on the condition that the investor forgives a certain level of principal and achieves a specified LTV ratio. In the event of a default on the refinanced loan, Treasury pays up to a certain percentage of the claim after FHA has paid its part. In 2013, Treasury reduced the amount

[11] The Hardest Hit Fund was initially announced as a $1.5 billion effort to reach borrowers in five states. Treasury subsequently provided three additional rounds of funding to reach the $7.6 billion allocation and included 18 states—Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, and Tennessee—and the District of Columbia.

obligated to the FHA Short Refinance program from $8.1 billion to $1.0 billion, in part because participation levels were lower than originally projected and, according to Treasury officials, to minimize the administrative costs associated with the program.

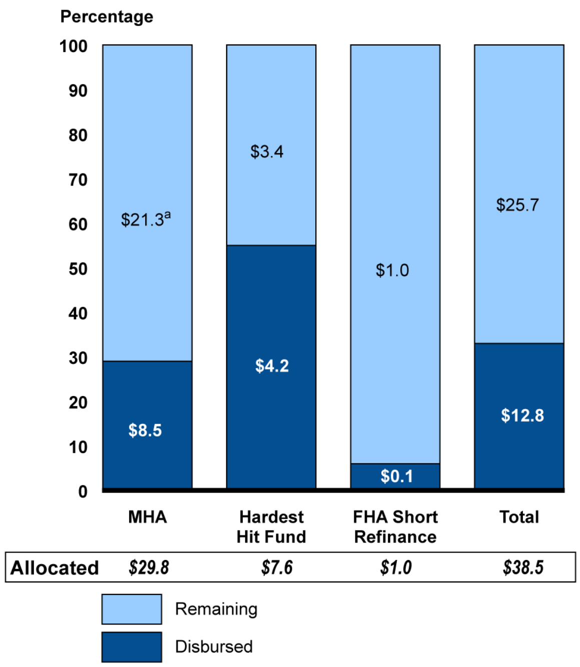
Treasury Has Disbursed One-third of Its TARP Housing Program Funds and Has Taken Steps to Reach Additional Borrowers and Address Interest Rate Increases

As of June 30, 2014, Treasury had disbursed $12.8 billion (33 percent) of the $38.5 billion in TARP funds that are currently allocated to support housing programs. The number of new HAMP trial modifications added on a monthly basis rose in early 2013, following the introduction of HAMP Tier 2, but in the first half of 2014 the number of new HAMP borrowers entering a trial modification fell to its lowest levels since the program's inception, as the pool of mortgages eligible for the existing HAMP program continues to decline. Treasury has taken steps to help more borrowers, including extending the deadline for program applications for a third time. Treasury has also made program changes to help borrowers who face increases in their monthly payments once their permanent loan modifications complete the initial 5 years of their HAMP loan modification and is assessing servicers' readiness to comply with these new requirements.

Treasury Has Disbursed One-Third of Allocated TARP Housing Funds

Between February 2009 and June 2014, Treasury disbursed approximately $12.8 billion (33 percent) of the $38.5 billion in TARP funds allocated to support housing programs, though the amount of disbursements varied for each of the three TARP-funded housing programs (see fig. 1). For example, of the $29.8 billion allocated to MHA, the largest TARP-funded program, Treasury has disbursed $8.5 billion as of June 2014 (29 percent). Over half of the $7.6 billion allocated to the Hardest Hit Fund program has been disbursed. In contrast, Treasury has disbursed less than 10 percent of the $1.0 billion funds allocated to the FHA Short Refinance program. Treasury officials said that they anticipated using all of the remaining funds allocated to MHA. In April 2014, the Congressional Budget Office increased its estimate of likely disbursements of TARP-funded housing programs because of the extension of the MHA program through December 2015 and possible further extensions of the program.[12] But it continues to project an $11 billion dollar surplus in the amount that Treasury has allocated, because the Congressional Budget Office anticipates fewer households will participate in housing programs.

Figure 1: Percentage and Amount of Allocated TARP Housing Funds Disbursed and Remaining Balance, by Program and Total, as of June 2014 (dollars in billions)



Source: GAO analysis of Treasury's daily update of TARP housing programs. | GAO-15-5

Notes: Data are from June 30, 2014. Remaining amounts includes obligated amounts that have not been disbursed. Remaining and disbursed amounts may not add up to allocated amounts due to rounding.

[a]According to Treasury officials, $6.2 billion of the remaining $21.3 billion obligated to the MHA program is committed for payment of future financial incentives to borrowers, servicers, and investors/mortgage holders participating in current MHA programs.

When HAMP, the largest MHA program, was announced in February 2009, Treasury projected that up to 3 million to 4 million borrowers who

[12]See Congressional Budget Office, *Report on the Troubled Asset Relief Program—April 2014* (Washington, D.C.: April 2014). The Congressional Budget Office's current estimate of the cost for the TARP-funded housing programs is $10 billion higher than what it reported previously in May 2013. Under EESA, as amended, the Congressional Budget Office is required to prepare annual assessments of TARP's costs.

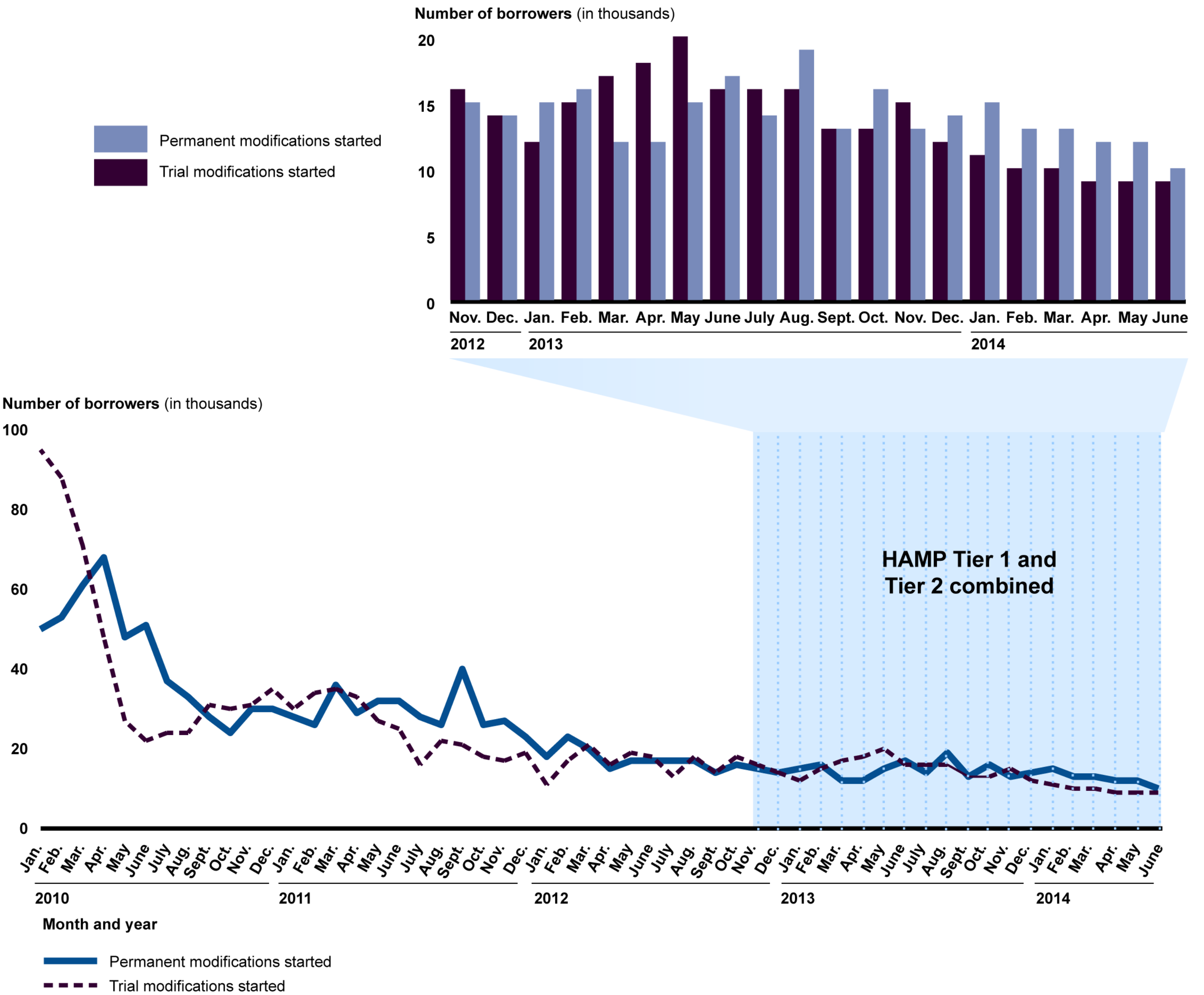
were at risk of default and foreclosure would be helped. As we noted at the time, reaching the projected number of borrowers might be difficult for several reasons.[13] As shown in figure 2, HAMP participation, as measured by trial and permanent modifications started each month, peaked in early 2010, generally declined in 2011, and then held relatively steady toward the end of 2013. However, beginning in December 2013, the number of new HAMP trial modifications began to decline and fell to approximately 10,000 in February 2014—a more than 30 percent decrease in the number of monthly trials started 1 year earlier. According to Treasury officials, they are assessing whether guidance released in late 2013 to align HAMP reporting with the Bureau of Consumer Financial Protection's (CFPB) new mortgage servicing rules, may have impacted reporting.[14] In addition, as we have previously reported, the pool of mortgages eligible for HAMP programs is declining.[15]

[13]See GAO-09-837.

[14]CFPB's new mortgage servicing rules went into effect in January 2014.

[15]See GAO-14-117.

Figure 2: Monthly HAMP and Combined Tier 1 and Tier 2 Activity Levels through June 2014



Source: GAO analysis of Treasury's Making Home Affordable program performance reports. | GAO-15-5

HAMP Tier 2 was introduced in June 2012 to expand the pool of HAMP-eligible borrowers, and HAMP Tier 2 modifications are a growing percentage of total HAMP permanent modifications started. Between November 2012 (when Treasury began reporting HAMP Tier 2 activities) and the end of June 2014, approximately 61,000 borrowers had entered into a HAMP Tier 2 modification. This number represents more than 20 percent of all permanent HAMP modifications started during that period. In June 2014, 39 percent of the permanent modifications started during that month were HAMP Tier 2 modifications (4,230 modifications out of 10,813).

In addition to HAMP, MHA also has other programs to assist borrowers facing foreclosure. As shown in table 1, apart from HAMP, through May 2014 the HAFA program has assisted the largest number of borrowers—approximately 161,000. In addition, more than 156,000 borrowers had principal forgiven through the PRA program through June 2014.

Table 1: Status of MHA Programs as of June 2014

Program	Program start date	Number of loans	Dollar value of assistance provided
HAMP first lien modification	April 2009	2,214,387 trial modifications started 1,387,321 permanent modifications started	HAMP's first-lien program (Tiers 1 and 2 combined) reduced an estimated $28.8 billion in monthly mortgage payments, with a median reduction of $492 per month.
HAFA	April 2010	155,488 short sales 5,462 deeds-in-lieu of foreclosure	Through June 2014, HAFA provided an estimated $22.1 billion in debt relief to borrowers, with a median debt relief per borrower of $128,000 or 47 percent of unpaid principal balance.[a]
PRA	October 2010	156,071 permanent modifications started	PRA provided an estimated $11.8 billion in principal reduction to borrowers, with $71,867 in median principal reduction for active permanent modifications.[b]
2MP	August 2009	137,286 second lien modifications started 36,928 second liens fully extinguished	2MP reduced $2.8 billion in total outstanding principal balance through partial or full extinguishment. The median monthly payment reduction on second liens was $154 per loan.
Treasury FHA-HAMP[c]	April 2009	67,708 trial modifications started	The median monthly payment reduction for active permanent modifications is $232.
RD-HAMP	September 2010	187 trial modifications started	The median monthly payment reduction for active permanent modifications is $260.

Source: GAO analysis of MHA monthly and quarterly performance reports and Special Inspector General for TARP (SIGTARP) quarterly reports. | GAO-15-5

Note: The MHA program deadline was extended through at least December 31, 2016.

[a]According to Treasury's performance report, debt relief is calculated as the unpaid principal balance and allowable transaction costs minus the property sales price.

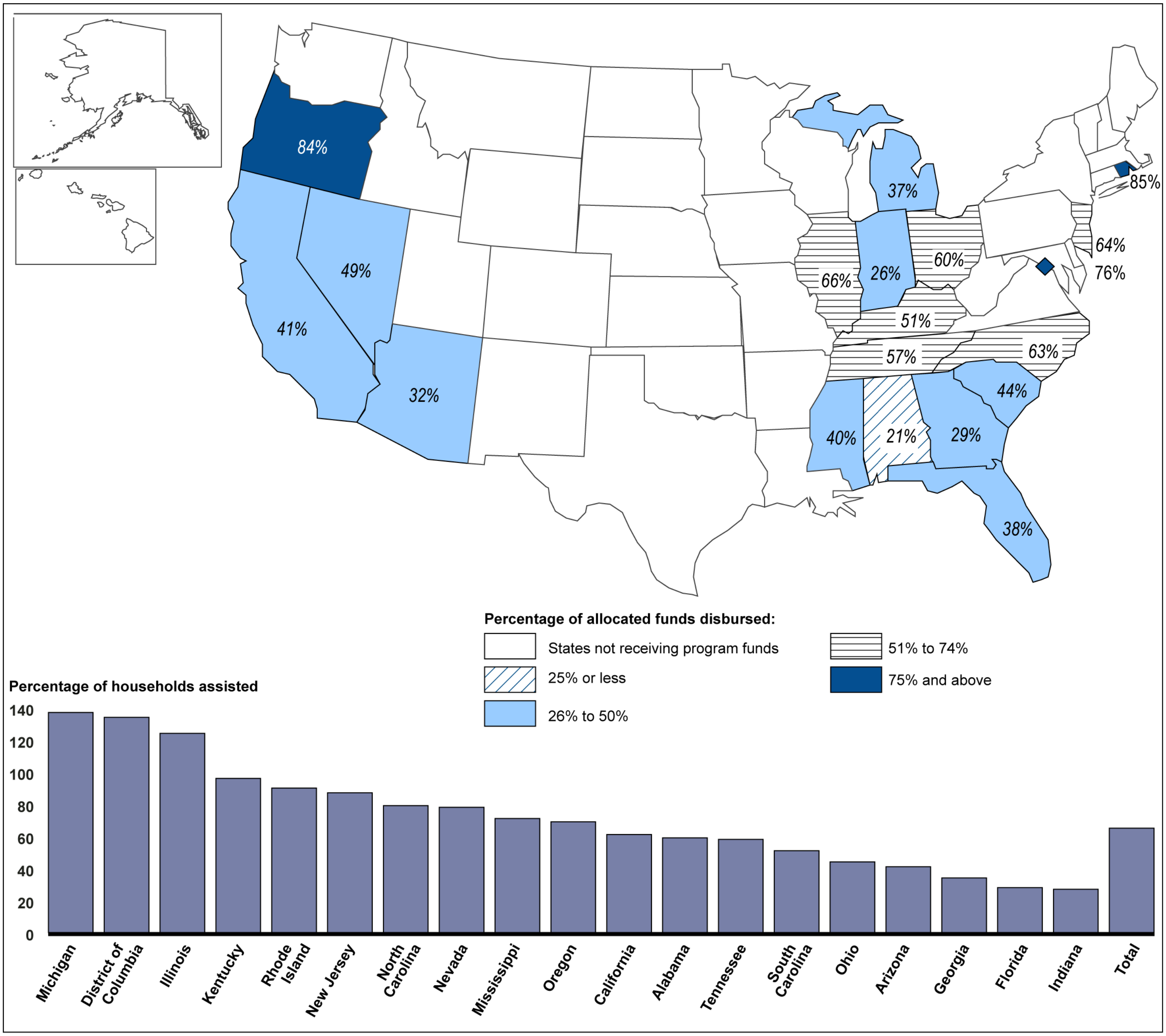
[b]Under PRA, principal reduction occurs over a 3-year period. Servicers provide principal reduction under HAMP to lower the LTV ratio and the investor is eligible to receive an incentive on the amount of principal reduced. Under HAMP, borrowers may also receive principal reduction on a HAMP modification outside of the PRA program.

[c]The Treasury FHA-HAMP data represent only those FHA-HAMP modifications reported to and paid for by Treasury under TARP.

Some states have made more progress than others in disbursing allocated funds and meeting state-level targets for household participation for the Hardest Hit Fund. Through June 2014, the Hardest Hit Fund program had disbursed approximately $3.5 billion, or 47 percent of allocated funds.[16] The District of Columbia, Oregon, and Rhode Island each disbursed more than 75 percent of their allocated funds, and one state—Alabama—disbursed less than 25 percent (see fig. 3). State housing finance agencies for the 18 states and the District of Columbia participating in the program estimated that the total number of Hardest Hit Fund participants would reach approximately 335,000 households between February 2010 and December 2017. As of June 2014, these states had assisted approximately 219,000 households, or 65 percent of their goal, but participation levels also varied by state. The District of Columbia, Illinois, and Michigan had exceeded their state-level participation goals, and Kentucky and Rhode Island had reached 90 percent or more of their target. In contrast, Florida and Indiana had reached less than 30 percent of their state-level goals.

[16]This includes $3.1 billion in program assistance and $449.8 million in administrative, support, outreach, and counseling expenses. The total amount reported disbursed by states differs from the amount disbursed by Treasury for the same period. Specifically, Treasury reported that as of June 30, 2014, the Hardest Hit Fund program disbursed $4.2 billion and the states and the District of Columbia reported having disbursed $3.5 billion for the program. According to Treasury officials, this difference is due to what is counted as disbursed. Treasury measures disbursement by the amount drawn down by states, whereas states measure disbursement by the amount spent or committed for the program.

Figure 3: Hardest Hit Fund: Amount Disbursed (as a Percentage of Allocated Funding) and Households Assisted (as a Percentage of Projected Households), as of June 2014



Sources: GAO analysis of Treasury's Hardest Hit Fund reports; Map Resources (map). | GAO-15-5

Notes: Three states (Illinois, Indiana, and South Carolina) and the District of Columbia reported a range for the estimated number of borrowers to be assisted. To determine the percentage of borrowers assisted, we used the low end of the range as the target.

Finally, FHA refinanced 4,624 loans between September 2010 and June 2014 through the FHA Short Refinance program. As we noted earlier, under this program Treasury pays a portion of claims on those loans in the event of a default. Through June 2014, Treasury had paid one claim of approximately $48,000. In addition, through June 2014, Treasury had spent approximately $9.5 million in administrative costs. The program is currently set to expire on December 31, 2014.[17]

Treasury Continues to Seek New Borrowers for TARP-Funded Housing Programs

Treasury has taken steps to increase program participation, including extending the program deadline and making other program changes. In June 2014, Treasury announced the third extension of the MHA program to at least December 31, 2016.[18] With this extension, Treasury has increased the period for eligible borrowers to apply for assistance by 4 years from the initial program deadline of December 31, 2012. According to Treasury officials, this extension allows Treasury to continue to provide assistance to struggling borrowers, including the unemployed and those facing an increase in interest rates on their modified mortgages.

Beginning in July 2014, Treasury made program changes to the HAMP Tier 2 program, one of which increases the number of eligible borrowers who could qualify for the program. First, Treasury eliminated the requirement that a borrower's modified principal and interest payments be at least 10 percent lower than the premodification payment amount.[19] As a result, borrowers who previously would have been disqualified for HAMP Tier 2 because their payment reduction was less than 10 percent are now eligible to receive a modification. With this change, more borrowers could potentially be offered a HAMP Tier 2 modification.

[17]The existing letter of credit is available through September 24, 2020, to provide coverage for the portion of losses allocated to Treasury. After the letter of credit expires, all losses will be the responsibility of FHA.

[18]In March 2012 Treasury first extended the MHA program from December 31, 2012, to December 31, 2013. Subsequently, in June 2013, Treasury extended the program for a second time to December 31, 2015. In June 2014, Treasury again extended the program until at least December 31, 2016.

[19]Under the new program requirement, the modified principal and interest amount must be less than or equal to the premodification amount, but a minimum reduction is not required. As part of the new requirement, Treasury allowed servicers to choose to establish a minimum principal and interest reduction requirement for HAMP Tier 2 modifications, provided that a reduction of no more than 10 percent was required and that the policy was applied consistently for all similarly situated borrowers.

Second, Treasury lowered the postmodification interest rate for loans modified under HAMP Tier 2 by eliminating the risk adjustment that had been added to the new interest rate after modification.[20] As a result, the interest reduction will be larger than it would have been before this change.

Finally, Treasury has made efforts to facilitate program applications. For example, as we have previously reported, in May 2013, Treasury introduced the MHA Outreach and Borrower Intake Project to pay housing counseling agencies to help borrowers complete and submit MHA assistance applications.[21] According to Treasury officials, as of July 7, 2014, servicers had accepted more than 3,000 initial MHA application packages for review through the program, and housing counselors were compiling an additional 1,100 packages for submission and servicer review. However, according to Treasury officials, they do not plan to extend this program beyond the current deadline which was September 2014.

Treasury Has Taken Steps to Assist Borrowers in Advance of Interest Rate Increases as Modification Terms Change

Treasury estimated that approximately 83 percent of HAMP Tier 1 borrowers (at least 752,000 borrowers) would experience at least one interest rate increase after the initial 5 years of their HAMP loan modification.[22] Treasury has further estimated that the majority of HAMP Tier 1 borrowers would experience two or three increases depending on the date the loan was modified.[23] According to Treasury, interest rates began increasing in 2014 for the approximately 30,000 HAMP borrowers

[20]Under the standard modification waterfall for HAMP Tier 2 loans, the NPV model adjusts the interest rate to a fixed rate based on the weekly Freddie Mac Primary Mortgage Market Survey Rate for 30-year fixed conforming loans. This amount is rounded to the nearest 0.125 percent, and a risk adjustment is added to the interest rate. Effective July 1, 2014, the risk adjustment was reduced from 50 basis points (0.5 percent) to zero points. Under a HAMP Tier 2 modification, the postmodification interest rate is fixed for the life of the loan. According to guidance provided to servicers, Treasury will notify servicers of any future changes to the risk adjustment.

[21]See GAO-14-117.

[22]This estimate is based on the number of active HAMP Tier 1 borrowers as of April 2014. The remaining HAMP Tier 1 borrowers who received a loan modification will not experience an interest rate increase, because the HAMP Tier 1 loan modification did not result in a below-market interest rate at the time of the modification.

[23]As we noted earlier, interest rates will increase by up to 1 percentage point per year until the interest rate reaches the interest rate cap, which is the weekly Freddie Mac Primary Mortgage Market Survey Rate at the time of the modification.

that received HAMP modifications in 2009. The majority of interest rate increases would occur in 2015 and 2016, or 5 years after the largest number of HAMP permanent modifications began (2010 and 2011). Analysis conducted by the Urban Institute estimated that borrowers' final interest rates would increase to between 3.5 and 5.3 percent and that monthly total borrower housing costs, after the final increase, would be between 4 percent and 64 percent higher than at the time of the modification, depending on the date the loan was modified and the size of the interest rate reduction at modification.[24]

To prepare for the interest rate increases, Treasury has made program changes to help identify and assist borrowers who may struggle to pay higher monthly mortgage payments. In December 2013, Treasury clarified its reporting requirements to specify that servicers must continue to provide monthly reports on the performance of permanently modified HAMP loans after the initial 5-year interest rate period ends. According to Treasury officials, this change allows Treasury to monitor borrower performance after the interest rate increases. In addition, in April 2014, Treasury expanded its HAMP Tier 2 eligibility requirements to allow a borrower who completed an initial 5-year loan modification period under HAMP Tier 1 and is delinquent or at imminent risk of redefault to receive a HAMP Tier 2 loan modification. Similarly, in March 2014, Treasury began requiring the largest servicers to offer and pay for postmodification counseling for existing HAMP borrowers who missed two loan payments during a 12-month period—including those borrowers who had not completed the initial 5-year period. Finally, Treasury is surveying HAMP Tier 1 borrowers whose interest rates will be increasing. According to

[24]The Urban Institute's projections are based on Treasury's public loan-level data file and assume no income growth and a 3 percent annual home price growth from the time of modification through the interest rate increase. Borrowers with larger interest rate reductions at the time of modification would generally have larger increases in their total housing costs following the interest rate increases. For example, the total housing costs would increase 5 percent for a borrower whose loan was modified in 2010 and had one interest rate increase. In contrast, a borrower whose loan was also modified in 2010, but had four interest rate increases, would have his or her total housing costs increase by 34 percent after the final increase. Borrower total housing costs comprise principal and interest, taxes, insurance, and homeowner association dues. See Laurie Goodman and Jun Zhu, "HAMP Modifications: Is Reset Risk an Issue?" Urban Institute, Housing Finance Policy Center Commentary, May 14, 2014. The Urban Institute's Housing Finance Policy Center provides data and analysis on how the housing finance system affects households, communities, and the broader economy. See http://www.urban.org/center/hfpc/, accessed July 2014.

Treasury officials, this survey will provide additional information about borrowers' financial situations as they prepare to make higher monthly mortgage payments.

Treasury has also taken steps to increase borrower and public awareness about the interest rate increases. For example, in April 2014, Treasury began requiring servicers to provide an additional notice to borrowers between 60 to 75 days before the due date of the first payment at the higher interest rate level.[25] The notice includes information on the borrower's new monthly payment amount as well as resources, such as housing counselors, who are available to borrowers concerned about higher monthly payments. In addition, in May 2014, Treasury began offering on-line training about the interest rate increase process to housing counselors and other advisors who work with borrowers facing an increase. Treasury officials told us that they had made changes to their public website, including enhancements to the site's search engine, to make it easier for borrowers and the public to find information about the increases.[26] Treasury also included information on the interest rate increases in its June 2014 quarterly performance report. According to Treasury officials, these steps have helped increase public and borrower awareness about the interest rate increases and resources available to help potentially troubled borrowers.

Finally, Treasury has taken steps to oversee servicers' preparation for the interest rate increases. For example, in March 2014 Treasury, through its program administrator, began conducting on-site readiness assessments with servicers to discuss the increases and servicers' preparations for implementing the changes. In addition, as part of its compliance activities Treasury's compliance agent, MHA-C, plans to begin quarterly testing of servicers' compliance with MHA program requirements regarding interest rate increases. According to Treasury officials, the tests are scheduled to begin in late 2014 and will include the content and timing of borrower notices and the accuracy of the new interest rate and payment amounts charged to borrowers.

[25]This notice is in addition to the existing requirement that servicers provide borrowers written notice of the interest rate change between 120 and 240 days prior to the change.

[26]Treasury's MHA website includes discussion under frequently asked questions about the interest rate increase, such as information on when the increase goes into effect and how the new interest rate is determined. Accessed June 2014, see www.makinghomeaffordable.gov.

Treasury Analyzes Some Data on Denials and Redefaults, but Its Evaluation of the Reasons for Differences among Servicers Is Limited

Treasury has used some of the results of individual servicer compliance reviews and programwide evaluations to make policy changes that are designed to reduce the number of borrowers who are denied HAMP loan modifications or who redefault from the program. However, its evaluation of the data to help explain the reasons for differences in denial trends and redefaults among servicers is limited. Our analysis of HAMP data found wide variations among servicers in the reasons borrowers were denied loan modifications. Further, using available data, we found similar variations in redefault rates, even after controlling for some differences in servicer portfolios. Under HAMP, Treasury promotes consistent treatment of borrowers by all servicers, and federal internal control standards note that evaluating related data among entities can help identify unexpected results or outliers. These types of evaluations could be used to inform future efforts to help more borrowers avoid foreclosure.

Treasury Monitors and Analyzes Some Denial and Redefault Data and Uses the Results to Inform Policy Decisions

Treasury has used some programwide data and the results of individual servicer compliance reviews to monitor HAMP loan modification denials. Treasury officials told us that they had used the results of these monitoring activities to inform policy changes and changes to the focus of their compliance review process. Specifically, Treasury officials said that they looked at the reasons servicers identified for denying applications for trial modifications and assessed the accuracy of the criteria used as part of their review process. The on-site compliance reviews seek to verify that borrowers are properly considered for a modification and are either deemed eligible or denied for appropriate reasons. Treasury also assesses servicers' calculations of homeowners' monthly income in evaluating eligibility for the program, as an inaccurate calculation could lead to the denial of an application for a trial modification. Results of MHA-C's review of denials and income calculations are used to assess MHA servicers' performance, and these assessments are published quarterly. Treasury officials said that they used the results of their analysis of denial and other servicer-reported data in expanding eligibility through HAMP Tier 2 and launching the MHA Outreach and Borrower Intake Project.

Further, Treasury officials said that they had conducted surveys, compliance reviews, and other analyses to monitor redefault rates for HAMP permanent loan modifications. For example, Treasury has conducted analyses of programwide data to better understand the reasons borrowers redefault.[27] Officials found that the primary factors affecting redefault were the size of a borrower's payment reduction and the borrower's delinquency status, back-end DTI ratio, and credit score at the time of modification.[28] Larger payment reductions, being current on payments at the time of modification, and higher credit scores are associated with a reduced likelihood of redefault. Treasury also collects monthly survey data from the large servicers related to borrowers who redefault. For example, Treasury includes survey data on the disposition path of borrowers who redefaulted in its monthly MHA program performance reports for each of the large MHA servicers, including the percentage of borrowers who redefault and are referred to foreclosure. Further, Treasury has conducted a survey of borrowers in an effort to gain their views on the reasons for redefaulting on HAMP modifications.

Treasury officials said that they had used the results of their monitoring and evaluation of redefaults to inform policy changes. These changes include:

- increasing upfront servicer incentives to encourage servicers to modify the loans of borrowers in the early stages of delinquency,
- changing the requirements for postmodification counseling to include borrowers entering HAMP trial period plans and those who have missed two monthly payments on their HAMP permanent modification in a 12-month period,
- expanding the HAMP Tier 2 eligibility criteria to include borrowers who have redefaulted on HAMP Tier 1 modifications, and
- increasing financial incentives to encourage the use of principal reduction, which both increases payment reductions and decreases LTVs.

[27]See Mark McArdle "Understanding HAMP Re-Default Rates," Treasury Notes (July 22, 2013). Treasury officials explained that in addition to doing their own research, they leveraged third-party research to inform their efforts to reduce the number of borrowers who redefaulted, such as prior analyses conducted by GAO (see GAO-14-117). In our prior work we also examined factors that could increase the likelihood of redefault and similarly determined that the size of payment change, delinquency status, and current LTV ratio could significantly influence redefault rates (see GAO-12-296).

[28]Other factors include LTV ratio and geographic location of the home.

Treasury Does Not Fully Evaluate the Reasons for Differences in Servicers' Denial Rates

As of July 2014, about 64 percent (3.8 million out of 5.9 million) of the applications for loan modifications had been denied. According to Treasury officials, they evaluate denial data to identify and correct data reporting errors and monitor compliance with MHA guidelines. For example, Treasury officials said that they monitor the frequency of servicers' use of certain denial codes—such as "ineligible mortgage"—and follow up when an individual servicer's use of a code surpasses a given threshold.[29] In addition, Treasury conducts compliance reviews designed to evaluate each servicer's compliance with program requirements. The reviews rely on standardized testing procedures, such as the review of samples of denied MHA applications. According to Treasury, as part of compliance reviews of each of the top servicers, it determines specifically whether reasons for denial are accurate and properly supported.

However, these actions do not fully evaluate the reasons for differences in denial rates among servicers and may not be sufficient to identify other possible causes of those differences. Treasury's MHA policies and procedures require servicers to treat similarly situated borrowers applying for HAMP in a consistent manner. But our analysis identified wide variations in the reasons large MHA servicers gave for denying HAMP modifications, some of these reasons may be based on practices that can vary among servicers and thus may not be identified during Treasury's data or compliance review processes.[30] For example:

- The frequency with which large servicers denied borrowers' trial modifications under the "request incomplete" category varied by as much as 40 percentage points. More than 1 million denials fell into this category as of July 2014. According to program guidelines, each servicer establishes its own policies for considering incomplete

[29]See appendix I for a list of the denial reason codes.

[30]Data from March 2013, which we had collected for a prior report, were used to conduct this analysis, which is based on simple descriptive statistics. We did not test for statistical significance. The combined share of the large servicers was about 80 percent or more. Our analysis focused on the top 7 reasons for denying modifications (out of 23 reasons identified by Treasury), which accounted for 88 percent of the denials, as of March 2013. These reasons included request not complete, offer not accepted by borrower/request withdrawn, excessive forbearance, DTI less than 31 percent, ineligible mortgage, default not imminent, and property not owner occupied.

requests, including how long to keep an incomplete loan application open when a borrower does not respond to notifications.[31]

- The frequency of loan modification denials for “default not imminent” among the large servicers varied by as much as 14 percentage points. According to program guidelines, servicers must determine whether a borrower is at imminent risk of default based on their own servicing standards and subject to investor restrictions. We have previously found that servicers have inconsistent practices for evaluating borrowers for imminent default and that making an imminent default decision requires servicers to use their judgment.[32]

- The frequency of denials for trial modifications in the category “offer not accepted by borrower/request withdrawn” varied by 22 percentage points among the large servicers. Treasury’s program guidance indicates that servicers may categorize a borrower’s denial as accepted/request withdrawn under multiple circumstances—including when the borrower withdrew the request, the servicer determined that it incorrectly calculated the borrower’s trial payment amount, or the borrower failed to make the first trial period payment.[33]

Treasury has taken limited steps to identify and understand the reasons for these differences. For instance, it has not fully evaluated denial data to

[31]According to the guidance, when a servicer determines that an application is incomplete, it must send the borrower an “incomplete information notice” listing the missing documents and the required time frame to respond. Servicers are required to establish and maintain written policies for exercising reasonable diligence to determine that an application is incomplete when borrowers do not respond and to ensure that the policy is applied consistently to similarly situated borrowers. According to Treasury officials, the CFPB’s new mortgage servicing regulations that took effect in January 2014, effectively broadened the definition for an application for modification, which could impact the use of this denial reason code.

[32]See GAO-10-634. In that report, we recommended that Treasury establish criteria for determining whether a borrower was in imminent danger of default to ensure greater consistency among servicers. Treasury staff said that they had not taken any actions to implement this recommendation because servicers were in the best position to determine whether a borrower was in imminent danger of default.

[33]When a borrower fails a trial period plan due to nonpayment, servicers are required to verify the income calculation used to determine the monthly trial period payment amount. If the verification determines that the amount was incorrect by 10 percent or more of the correct amount, the servicer is required to offer a new trial period payment plan and categorize the borrower’s nonpayment as “offer not accepted by borrower/request withdrawn.”

refocus or expand its compliance reviews to ensure that similarly situated borrowers are receiving the same treatment from servicers.[34] Federal internal control standards state that an important control activity includes evaluating related data and unexpected results or outliers to help agencies identify if remedial action is necessary.[35] In addition, our prior work on improving agency performance found that leading organizations consider best practices to help identify changes that might be needed to improve performance and achieve goals.[36]

According to Treasury officials, evaluating servicers' reasons for denying assistance is difficult because of factors such as differences in servicer portfolios (e.g., borrower, loan, and property characteristics), in the way servicers apply denial codes, and, most importantly, in unobservable variables. For example, officials stated that they cannot control for unobservable variables that could be influencing differences in denial rates such as combined LTV ratio (i.e., including both first- and second-liens), total DTI ratio (i.e., total monthly debt payment including the monthly housing expense divided by gross monthly income), and the extent housing counselors interact with borrowers. Further, Treasury officials said that their compliance activities were designed to assess whether borrowers were denied in accordance with MHA guidelines and to determine whether servicers were implementing these guidelines as intended. We recognize that there are some limitations to Treasury's existing loan-level data on the reasons for denial and that it is not possible to control for all factors explaining differences in servicers' denial reason rates. But identification of simple differences might nonetheless be instructive in planning compliance assessments or may help inform future policy changes. For example, several of the reasons, such as "request incomplete" or "offer not accepted by borrower/request withdrawn" are not completely dependent on loan or borrower characteristics. That is,

[34]We have previously identified inconsistent practices among servicers in applying HAMP policies that could lead to differences in the way borrowers applying for modifications were treated (see GAO-10-634 and GAO-14-117). For example, Treasury required servicers to establish written policies detailing when principal reduction would be offered but did not require all servicers to use the same standards to apply principal reduction to loan modifications. As a result, servicers may have applied principal reduction differently.

[35]See GAO/AIMD-00-21.3.1 and GAO, *Internal Control Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: August 2001).

[36]GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act,* GAO/GGD-96-118 (Washington, D.C.: June 1996).

servicer efforts to facilitate completion of information requests and contact borrowers can influence the completion of information requests and acceptance of a modification offer. As a result, evaluating performance among servicers using basic descriptive statistics would be an appropriate methodology to help identify potential best practices and opportunities for additional evaluation. Without such evaluations of differences among servicers and identification of outliers and best practices, Treasury may miss opportunities to assist and retain as many borrowers as possible.

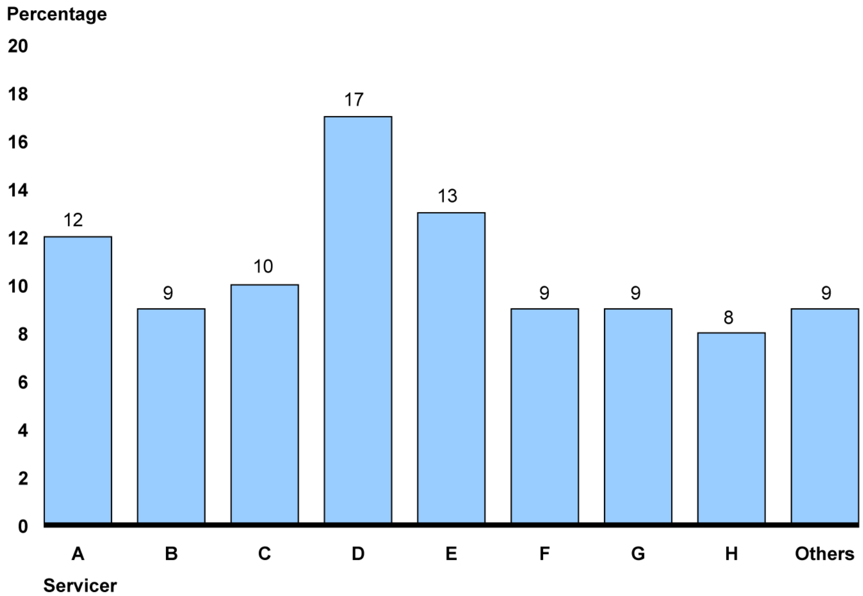
Treasury Does Not Use Some Available Analytical Methods to Evaluate the Reasons for Differences in Servicers' Redefault Rates

Treasury has not used some available analytical methods to help explain differences among servicers' redefault rates and inform policy changes, although doing so may help ensure that participants succeed in the program. As of July 2014, of 1.4 million active permanent modifications started, approximately 400,000 loans (30 percent) were disqualified—that is, the borrower missed three or more consecutive payments.[37] As we noted previously, Treasury has collected data on reasons for redefaulting on HAMP modifications, but Treasury officials said that they have not conducted any econometric modeling to evaluate redefault reasons among servicers. However, as shown in figure 4, when we controlled for certain loan, borrower, and property characteristics, using available data, our analysis reveals wide variation among servicers' redefault rates.[38]

[37]This calculation does not account for the age of the loan modification.

[38]Our econometric analysis uses March 2013 data from Treasury's HAMP data file. See appendix I for additional discussion of our methodology, including the specific loan, borrower, and property characteristic controls in our model.

Figure 4: HAMP Redefault Rates for Large Servicers and Others after Controlling for Certain Loan, Borrower, and Property Characteristics, as of March 2013



Source: GAO analysis of Treasury data. | GAO-15-5

Note: We controlled for characteristics such as delinquency status before modification, credit score at time of modification, both front and back-end DTI ratios, and the LTV ratio at the time of the modification using an econometric model to analyze HAMP loan-level redefault data. See appendix I for additional discussion of the methodology for our econometric analysis of redefault rates. The data are as of March 2013 and represent data that we had collected for a prior report (see GAO-14-117).

Evaluating related data on redefaults can help identify unexpected results or outliers and allow agencies to assess whether there is a need to take remedial action or identify best practices. Further, given the MHA data available on redefaults, using appropriate analytical methods that can control for differences in servicers' loan portfolios that are captured by borrower, loan, and property characteristics is important. Our prior work has found that a key practice in conducting effective evaluations involves carefully thinking through data-gathering and analytical choices to enhance the quality, credibility, and usefulness of an evaluation.[39]

Treasury staff said that they had done some analysis of data controlling for differences among servicers, but they have not applied these methods

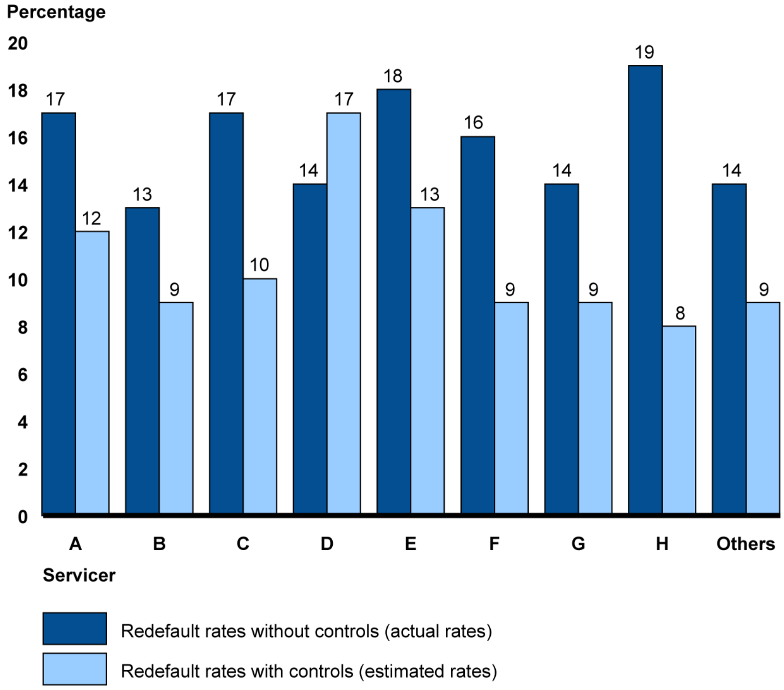
[39]See GAO, *Designing Evaluations: 2012 Revision*, GAO-12-208G (Washington, D.C.: January 2012).

to analysis of redefault data because of concerns that these methodologies do not fully capture unobservable characteristics, which are primarily due to borrower actions. However, servicer practices and loan characteristics that are impacted by servicer actions, such as whether a servicer offers principal reduction or the level of assistance provided to the borrower when facing repayment difficulty, could also contribute to differences in redefault rates among servicers. Our analysis of the MHA data on redefaults (i.e., the borrower becoming 90 days or more delinquent within 12 months of converting to a permanent modification) determined that these data were sufficiently reliable to allow for more sophisticated analytical methods that could control for certain differences among servicers, including in their portfolios.[40]

Without using available methods to control for differences in servicer portfolios (e.g., borrower, loan, property characteristics) Treasury may incorrectly identify weaknesses and best practices. For example, in figure 5 the redefault rate for servicer H decreased by more than half after controlling for differences in servicers' MHA servicing portfolios. This may indicate that the redefault rate without controls for servicer H was likely due to its MHA servicing portfolio having more borrowers, loans, and properties with characteristics associated with a higher likelihood of redefault than being the result of other factors that we could not control for, including servicing practices. In contrast, after controlling for differences in servicers' MHA portfolios, servicer D's redefault rate increased, which may indicate that with a stronger loan portfolio—that is, fewer modifications with borrower, loan, and property characteristics associated with a higher likelihood of redefault than other servicers—that servicer potentially had more redefaults related to other factors we could not control for, such as its servicing practices, than to the characteristics of its MHA servicing portfolio. Comparing data among servicers without controlling for loan, borrower, and property characteristics may lead Treasury to make potentially incorrect conclusions about servicers' performance. Such an analysis helps identify differences among servicers that could be attributable to servicer practices, and could be useful for further evaluation of differences in redefault rates across servicers, including identifying servicer best practices.

[40]For additional discussion of our data reliability assessment procedures see GAO, *Assessing the Reliability of Computer-Processed Data*, GAO-09-365G (Washington, D.C.: February 2009).

Figure 5: HAMP Permanent Modification Redefault Rates with and without Controls for Loan, Borrower, and Property Characteristics, by Servicer, as of March 2013



Source: GAO analysis of Treasury data. | GAO-15-5

Note: The controls included delinquency status before modification, credit score at time of modification, both front- and back-end DTI, and the LTV ratio at the time of the modification. We also included neighborhood-level characteristics, such as the poverty rate, household education, mortgages with second liens, and ratio of rental values to home values (property risk) that could be associated with HAMP outcomes. See appendix I for additional discussion of the methodology for our econometric analysis of redefault rates. The data are as of March 2013 and are data that we had collected for a prior report (see GAO-14-117).

Using appropriate analytical methods to help explain differences among MHA servicers could also inform future policy changes, including any revisions of program guidelines. Without using all available methods to analyze the redefault data, including methods that control for borrower, loan, and property characteristics, Treasury may miss opportunities to identify key areas for improvement in its efforts to assist struggling homeowners.

Treasury Has Implemented a Majority of Our Recommendations but Has Not Fully Implemented Some Intended to Improve Oversight and Transparency

Treasury has implemented 19 of our 24 prior recommendations related to TARP-funded housing programs. However, Treasury has not yet fully implemented other recommendations intended to improve oversight and transparency, including a 2014 recommendation to oversee servicers' implementation of internal controls related to fair lending compliance. We continue to believe that this and other recommendations that are not yet implemented would help strengthen Treasury's oversight and the transparency of the TARP-funded housing programs.

Treasury's Actions in Response to Our Recommendations Have Contributed to Improved Oversight and Cost Savings

Since 2009, we have made 24 recommendations aimed at improving MHA and other TARP-funded housing programs.[41] These recommendations have generally addressed improvements in Treasury's oversight of servicers' program implementation, the transparency of the programs to borrowers and the public, and Treasury's internal program operations, including its use of funds. We subsequently closed 19 of these recommendations (79 percent) as implemented based on Treasury's actions.[42] For example:

- In February 2014, we reported that although borrowers received mortgage modifications directly from their servicers, Treasury had not specified what servicers should do to meet the needs of borrowers with limited English proficiency (LEP) during the application process.[43] The lack of clear guidance to servicers on what constitutes effective relationship management with LEP borrowers can result in unequal access to the program. In response to our recommendation, Treasury issued clarifying guidance to servicers in April 2014 on providing effective relationship management to LEP borrowers. The guidance

[41]See GAO-09-837, GAO-10-634, GAO-11-288, GAO-12-296, GAO-12-783, and GAO-14-117. Appendix II includes information on each recommendation, including the actions Treasury has taken in response.

[42]An additional three recommendations are open, and two recommendations were closed as not implemented.

[43]See GAO-14-117.

requires servicers to ensure that staff are able to effectively communicate with all borrowers, including LEP borrowers, by either employing multilingual individuals or engaging an outside vendor to provide interpretation services. Treasury's actions in response to our recommendation helped strengthen its oversight of servicers and improved transparency for borrowers.

- In June 2012, we recommended that Treasury use updated estimates of the number of participants in the FHA Short Refinance program to reassess the terms of the letter of credit facility and consider modifying it to help ensure that the facility was cost-effective.[44] In March 2013, Treasury amended the agreement for the letter of credit facility. The changes reduced the amount authorized for the facility by $7 billion (from $8 billion to $1 billion) and the cap on administrative fees that could be charged by $92 million (from $117 million to $25 million). As a result, in fiscal year 2013 Treasury deobligated and returned to the general fund approximately $7.1 billion.

Treasury has also taken recent steps that partially respond to a recommendation we had previously closed as not implemented. In July 2009, we recommended that Treasury monitor the extent to which borrowers with DTI ratios greater than 55 percent receive housing counseling and their subsequent performance in keeping current on their HAMP loan modifications.[45] At the time, Treasury officials told us that while HAMP was being designed, the housing enterprises Fannie Mae and Freddie Mac and servicers had expressed concerns about the burden placed on them by the need to certify with the counseling agencies that borrowers had received counseling. In March 2014, Treasury eliminated the requirement that borrowers with a back-end DTI ratio of 55 percent or greater agree to counseling and replaced it with a requirement that servicers engage a financial counseling agency to offer targeted financial counseling to existing borrowers who were considered to be at high risk of default on their permanent HAMP loan modification.[46] According to Treasury officials, this structure allows servicers to better

[44]See GAO-12-296. The letter of credit facility is used to pay Treasury's portion of claims on losses associated with loans refinanced under the program. The letter of credit is expected to be in force through September 2020.

[45]See GAO-09-837.

[46]Treasury also required servicers to offer targeted financial counseling to all borrowers beginning a HAMP trial loan modification after March 1, 2014.

monitor borrowers' use of housing counseling and their subsequent performance. Treasury identified minimum criteria for defining a borrower at high risk of default and servicers were encouraged to define additional borrower characteristics that may indicate a high-risk borrower.[47] According to Treasury officials, several servicers had defined additional characteristics, including a high back-end DTI ratio. Servicers are required to identify borrowers who receive counseling and monitor borrowers' performance under the modified loan after the financial counseling. Although the updated requirement does not address DTI ratios directly, the new requirement may result in greater participation in counseling for high-risk borrowers, such as those with high back-end DTIs. Further, by regularly collecting data on who receives counseling, Treasury will have information available to determine if counseling is having its intended effect of limiting borrower redefaults.

Treasury Has Not Fully Implemented Four Prior Recommendations Related to Oversight and Transparency

As of August 2014, Treasury has told us that it does not plan to take action on two of our prior recommendations to improve oversight of servicers, one of which we have subsequently closed as not implemented. Specifically, we recommended that Treasury's compliance agents assess the extent to which servicers established internal control programs that effectively monitor compliance with fair lending laws that apply to MHA programs.[48] According to Treasury officials, federal agencies with supervisory authority for fair lending laws are in the best position to monitor servicer compliance with those laws, including by evaluating a servicer's fair lending control programs. Treasury officials added that in light of these agencies' examination of controls over fair lending, they did not believe that an additional examination would increase servicer compliance with fair lending laws. Treasury officials stated that Treasury would continue its other efforts to promote fair

[47] According to Servicer Directive 13-08, each servicer must establish and maintain written guidelines and policies identifying the characteristics of borrowers in its portfolio of HAMP permanent modifications in good standing that the servicer considers to be at a high risk of redefault. At a minimum, such guidelines and policies must require a monthly review and determination for each borrower in the servicer's portfolio of HAMP permanent modifications in good standing. The servicer must decide whether the borrower is at risk of default—that is, delinquent on the date of determination and has been delinquent at any other time during the 12 month period preceding the determination. Servicers are encouraged to define additional borrower characteristics in their written guidelines and policies that may indicate a high risk of redefault.

[48] See GAO-14-117.

lending policies, such as collecting government monitoring information about the homeowners who are evaluated for MHA, making related data files available to the public to increase transparency and to facilitate independent research on MHA, and monitoring servicer compliance with MHA program requirements, many of which are designed to limit servicer discretion and ensure that homeowners are treated fairly and appropriately.

However, as we noted in our February 2014 report, we found that Treasury had required MHA servicers to develop internal control programs to monitor compliance with fair lending laws that prohibited discrimination. However, it had not examined the internal control programs or analyzed borrower outcomes for HAMP modifications to evaluate the effectiveness of the fair lending internal control programs. Although federal agencies with supervisory authority for fair lending laws had not identified fair lending violations related to MHA, our analysis found some statistically significant differences in the outcomes of fair lending populations compared with outcomes for other groups.[49] Conducting further analyses may allow Treasury to better understand whether these differences were due to servicers' discretion in the application of HAMP guidelines or to other factors. In addition, as we previously reported, Treasury engaged a third-party contractor in September 2013 to conduct a fair lending analysis of HAMP loan modifications. But in June 2014 Treasury officials told us that Treasury had determined that it would not proceed with the analysis due to the inherent limitations of the available data. However, as we reported in February 2014, our analysis of Treasury's HAMP data through April 17, 2013, including denial data, suggested that there may be some issues that warrant a closer look at servicers' fair lending internal control systems by Treasury and the pertinent fair lending regulatory agency. Without requiring its compliance agent to review servicers' fair lending controls or reviewing the fair lending-related data that MHA servicers do collect, such as data on the race, ethnicity, and gender of borrowers seeking HAMP modifications or entering into a HAMP trial or permanent

[49]Our econometric analysis focused on certain protected classes as defined by the Equal Credit Opportunity Act, 15 U.S.C. §§ 1691-1691f, and the Fair Housing Act, 42 U.S.C. §§ 3601-3619—women, non-Hispanic African Americans, Hispanics, non-Hispanic Asians, and non-Hispanic American Indians or Alaska Natives and Native Hawaiians or Other Pacific Islanders (12 C.F.R. § 1002.13)—as well as low- and moderate-income groups and persons living in substantially minority neighborhoods. For more information on the methodology and results of our analysis, see GAO-14-117.

modification, Treasury does not have a mechanism to ensure that servicers have developed internal control programs to monitor compliance with fair lending laws, as Treasury requires. Also, Treasury is limited in its understanding of the extent to which the structure of the program or servicers' practices might identify potential fair lending risks.

An additional recommendation required Treasury to establish criteria for determining when a borrower was in imminent danger of default and therefore eligible for a HAMP modification.[50] In response, Treasury officials told us that they had decided not to take action to implement this recommendation because servicers and investors were in the best position to determine whether a borrower was eligible for a modification because the borrower was in imminent danger of default. However, our prior work found notable differences among servicers that we contacted in the criteria they used to identify borrowers facing imminent default. As a result of these differences, similarly situated borrowers may not be receiving the same types of assistance from servicers participating in HAMP. Without clear and specific criteria for assessing servicers' identification of borrowers in imminent danger of default, Treasury could be unable to ensure that borrowers receive equitable treatment under HAMP. While we closed this recommendation as not implemented based on Treasury's indication that it did not plan to take action, Treasury may be missing an opportunity to help additional borrowers avoid foreclosure and help ensure that borrowers receive equitable treatment.

We are continuing to evaluate Treasury's response for an additional two recommendations, one of which Treasury has responded to by taking some actions. For example, in our June 2010 report, we recommended that Treasury take steps to increase transparency about the use and performance of MHA programs.[51] In that report, we recommended that Treasury publish information on PRA program participation, including data on the extent to which servicers determined that principal reduction was beneficial to the investor but not offered.[52] Starting in May 2011, Treasury's monthly MHA performance reports have included data on PRA program participation. In addition, Treasury's public data files include

[50]See GAO-10-634.

[51]See GAO-10-634.

[52]Servicer participation in PRA is voluntary, and servicers have significant discretion in offering principal reduction.

information on the results of individual borrowers' NPV analyses under PRA. However, the data do not include servicer-specific information, including for cases in which principal reduction was determined to be beneficial but was not offered. Unless this information is publicly reported, questions may remain about whether similarly situated borrowers are being treated fairly and consistently by all servicers. This recommendation to improve transparency is currently open.

We continue to believe that these recommendations could improve Treasury's oversight and transparency and help ensure that the greatest number of borrowers are helped by TARP-funded housing programs.

Conclusions

MHA, the Hardest Hit Fund, and the FHA Short Refinance program were part of an unprecedented response to a particularly difficult time for our national mortgage markets. In the 5 years since Treasury first announced that it would use TARP funds for various programs intended to preserve homeownership and protect home values, approximately 1.4 million borrowers have received permanent HAMP first-lien modifications. But this number remains below Treasury's original estimate of the number of people who would be helped through HAMP, and $25.7 billion (67 percent) of the allocated TARP funds remains to be disbursed.

As of July 2014, about 3.8 million borrowers had been denied HAMP loan modifications. To limit the number of borrowers who are inappropriately denied HAMP loan modifications, Treasury monitors individual servicer's compliance with program requirements. However, Treasury does not fully evaluate the reasons for differences in denial rates among servicers. Federal internal control standards state that evaluating related data can help agencies identify unexpected results or outliers and take action. We acknowledge that the data on denials do not allow for sophisticated data analysis, but statistical comparisons could pinpoint differences that could be used to guide additional compliance monitoring activities. In addition, learning from servicers with lower denial rates for certain categories could help identify best practices and provide information to strengthen Treasury's policies and guidance. Without evaluating data among servicers to inform future compliance and policy decisions, Treasury cannot ensure that HAMP reaches the greatest number of eligible borrowers.

Treasury reported in July 2014 that almost one-third of borrowers had redefaulted from permanent HAMP loan modifications. Treasury has evaluated programwide data on borrowers' redefaults to identify common reasons borrowers may redefault and to inform policy changes. But Treasury does not use more sophisticated analytical methods to evaluate data on redefault rates among servicers, although the results of such analyses could also help inform policy decisions. Our econometric analysis of data on redefault rates identified large differences among some servicers both with and without controls for certain loan, borrower, and property characteristics. Treasury staff said that they had done some data analysis in other areas controlling for differences among servicers, but they have not applied these methods to analysis of redefault data due to concerns that the methodologies do not fully capture all characteristics. We determined that the existing data are sufficiently reliable to allow for more sophisticated analytical methods such as an econometric analysis that could control for certain differences among servicers. By not capitalizing on the information these methods provide, Treasury risks making policy decisions based on potentially misleading information and may miss opportunities to identify best practices to retain the greatest number of eligible borrowers.

Lastly, we continue to believe that Treasury should consider taking action on recommendations that we have made in previous reports. Given that Treasury has extended the MHA program at least through December 31, 2016, implementing these recommendations would improve the operation and transparency of Treasury's oversight and implementation of the program and provide greater assurance that eligible borrowers have equal access to program benefits.

Recommendations for Executive Action

To improve monitoring and oversight of Treasury's HAMP, we recommend that the Secretary of the Treasury take the following two actions:

- conduct periodic evaluations to help explain differences among MHA servicers in reasons for denying application for trial modifications that may inform its compliance reviews of individual servicers, identify areas of weaknesses and best practices, and determine the potential need for additional program policy changes, and

- conduct periodic evaluations using analytical methods, such as econometric modeling as appropriate, to help explain differences among MHA servicers in redefault rates that may inform its compliance reviews of individual servicers, identify areas of weaknesses and best practices, and determine the potential need for additional program policy changes.

Agency Comments and Our Evaluation

We provided a draft of this report to Treasury for review and comment. Treasury provided a written comment letter, which is presented in appendix III. We also received technical comments from Treasury that are incorporated as appropriate in the report. In its written comments, Treasury agreed that analysis of program data was a critical tool for improving the reach and effectiveness of MHA programs and said that it would consider whether any changes to its current analytical methods were appropriate. Treasury noted that it evaluated program data based on appropriate methods and used the results to inform programmatic decisions. However, as we have reported, Treasury's current evaluation of denial data does not fully consider the reasons for differences in denial rates among servicers and may not allow it to identify the reasons for these differences. In addition, Treasury has not used some available analytical methods, such as econometric modeling, to help explain differences among servicers' redefault rates and to inform policy changes. As we described in the report, certain known loan, borrower, and property characteristics that could contribute to differences in redefault rates among servicers are not captured by Treasury's current analytical approaches. Moving forward, it will be important that Treasury periodically evaluate differences among servicers, including by using available methods and data to control for known characteristics.

In its technical comments, Treasury raised concerns about the methodology we used in our redefault analysis and our results. In particular, Treasury expressed concern about the limitations of the available data and the usefulness of the analysis in light of its compliance review process. Treasury stated that it did not believe that the few variables that GAO used for its redefault analysis were sufficient to provide a fair comparison of redefault rates among servicers. It would be important to isolate as much as possible the impact a servicer had on the performance of a loan, Treasury explained, and such an analysis would require many more variables that for the most part were unavailable to Treasury—for example, certain variables related to the origination of the loan. While we recognize that having additional variables has the potential to strengthen the results of the analysis, available data are sufficient to identify potential statistically significant differences in borrower redefault rates, some of which are due to differences in servicer actions and performance. As noted in our draft report to the agency, Treasury's current approach to comparing redefault rates among servicers does not take into account all available data, including information on certain loan characteristics that are known to affect performance, such as the amount of the borrowers' payment reduction through modification, delinquency status before modification, credit score at time of modification, both front- and back-end DTI ratios, the LTV ratio at the time of modification, and property location. By considering these data, Treasury would be better able to isolate performance differences among servicers that are due to loan, borrower, and property characteristics.

Treasury also noted in its technical comments that compliance reviews were a more reliable way to assess servicer performance than comparing data among servicers. However, the purpose of our recommendation is not to propose a substitute for Treasury's compliance activities, but rather to supplement those activities with additional analyses that can be used to better identify best practices and potentially to inform compliance activities. We maintain that it is important that Treasury use more sophisticated analytical methods to evaluate data on redefault rates among servicers to help identify opportunities for additional program improvements and retain as many borrowers as possible.

We are sending copies of this report to the appropriate congressional committees. This report will be available at no charge on our website at http://www.gao.gov.

If you or your staffs have any questions about 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. GAO staff who made major contributions to this report are listed in appendix IV.

Mathew J. Scirè
Director
Financial Markets and
Community Investment

List of Committees

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Appendix I: Objectives, Scope, and Methodology

In response to a mandate in the Emergency Economic Stabilization Act of 2008 (EESA), this report examines (1) the status of housing programs funded under the Troubled Asset Relief Program (TARP) and the U.S. Department of the Treasury's (Treasury) efforts to assist borrowers who complete the initial 5 years of their Home Affordable Modification Program (HAMP) loan modification, (2) Treasury's efforts to monitor and evaluate HAMP loan modification denial and redefault rates among servicers, and (3) the status of the implementation of our prior recommendations on TARP-funded housing programs.[1]

To assess the status of TARP housing programs, we collected and analyzed data on participation levels and spending for the Making Home Affordable (MHA), the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund), and the Federal Housing Administration (FHA) Refinance of Borrowers in Negative Equity Positions (FHA Short Refinance) programs. For MHA programs, we collected data on the number of borrowers participating in the program and program-specific information on the help they received from Treasury's MHA monthly performance reports through May 2014 and its quarterly report for June 2014.[2] We compared these data to Treasury's stated goals for the number of HAMP participants and considered our prior work examining the analytical basis for Treasury's estimates of the number of loans likely to be successfully modified.[3] To describe the status of HAMP loans whose interest rates will increase after the initial 5-year interest rate terms expire, we reviewed Treasury's public and internal analyses of HAMP loan-level data from the Investor Reporting/2 (IR/2) system.[4] We determined that data from this system were sufficiently reliable for this purpose. We also reviewed an analysis by the Urban Institute's Housing Finance and Policy Center on the number and distribution of payment increases following the interest rate increases.[5]

[1]Pub. L. No. 110-343, § 116(a), 122 Stat. 3765, 3783-85 (codified at 12 U.S.C. § 5226(a)).

[2]In June 2014, Treasury began issuing MHA performance reports on a quarterly basis.

[3]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).

[4]IR/2 is Treasury's system of record for HAMP data.

[5]See Laurie Goodman and Jun Zhu, "HAMP Modifications: Is Reset Risk an Issue?" Urban Institute, Housing Finance Policy Center Commentary, May 14, 2014.

We did not independently verify the accuracy of this analysis, but we did compare the results to the results of Treasury's internal analyses and determined that the information published by the Urban Institute was sufficiently reliable for our purposes. For the Hardest Hit Fund, we collected data from participating states' program agreements with Treasury on the total amount of funds allocated and the projected number of households to be assisted, as well as from Treasury's quarterly data and performance summary reports. We used these data to calculate the percentage of households assisted and percentage of funds disbursed. We also reviewed Treasury's on-site compliance review and follow-up review reports for selected states that received Hardest Hit Fund allocations. To select the states for review, we considered state-level performance (percentage of allocated funds disbursed and percentage of projected households assisted) and selected high and low performers. Further, we analyzed the Congressional Budget Office's analysis of projected TARP spending and interviewed Treasury officials about the status of the programs, including any future program changes, and their projections for completing disbursement of TARP housing funds.

To assess the steps Treasury has taken to prepare for and oversee the interest rate increases for borrowers' completing the initial 5 years of their HAMP loan modification, we interviewed Treasury officials about their preparations and planned oversight of servicers' implementation; reviewed Treasury's documents on recent policy changes and analyses of the impact of the change on borrowers; reviewed Treasury's borrower survey instrument; observed a training session for housing counselors on the interest rate increases; and reviewed Treasury's website. We compared Treasury's preparation and plans to criteria from federal internal control standards on risk assessment, control activities, monitoring, and information and communication.[6] We also compared

[6]See GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 2009).

these steps to criteria we previously established for Treasury's oversight of TARP-funded housing programs.[7]

To examine Treasury's monitoring and evaluation of HAMP loan modification denial and redefault rates across servicers, we reviewed MHA Monthly Performance Reports, quarterly Special Inspector General for TARP (SIGTARP) reports to Congress, the MHA program handbook, Treasury's supplemental directives, and prior GAO work.[8] We interviewed Treasury officials and representatives of Treasury's designated compliance agent to understand their efforts to monitor and evaluate the reasons borrowers were denied HAMP trial modifications or redefaulted on permanent modifications. We focused in particular on Treasury's efforts to monitor individual servicers and how it used the results of these activities to inform compliance activities and policy changes.

In addition, we conducted our own analysis to assess differences among servicers' HAMP loan modification denials and redefaults. Specifically, we compared denial rates (by denial reason) and redefault rates among eight large MHA servicers, using data from Treasury's IR/2 system for first-lien loans, for 50 states and the District of Columbia.[9] These servicers accounted for at least 80 percent of HAMP modifications. The HAMP data include a variety of information on individual borrowers and characteristics of the loan, property, investor, servicer, and loan modification terms, as well as the current modification status. However, data on borrower income are not available in the early stage of the HAMP process for borrowers whose applications were denied. In general, borrowers whose HAMP applications did not advance to the net present

[7]See GAO, *Troubled Asset Relief Program: Further Actions Needed to Fully and Equitably Implement Foreclosure Mitigation Programs*, GAO-10-634 (Washington, D.C.: June 24, 2010). These criteria include effective program planning, establishing meaningful performance measures, and conducting appropriate risk assessments. These standards were developed based on federal government internal control standards (see GAO/AIMD-00-21.3.1) and the Government Performance and Results Act of 1993, Pub. L. No. 103-62, 107 Stat. 285 (codified in scattered sections of U.S.C).

[8]See GAO, *Troubled Asset Relief Program; More Efforts Needed on Fair Lending Controls and Access for Non-English Speakers in Housing Programs,* GAO-14-117 (Washington, D.C.: Feb. 6, 2014) and GAO-10-634.

[9]The IR/2 data are made available to government agencies. The most recent data available for denials by servicer that we used are as of March 2013. For redefaults, we used data from April 2009 through April 2013, based on our previous report (see GAO-14-117).

value (NPV) evaluation stage had more missing data on the borrower and loan characteristics.[10] The HAMP data are supplied by participating servicers, which are required to report at certain key points, including when a modification is requested, during the trial period, and when the trial modification becomes a permanent modification. Permanent modifications require monthly performance reports.[11] We determined that these data were sufficiently reliable for the purposes of our analysis.

For the denials analysis, we used cumulative loans from IR/2 as of March 2013 (reported on Apr. 17, 2013). For our analysis, we separated the denials of applications (3,092,942 loans as of March 2013) from the other loans that were approved for trial modification. We also used the publicly available HAMP data file as of July 2014, which did not contain information on the servicers. However, we used these data to describe changes in the denial reasons over time at an aggregate level. The variables we used for our descriptive analysis of denials were the denial reason and servicer. Our analysis focused on the top 7 denial reasons, which accounted for 88 percent of denials among large servicers as of March 2013. The top 7 denial reasons were request incomplete, debt-to-income (DTI) ratio less than 31 percent, ineligible mortgage, offer not accepted by borrow/request withdrawn, default not imminent, property not owner occupied, and excessive forbearance. The remaining 16 reasons are grouped as other reasons. They are negative NPV; investor guarantor not participating; loan paid off or reinstated; property and/or borrower exceeds allowable number of HAMP modifications; insufficient monthly payment reduction; other ineligible property (i.e., property condemned, property>4 units); unemployment forbearance plan; no change in circumstance; ineligible rental property; ineligible borrower; application discrepancy; court/public official declined; submission error correction (incorrect transaction type); federally declared disaster; and Dodd-Frank certification noncompliance. We evaluated the frequency of each denial reason for each servicer, but did not test for statistical significance.

[10]About 11 percent of loans “not approved/not accepted” contain NPV data, limiting our ability to conduct a multivariate regression analysis that would allow us to control for potential confounding effects on denial rates.

[11]For additional discussion of these analyses, including other data used, see the second appendix of GAO-14-117.

For the analysis of redefaults (i.e., the borrowers becoming 90 days or more delinquent within 12 months of converting to a permanent modification), we used data from April 2009 through April 17, 2013. The redefault analysis is based on GAO's previously reported econometric analysis of HAMP redefaults and uses a multivariate regression technique for the outcomes, which controlled for factors such as characteristics of borrowers (e.g., credit risks), loans, properties, location, and modification terms.[12] The IR/2 data related to redefaults were supplemented with housing- and mortgage-related data from the 2010 Census, including neighborhood-level characteristics such as the poverty rate, household education, mortgages with second liens, and ratio of rental values to home values (property risk) that could be associated with HAMP outcomes.[13]

To assess the actions Treasury took to monitor and evaluate the reasons for denying borrowers' trial modifications and for redefaults of permanent modifications, we compared Treasury's steps to relevant federal internal control standards and key practices from our prior report on designing evaluations.[14]

To assess the status of our prior recommendations on TARP-funded housing programs, we reviewed our prior reports on TARP-funded housing programs and analyzed data in our Engagement Results Phase system to determine the number of recommendations and confirm current

[12]See GAO-14-117. Specifically, we controlled for factors such as delinquency status of the borrower before modification, credit score at time of modification, both front and back-end DTI ratios, and the loan-to-value ratio at the time of the modification.

[13]The census data were obtained from Minnesota Population Center, *National Historical Geographic Information System: Version 2.0* (University of Minnesota: Minneapolis, MN.: 2011). There are some limitations to our analysis. For instance, we could not control for all potential factors that affect these outcomes due to the lack of certain data, such as the wealth of the borrowers and their knowledge of the loan modification process. Also, our analysis cannot account for some important factors, such as whether equivalent borrowers in these populations apply to HAMP at different rates or are more or less likely to receive assistance outside of HAMP.

[14]See GAO/AIMD-00-21.3.1; GAO, *Internal Control Management and Evaluation Tool,* GAO-01-1008G (Washington, D.C.: August 2001); *Designing Evaluations*, GAO-12-208G (Washington, D.C.: January 2012); and *Executive Guide: Effectively Implementing the Government Performance and Results Act,* GAO/GGD-96-118 (Washington, D.C.: June 1996).

status.[15] We also interviewed Treasury officials on steps they had taken in response to our prior recommendations and analyzed Treasury's written responses to our recommendations. To help verify the steps taken, we analyzed changes to the MHA program handbook; Treasury's supplemental directives communicating program changes; and publicly issued performance reports, including the monthly MHA Program Performance Reports.

We conducted this performance audit from May 2014 through October 2014 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.

[15]See GAO-14-117; GAO, *Troubled Asset Relief Program: Further Actions Needed to Enhance Assessments and Transparency of Housing Programs*, GAO-12-783 (Washington, D.C.: July 19, 2012); *Foreclosure Mitigation: Agencies Could Improve Effectiveness of Federal Efforts with Additional Data Collection and Analysis*, GAO-12-296 (Washington, D.C.: June 28, 2012); *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); GAO-10-634; and GAO-09-837.

Appendix II: Status of GAO's Troubled Asset Relief Program (TARP)-Funded Housing Recommendations, as of August 2014

The following table summarizes the status of the implementation of our TARP-funded housing recommendations as of August 2014.[1] We classify each recommendation as open (the agency has not taken steps to implement the recommendations); partially implemented (the agency took steps to implement the recommendation but more work remains); closed, not implemented (the agency decided not to take action to implement the recommendation); or closed, implemented. The recommendations are listed by issued report.

Table 2: Status of GAO TARP-Funded Housing Recommendations, as of August 2014

Recommendation	Actions taken	Status
Troubled Asset Relief Program: More Efforts Needed on Fair Lending Controls and Access for Non-English Speakers in Housing Programs, GAO-14-117, February 6, 2014		
Issue clarifying guidance to servicers on providing effective relationship management to limited English proficiency borrowers.	In April 2014 Treasury issued guidance to servicers requiring them to develop and implement a policy to identify the requirements and appropriate caseload for the relationship manager position. The guidance requires servicers to ensure that staff are able to effectively communicate with all borrowers, including limited English proficiency borrowers, by either employing multilingual individuals or engaging an outside vendor to provide interpretation services.	Closed, implemented

[1]Recommendations were made in the following reports: GAO, *Troubled Asset Relief Program: More Efforts Needed on Fair Lending Controls and Access for Non-English Speakers in Housing Programs*, GAO-14-117 (Washington, D.C.: Feb. 6, 2014); *Troubled Asset Relief Program: Further Actions Needed to Enhance Assessments and Transparency of Housing Programs*, GAO-12-783 (Washington, D.C.: July 19, 2012); *Foreclosure Mitigation: Agencies Could Improve Effectiveness of Federal Efforts with Additional Data Collection and Analysis*, GAO-12-296 (Washington, D.C.: June 28, 2012); *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); *Troubled Asset Relief Program: Further Action Needed to Fully and Equitably Implement Foreclosure Mitigation Programs*, GAO-10-634 (Washington, D.C.: June 24, 2010); and *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).

Recommendation	Actions taken	Status
Require compliance agent to take steps to assess the extent to which servicers have established internal control programs that effectively monitor compliance with fair lending laws that apply to Making Home Affordable (MHA) programs.	Treasury officials stated that they did not plan to take actions in response to our recommendation because supervisory agencies responsible for monitoring compliance with these laws have examination controls in place. However, we found that supervisory agencies did not share the results of their examinations with Treasury. Without requiring its compliance agent to review servicers' fair lending controls or reviewing the fair lending-related data MHA servicers collect, Treasury does not have a mechanism to ensure that servicers participating in MHA have effective fair lending internal control programs in place.	Open
Ensure that the compliance agents assess servicers' compliance with Limited English Proficiency (LEP) relationship management guidance, once established.	Treasury issued LEP guidance in April 2014. According to Treasury officials, Treasury's Office of Finance Stability-Compliance and the MHA compliance agent will begin assessing servicer compliance with the guidance in late 2014.	Open
Troubled Asset Relief Program: Further Actions Needed to Enhance Assessments and Transparency of Housing Programs, GAO-12-783, July 19, 2012		
Expeditiously conduct a comprehensive risk assessment of Home Affordable Modification Program (HAMP) Tier 2, using the standards for internal control in the federal government as a guide.	In July 2013, Treasury completed a comprehensive risk assessment of MHA programs, including HAMP Tier 2, based on internal control standards. According to Treasury, the risk assessment included identifying the types and potential impacts of risks on the MHA program and appropriate mitigating steps taken to address those risks.	Closed, implemented
Develop activity-level performance measures and benchmarks related to the HAMP Tier 2 program.	In its 60-day response letter, Treasury stated that it is working closely with servicers to monitor program performance through a combination of the compliance function (to assess overall servicer implementation) and program volume. In February 2013, Treasury officials provided information that demonstrated it was tracking performance indicators for HAMP Tier 2.	Closed, implemented
Consolidate the state performance reports and financial reports, including administrative expenses, into a single Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund) report to provide policymakers and the public with the overall status of the program as well as the relative status and performance of the states' efforts.	Treasury posted a link on its Hardest Hit Fund state-by-state website page, which includes summary data by quarter and cumulative data for participating states and the District of Columbia. These data include the total number of unique borrowers receiving assistance, the total assistance provided, and the total amount spent on administrative expenses.	Closed, implemented

Recommendation	Actions taken	Status
Foreclosure Mitigation: Agencies Could Improve Effectiveness of Federal Efforts with Additional Data Collection and Analysis, GAO-12-296, June 28, 2012		
Update estimates of participation in the Department of Housing and Urban Development's Federal Housing Administration (FHA) Refinance of Borrowers in Negative Equity Positions (FHA Short Refinance) program given current participation rates and recent changes to the program. Treasury should use these updated estimates to reassess the terms of the letter of credit facility and consider seeking modification in order to help ensure that it meets Treasury's needs cost-effectively.	In March 2013, Treasury amended the purchase agreement for the letter of credit facility, reducing the amount by $7 billion from $8 billion to $1 billion and reduced the cap on administrative fees that could be charged by $92 million from $117 million to $25 million. As a result, Treasury deobligated approximately $7.1 billion, returning that amount to the general fund during fiscal year 2013.	Closed, implemented
Troubled Asset Relief Program: Treasury Continues to Face Implementation Challenges and Data Weaknesses in Its Making Home Affordable Program, GAO-11-288, March 17, 2011		
Require servicers to advise borrowers to notify their second-lien servicers once a first lien has been modified under HAMP to reduce the risk that borrowers with modified first liens are not captured in the Lender Processing Services matching database and, therefore, not offered second-lien modifications.	Beginning in September 2011, Treasury required servicers to inform each borrower who receives a permanent first-lien modification under HAMP of the borrower's potential eligibility for a second-lien modification under the Second Lien Modification Program (2MP). Treasury also updated the MHA Agreement Cover Letter form to include model clauses that servicers can use to notify borrowers and a statement encouraging borrowers to contact the second-lien servicer if the servicer does not contact the borrower within 60 days.	Closed, implemented
Consider methods for better capturing outcomes for borrowers who are denied or canceled or have redefaulted from HAMP, including more accurately reflecting what actions are completed or pending and allowing for the reporting of multiple concurrent outcomes, in order to determine whether borrowers are receiving effective assistance outside of HAMP and whether additional actions may be needed to assist them.	In February 2013, Treasury updated the survey questionnaire used to query the largest MHA servicers regarding the disposition of borrowers who have been denied HAMP modifications, or were canceled from trials, to include information about the disposition of borrowers who are "in process" and "completed" to clarify their status. Treasury officials said they also considered capturing multiple outcomes but instead have servicers report dispositions according to a hierarchy specified in the survey template.	Closed, implemented
Ensure that servicers demonstrate that they have the operational capacity and infrastructure in place to successfully implement the requirements of 2MP, Home Affordable Foreclosure Alternative (HAFA), and Principal Reduction Alternative (PRA) programs.	Treasury has contracted with Freddie Mac to serve as the compliance agent for the Making Home Affordable program (MHA-C). In addition to conducting readiness assessments, MHA-C evaluates servicers' implementation of MHA programs, including 2MP, HAFA, and PRA. The specifics of these evaluations are designed to ensure adherence with the program guidelines, as well as the servicer's ability to meet those guidelines. According to Treasury officials, in instances where a servicer may have implementation challenges and is unable to meet specific elements of the programs, these matters are raised to Treasury's Office of Financial Stability management and tracked to resolution by MHA-C to ensure that implementation occurs as soon as practicable.	Closed, implemented

Recommendation	Actions taken	Status
Troubled Asset Relief Program: Further Action Needed to Fully and Equitably Implement Foreclosure Mitigation Programs, GAO-10-634, June 24, 2010		
Expeditiously and more clearly inform borrowers that the HOPE Hotline may also be used if they are having difficulty with their HAMP application or servicer or feel that they have been incorrectly denied HAMP; to monitor the effectiveness of the HOPE Hotline as an escalation process for handling borrower concerns about potentially incorrect HAMP denials; and to develop an improved escalation mechanism if the HOPE Hotline is not sufficiently effective.	According to Treasury officials, they have promoted use of the HOPE Hotline by publishing the number on the MHA website and requiring servicers to include the hotline's contact information in notices to borrowers. In November 2010 guidance, Treasury standardized the process for handling certain borrower inquiries and disputes related to the MHA program, including contacts received through the HOPE Hotline, by outlining servicers' obligations for tracking borrower inquiries and disputes and conducting reviews in a timely fashion. In addition, Fannie Mae, as the program administrator, prepares weekly and monthly performance reports for the HOPE Hotline and Treasury officials review these reports as well as a monthly sample of escalated case files to help ensure borrowers are receiving the services Treasury expects.	Closed, implemented
Expeditiously develop additional guidance for servicers on their quality assurance programs for HAMP, including greater specificity on how to categorize loans for sampling and what servicers should be evaluating in their reviews.	In February 2011, Treasury issued program guidelines that provided additional clarification regarding a servicer's responsibility to develop and execute an effective internal quality assurance program covering its MHA activities. The guidance includes specific requirements on the scope and methodology of quality assurance reviews.	Closed, implemented
Expeditiously specify which complaints servicers should track to ensure consistency and to facilitate program oversight and compliance.	In November 2010, Treasury issued guidance to servicers that established a borrower support center and required servicers to track certain types of program complaints. Further, the guidance established a timeline for complaint resolution (30 days) and required servicers to provide Treasury with weekly data on escalated complaints.	Closed, implemented
Expeditiously finalize and issue consequences for servicer noncompliance with HAMP requirements as soon as possible.	Starting with program activity through April 2011, Treasury began publishing quarterly assessments of the performance of the largest participating servicers in meeting the requirements for implementing MHA programs. Treasury uses the results of compliance reviews and quantitative data on performance on individual loan files, along with other relevant factors affecting servicer performance, to determine whether a servicer needs to improvement its performance under MHA guidelines. For servicers in need of improvement, Treasury may withhold financial incentives owed to those servicers until they make certain identified improvements.	Closed, implemented
Expeditiously implement a prudent design for remaining HAMP-funded programs.	In July 2013, Treasury conducted a risk assessment of MHA programs, including measurement of internal control activities of the 2MP, HAFA, PRA, and unemployed borrowers programs. Treasury has also periodically assessed the design of other TARP-funded housing programs, including the FHA Short Refinance program which resulted in Treasury de-obligating $7.1 billion in funds during fiscal year 2013.	Closed, implemented

Recommendation	Actions taken	Status
Expeditiously finalize and implement benchmarks for performance measures under the first-lien modification program, as well as develop measures and benchmarks for the recently announced HAMP-funded homeowner assistance programs.	Since June 2011, Treasury has publicly reported on the performance of the largest servicers participating in MHA in three categories (identifying and contacting homeowners, homeowner evaluation and assistance, and program management and reporting). Treasury has established specific metrics and benchmarks to use in assessing servicer performance for each of these three categories. The performance metrics include the HAMP first-lien modifications and other TARP-funded MHA programs.	Closed, implemented
Expeditiously report activity under the principal reduction program, including the extent to which servicers determined that principal reduction was beneficial to investors but did not offer it, to ensure transparency in the implementation of this program feature across servicers.	Starting with the monthly MHA performance report for the period through May 2011, Treasury began reporting summary data on the PRA program. Specifically, Treasury provides information on PRA trial modification activity as well as median principal amounts reduced for active permanent modifications. In addition, beginning with its MHA performance report activity through October 2011 and quarterly thereafter, Treasury reported more detailed data on the characteristics of loans that receive PRA modifications. In addition, Treasury's public data files include information on the results of borrowers' net present value (NPV) analyses under PRA. However, the data do not include servicer-specific information, including for cases in which principal reduction was determined to be beneficial but was not offered. Unless this information is publicly reported, questions may remain about whether similarly situated borrowers are being treated fairly and consistently by all servicers.	Partially implemented
Expeditiously establish clear and specific criteria for determining whether a borrower is in imminent default to ensure greater consistency across servicers.	In August 2013, Treasury communicated that it did not plan to establish specific criteria for servicers to follow in determining whether a borrower is in imminent danger of default. Specifically, Treasury stated that servicers and investors were in the best position to judge when the imminent default classification was appropriate and therefore planned to take no further action.	Closed, not implemented
Troubled Asset Relief Program: Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable, GAO-09-837, July 23, 2009		
Reevaluate the basis and design of the Home Price Decline Protection (HPDP) program to ensure that HAMP funds are being used efficiently to maximize the number of borrowers who are helped under HAMP and to maximize overall benefits of utilizing taxpayer dollars.	According to Treasury, it revised the HPDP program design to improve the targeting of incentive payments to mortgages that are at greater risk of default because of home price declines. Treasury provided us with a sensitivity analysis performed on a large sample of HAMP-eligible loans that were 60 days or more delinquent. The sensitivity analysis applied the HAMP NPV model to a sample of loans both with and without potential HDPD payments, and the pass rates were examined for various loan characteristics.	Closed, implemented
Institute a system to routinely review and update key assumptions and projections about the housing market and the behavior of mortgage holders, borrowers, and servicers that underlie Treasury's projection of the number of borrowers whose loans are likely to be modified under HAMP and revise the projection as necessary in order to assess the program's effectiveness and structure.	According to Treasury, they regularly revise their estimate of the number of HAMP-eligible borrowers based on analysis of the Mortgage Bankers Association's National Delinquency Survey.	Closed, implemented

Recommendation	Actions taken	Status
Expeditiously finalize a comprehensive system of internal control over HAMP, including policies, procedures, and guidance for program activities, to ensure that the interests of both the government and taxpayer are protected and that the program objectives and requirements are being met once loan modifications and incentive payments begin.	Treasury established a formal system of internal control for HAMP. Specifically, Treasury engaged Fannie Mae as the MHA program administrator and Freddie Mac as the compliance agent for the program, and established formal oversight committees to monitor the program administrator's and compliance agent's activities.	Closed, implemented
Expeditiously develop a means of systematically assessing servicers' capacity to meet program requirements during program admission so that Treasury can understand and address any risks associated with individual servicers' abilities to fulfill program requirements, including those related to data reporting and collection.	In January 2010, Treasury finalized and began implementing a self-assessment form to be completed by prospective servicers as they apply to participate in HAMP. These self-assessments are used by Treasury to determine whether or not to admit the servicer into HAMP, and to inform future compliance reviews of the servicer. Treasury retroactively applied this form to servicers that began program participation in December 2009. According to Treasury, some of the servicers decided to drop out of the HAMP program after completing the self-assessment and determining that they lacked the necessary capacity to meet the program's requirements.	Closed, implemented
Place a high priority on fully staffing vacant positions in the Homeownership Preservation Office (HPO)—including filling the position of Chief Homeownership Preservation Officer with a permanent placement—and evaluate HPO's staffing levels and competencies to determine whether they are sufficient and appropriate to effectively fulfill its HAMP governance responsibilities.	In November 2009, Treasury hired a permanent Chief Homeownership Preservation Officer and subsequently evaluated the staffing levels and expertise of HPO and consequently reduced staff levels. Since then, Treasury staff indicated that HPO's staffing needs are continuously evaluated, for example through biweekly staff check-ins and succession planning meetings. Additionally, senior staff routinely hold workforce planning meetings.	Closed, implemented
Consider methods of monitoring whether borrowers with total household debt of more than 55 percent of their income who have been told that they must obtain housing counseling do so, and assess how this counseling affects the performance of modified loans to see if the requirement is having its intended effect of limiting redefaults.	Treasury officials indicated that it had taken some actions but did not plan to fully implement the recommendation, in part due to concerns about the burden of having to certify with the counseling agencies that borrowers had received counseling. In March 2014, Treasury took steps that partially respond to the recommendation. Specifically, Treasury eliminated the requirement that borrowers with 55 percent or greater back-end debt-to-income ratios (DTI) agree to counseling and replaced it with a requirement that servicers engage a financial counseling agency to offer targeted financial counseling to existing borrowers who were considered to be at high-risk of default on their permanent HAMP loan modifications. Although the updated requirement does not address DTI directly, the new requirement may result in greater participation in counseling for at-risk borrowers and, by regularly collecting data, Treasury will have information available to determine if counseling is having its intended effect of limiting borrower redefaults.	Closed, not implemented

Source: GAO analysis of Treasury data and information. | GAO-15-5

Appendix III: Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 25, 2014

Mathew J. Scirè
Director
Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Mr. Scirè:

I write in response to the Government Accountability Office's (GAO) draft report (Draft) regarding the housing programs funded through the Troubled Asset Relief Program (TARP) at the Department of the Treasury (Treasury). We support oversight of all our programs, having implemented 19 GAO recommendations—and approximately 50 total recommendations from oversight bodies—related to TARP's housing programs. We have benefitted from working with your team over the course of this audit, and we appreciate the opportunity to review and respond to the Draft.

The Draft provides an update on the status of TARP housing programs, such as the Making Home Affordable Program (MHA) and the Hardest Hit Fund. These programs have been a critical part of the Obama Administration's efforts to provide relief to families at risk of foreclosure and help the housing market recover from a historic crisis. Under MHA alone, more than two million homeowner assistance actions have taken place, including more than 1.2 million permanent modifications through the Home Affordable Modification Program (HAMP).

The Draft also discusses Treasury's efforts to analyze certain data relating to HAMP. Since the beginning of the program, Treasury has regularly analyzed MHA program data to identify opportunities to expand assistance for homeowners. For example, we closely monitor data showing the reasons some homeowners fail to qualify for HAMP. That analysis prompted us to expand program eligibility criteria and modify the application process, which has bolstered participation levels. In addition, we analyze data related to the performance of HAMP modifications over time. That research served as the basis for numerous steps we have taken to minimize re-default rates, including encouraging servicers to provide assistance at earlier stages and promoting greater use of principal reduction.[1]

Analysis of program data also has informed Treasury's oversight of servicers participating in MHA. We regularly compare servicer-specific data, including re-default rates and rates of non-approval/non-acceptance, to identify and understand variations. In addition, Treasury's compliance agent conducts detailed, loan-level reviews at the largest MHA servicers. These

[1] *Understanding HAMP Re-Default Rates* (July 22, 2013), Mark McArdle, Acting Chief of Homeownership Preservation at the U.S. Department of the Treasury (http://www.treasury.gov/connect/blog/Pages/Understanding-HAMP-Re-Default-Rates.aspx).

loan-level reviews help to assess whether servicers are treating homeowners fairly and in accordance with program requirements. On a quarterly basis, Treasury publishes a comparison of the results for each of the largest MHA servicers in the MHA Program Performance Report online at www.financialstability.gov. Servicers that require substantial improvement may be subject to financial remedies, such as withholding of servicer incentives.

The Draft makes two recommendations regarding how Treasury can best analyze and use certain data relating to HAMP. We agree that analysis of program data is a critical tool for improving the reach and effectiveness of MHA programs. We will continue our efforts to evaluate available program data based on appropriate methods, and use the results to inform our programmatic decisions. We will also consider whether any changes to our current analytical methods are appropriate.

Treasury appreciates GAO's analysis of our efforts to provide mortgage relief to struggling homeowners and prevent avoidable foreclosures. We look forward to continuing to work with you and your team.

Sincerely,

Timothy J. Bowler

Timothy J. Bowler
Deputy Assistant Secretary for Financial Stability

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Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Mathew J. Scirè, (202) 512-8678 or sciremj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Harry Medina (Assistant Director), Patricia A. MacWilliams, (Analyst-in-Charge), Bethany M. Benitez, Emily R. Chalmers, William R. Chatlos, Lynda E. Downing, John A. Karikari, Susan E. Offutt, Aku S. Pappoe, Jena Y. Sinkfield, Estelle M. Tsay-Huang, James D. Vitarello, William T. Woods, and Lily Zhu made key contributions to this report.

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