



441 G St. N.W.
Washington, DC 20548

January 8, 2016

Congressional Committees

Troubled Asset Relief Program: Status of Housing Programs

The Emergency Economic Stabilization Act of 2008 (EESA) initially authorized \$700 billion to assist financial institutions and markets, businesses, homeowners, and consumers affected by the developing financial crisis.¹ The Department of the Treasury (Treasury) established the Troubled Asset Relief Program (TARP) to help stabilize the U.S. financial system, promote economic growth, and prevent avoidable foreclosures. Treasury established a variety of TARP programs that injected capital into key financial institutions, addressed problems in the securitization markets, provided assistance to the automobile industry, and offered incentives for modifying residential mortgages.

As the severity and immediacy of the 2008 financial crisis began to diminish, Congress reduced the authorized amount to a maximum of \$475 billion as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act.² TARP costs were not expected to reach the authorized amounts, and over time the projected costs had declined as financial institutions repaid some assistance and the government exited programs.

As of October 2015, only programs aimed at the residential housing markets remained active, although Treasury continued to manage investments from two bank investment programs.³

EESA provided GAO with broad oversight authorities for actions taken under TARP and included a provision that GAO report at least every 60 days on TARP activities and performance.⁴ As a result, we have continued to monitor and provide updates on TARP programs.⁵ This 60-day report provides an update on the status of Treasury's disbursements and participation for TARP housing programs as of October 31, 2015. Specifically, this report looks at:

¹Pub. L. No. 110-343, tit. I, 122 Stat. 3765, 3767-3800 (codified as amended at 12 U.S.C. §§ 5211-5241).

²Pub. L. No. 111-203, § 1302, 124 Stat. 1376, 2133 (2010) (codified at 12 U.S.C. §5225(a)).

³The two programs are the Capital Purchase Program and the Community Development Capital Initiative. For more information about these programs, please see GAO, *Troubled Asset Relief Program: Status of Remaining Investment Programs*, [GAO-16-91R](#) (Washington, D.C.: Nov.3, 2015).

⁴Pub. L. No. 110-343, § 116, 122 Stat. at 3765, 3783 (codified at 12 U.S.C. § 5226).

⁵See, for example, our recent reports on TARP programs: GAO, *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2015 and 2014 Financial Statements*, [GAO-16-147R](#) (Washington, D.C.: Nov. 10, 2015); *Troubled Asset Relief Program: Status of Remaining Investment Programs*, [GAO-16-91R](#) (Washington, D.C.: Nov.3, 2015); *Troubled Asset Relief Program: Status of GAO Recommendations*, [GAO-15-813](#) (Washington, D.C.: Sept. 4, 2015); *Troubled Asset Relief Program: Treasury Could More Consistently Analyze Potential Benefits and Costs of Housing Program Changes*, [GAO-15-670](#) (Washington, D.C.: July 6, 2015); *Community Development Capital Initiative: Status of the Program Investments and Participants*, [GAO-15-542](#) (Washington, D.C.: May 5, 2015); *Troubled Asset Relief Program: Treasury Continues to Wind down Most Programs, but Housing Programs Remain Active*, [GAO-15-197](#) (Washington, D.C.: Jan. 6, 2015); and *Troubled Asset Relief Program: Treasury Could Better Analyze Data to Improve Oversight of Servicers' Practices*, [GAO-15-5](#) (Washington, D.C.: Oct. 6, 2014).

- the Making Home Affordable (MHA) initiative, which includes several programs intended to encourage the modification of eligible mortgages and provide other relief to distressed borrowers;
- the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund or HHF), which supports 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 crisis; and
- the Federal Housing Administration’s Short Refinance Program (FHA Short Refinance), which 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. TARP funds have been obligated in the event that Treasury must pay claims for losses on these loans.

Scope and Methodology

We reviewed and obtained data from relevant documentation from Treasury, including Monthly Reports to Congress for TARP, Monthly Updates for TARP, Agency Financial Reports for TARP, MHA’s quarterly Program Performance Reports, and HHF’s quarterly Performance Summary reports. We obtained information from Treasury officials and reviewed prior TARP reports issued by GAO. This report contains the most recently available public data found in Treasury’s reports at the time of our review, including allocations and disbursements as well as participation data.

Generally, we used data that were current as of October 31, 2015. However, in some cases, the most recently available data had “as of dates” before October 31, 2015. We determined that the financial information used in this report was sufficiently reliable to assess the status of MHA, HHF, and FHA Short Refinance based on the results of our audits of fiscal years 2009 through 2015 financial statements for TARP. As part of the financial statement audits, we tested the internal controls over financial reporting of Treasury’s Office of Financial Stability, an office created to implement TARP. We have used Treasury’s participation data in a prior report in which we concluded the data were sufficiently reliable for our purposes.⁶

We conducted this performance audit from November 2015 through January 2016 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 our audit objectives.

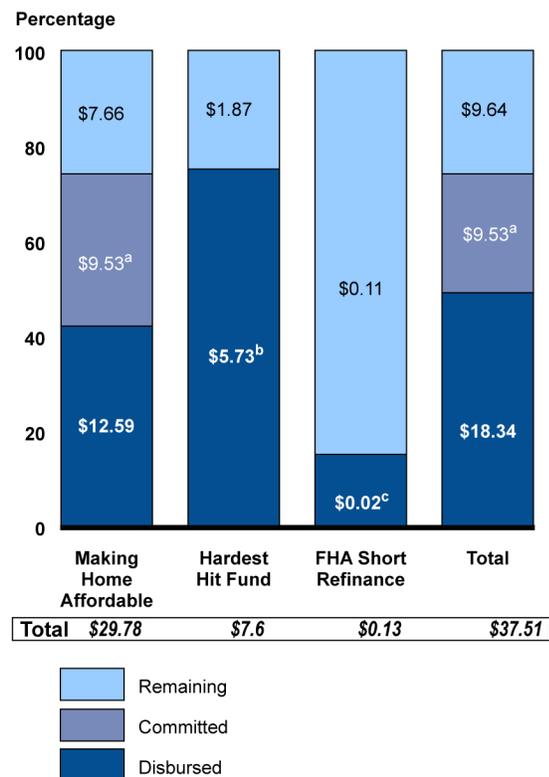
Summary

As of October 31, 2015, Treasury had disbursed \$18.34 billion (49 percent) of the \$37.51 billion in TARP funds allocated to three housing programs—MHA, HHF, and FHA Short Refinance. The amount and percentage of disbursements and participation varied across these programs (see fig. 1). Enclosures 1 through 3 provide details of the programs.

⁶GAO-15-670.

- **MHA:** As figure 1 shows, Treasury had disbursed \$12.59 billion (42 percent) of the \$29.78 billion in TARP funds allocated to MHA programs as of October 2015. Of the \$17.19 billion remaining, Treasury had committed \$9.53 billion to the payment of future financial incentives with respect to existing MHA transactions. As of September 2015, approximately 2.5 million homeowner assistance actions had taken place under MHA programs, according to Treasury.
- **HHF:** As of October 2015, Treasury had disbursed \$5.73 billion (75 percent) of the \$7.6 billion it had allocated to the 18 states and the District of Columbia under HHF. The program had assisted 241,775 households as of September 2015.
- **FHA Short Refinance:** As of October 2015, Treasury had disbursed \$0.02 billion (15 percent) of the \$0.13 billion it currently had allocated to the FHA Short Refinance program. FHA had insured 4,156 loans that could require a Treasury contribution, as of September 2015.

Figure 1: Percentage and Amount of Troubled Asset Relief Program Housing Funds Disbursed, Committed, and Remaining as of October 2015 (dollars in billions)



Source: GAO analysis of Treasury's Monthly Report to Congress for the Troubled Asset Relief Program. | GAO-16-279R

^aAccording to Treasury, these funds have been committed to future financial incentives for existing Making Home Affordable transactions.

^bThis is the amount of funds that states and the District of Columbia have drawn from the Department of the Treasury.

^cThis amount includes about \$10 million in administrative expenses and \$10 million of reserve funds, according to a Treasury official. The reserve funds are on deposit with Citibank, N.A. to provide loss coverage for the program. Treasury will be reimbursed for all of the unused amount from this Citibank account.

Treasury has assumed that all obligated TARP funds under the housing programs will be disbursed, and homeowners have until December 31, 2016, to apply for assistance under MHA programs. As of October 31, 2015, Treasury estimated that the lifetime costs for TARP's housing programs would be \$37.41 billion. However, in March 2015, the Congressional Budget Office (CBO) estimated that TARP would disburse a total of \$28 billion for its housing programs.⁷ According to CBO, its estimate is lower than Treasury's because it expects that fewer households will participate in TARP's housing programs.

Agency Comments

We provided Treasury with a draft copy of this report for review and comment. Treasury provided technical comments that we have incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees. This report will also 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 Mathew J. Scirè at (202) 512-8678 or sciremj@gao.gov or Daniel Garcia-Diaz at (202) 512-8678 or garciadiazd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. In addition to the contact named above, Harry Medina and Karen Tremba (Assistant Directors); Anne Akin (Analyst-in-Charge); Emily Chalmers; William Chatlos; Rachel DeMarcus; and Jena Sinkfield made key contributions to this report.



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Enclosures – 3

⁷See Congressional Budget Office, *Report on the Troubled Asset Relief Program-March 2015* (Washington, D.C.: Mar. 18, 2015). Under the Emergency Economic Stabilization Act of 2008, as amended, CBO is required to prepare annual assessments of TARP's costs.

List of Congressional Committees

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TROUBLED ASSET RELIEF PROGRAM

Making Home Affordable

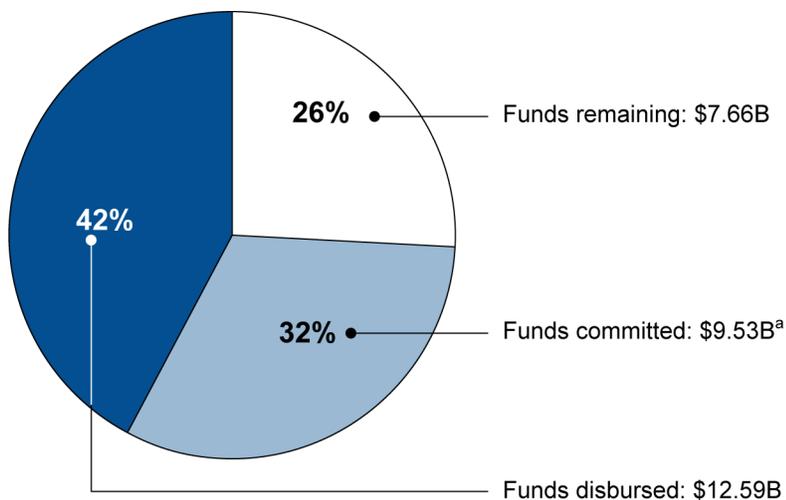
Background

Treasury announced MHA in February 2009. The program was intended to help stabilize the housing market and assist homeowners facing foreclosure. MHA includes several programs that are intended to encourage the modification of eligible mortgages and provide other relief to struggling borrowers.

Status

As of October 2015, Making Home Affordable (MHA) remained active. As of this date, the Department of the Treasury (Treasury) had disbursed \$12.59 billion (42 percent) of the \$29.78 billion in Troubled Asset Relief Program (TARP) funds that had been allocated to MHA programs (see fig. 2). Of the \$17.19 billion remaining, Treasury had committed \$9.53 billion to future financial incentives for existing MHA transactions.

Figure 2: Making Home Affordable Funds Disbursed, Committed, and Remaining as of October 2015 (dollars in billions)



Source: GAO analysis of Treasury's Monthly Report to Congress for the Troubled Asset Relief Program. | GAO-16-279R

^aAccording to the Department of the Treasury, these funds have been committed to future financial incentives for existing Making Home Affordable transactions.

As of September 2015, approximately 2.5 million homeowner assistance actions have taken place under MHA programs, according to Treasury. These include permanent first- and second-lien mortgage modifications, completed short sales, deeds-in-lieu of foreclosure, and unemployment forbearance plans.⁸ The original deadline for acceptance into MHA programs was December 31, 2012, but Treasury has extended the deadline three times. The application deadline for MHA programs is currently December 31, 2016. As of September 30, 2015, Treasury's estimated lifetime cost for MHA was \$29.78 billion.

The **Home Affordable Modification Program (HAMP)** is MHA's largest program. The program was intended to help eligible borrowers stay in their homes and reduce avoidable foreclosures by lowering monthly mortgage payments to affordable levels. HAMP provides financial incentives for

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⁸In 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 deeds-in-lieu of foreclosure, the homeowner voluntarily conveys all ownership interest in the home to the lender as an alternative to foreclosure proceedings.

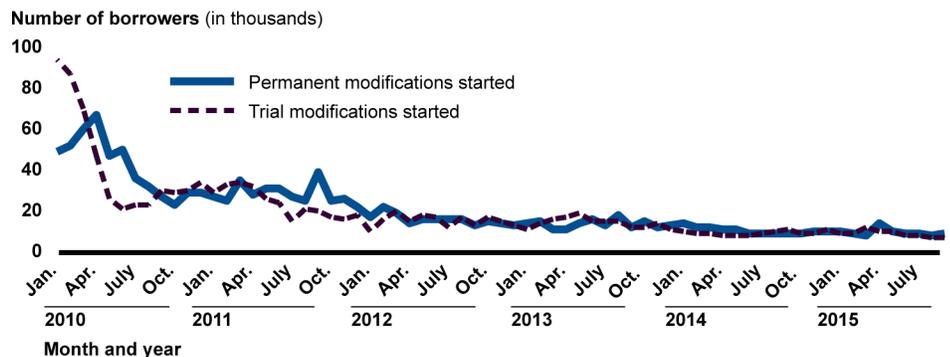
servicers, mortgage holders/investors, and borrowers for modifications to mortgages originated prior to January 1, 2009.⁹

The program has three components—HAMP Tier 1, HAMP Tier 2, and Streamline HAMP.

- HAMP Tier 1, announced in March 2009, 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. The percentage is calculated using the debt-to-income (DTI) ratio.¹⁰
- HAMP Tier 2, 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.
- Streamline HAMP, announced in July 2015, is designed to help borrowers who meet HAMP eligibility criteria and, among others, those who have not completed an application by the time their loan is 90 days delinquent. Servicers are required to have a Streamline HAMP Policy in place by January 1, 2016, and to proactively identify borrowers who meet certain criteria. When servicers identify loans that are eligible for the program, they must offer trial modifications within 15 calendar days.

As of September 2015, about 1.5 million permanent modifications had been started. As shown in figure 3, HAMP participation, as measured by trial and permanent modifications started each month, peaked at 145,000 in January 2010. Overall, modifications declined in 2011 and then held relatively steady until the end of 2013. Since March 2015, the total number of new permanent modifications has ranged from 9,000 to 15,000 per month through September 2015 (the most recent month for which data were available).

Figure 3: Monthly Combined Home Affordable Modification Program Tier 1 and Tier 2 Activity Levels through September 2015



Source: GAO analysis of Treasury's Monthly Reports to Congress for the Troubled Asset Relief Program. | GAO-16-279R

Note: Effective June 2012, HAMP was expanded to include Tier 2. Treasury began reporting Tier 2 activity in November 2012.

⁹Treasury uses TARP funds to provide both one-time and ongoing incentives for up to 6 years after a loan is modified. For example, if a borrower's monthly mortgage payment is reduced by 6 percent or more and the mortgage loan remains in good standing, the servicer receives an annual pay-for-success incentive for 3 years, and the borrower receives a pay-for-performance incentive annually for the first 6 years after the due date of the first trial loan payment. If the mortgage payment is not reduced by at least 6 percent, but remains in good standing, the borrower receives a one-time incentive payment after the sixth year.

¹⁰For first-lien mortgages, the 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 association dues).

Under MHA's **Home Affordable Foreclosure Alternatives (HAFA)** program, servicers offer foreclosure alternatives (short sales and deeds-in-lieu of foreclosure). Borrowers must have met the basic eligibility requirements for HAMP but failed to qualify for a modification, defaulted on a modification by missing three or more consecutive payments, or requested a short sale or deed-in-lieu of foreclosure. As of September 2015, a total of 389,959 HAFA transactions had been completed.

In October 2010, MHA's **Principal Reduction Alternative (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. As of September 2015, a total of 251,366 permanent HAMP modifications had included principal reduction.

MHA's **Second Lien Modification Program (2MP)** is designed to work in tandem with HAMP modifications to provide a comprehensive solution to help borrowers afford their mortgage payments. As of September 2015, a total of 152,442 2MP modifications had been started, including 43,515 full extinguishments.

Treasury's Federal Housing Administration-HAMP and Rural Development-HAMP—**Treasury FHA-HAMP and RD-HAMP**, respectively—provide incentives to borrowers and servicers for mortgages insured by FHA and guaranteed by the Department of Agriculture's Rural Housing Service (RHS) for modifications similar to those offered through HAMP. 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.¹¹ As of September 2015, a total of 100,678 Treasury FHA- and RD-HAMP permanent modifications had been started.

MHA's **Home Affordable Unemployment Program** offers assistance to borrowers who are suffering financial hardship due to unemployment. Although this program is part of MHA, it does not use TARP funds to make financial incentive payments. As of August 2015, 44,405 forbearance plans had been started.

¹¹The incentive payments for FHA-HAMP and RD-HAMP modifications are structured like HAMP incentive payments.



TROUBLED ASSET RELIEF PROGRAM

Hardest Hit Fund

Background

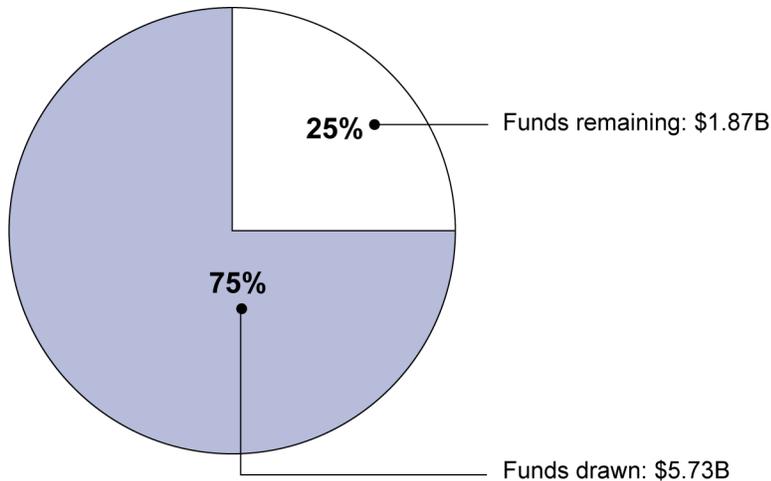
Treasury established the Hardest Hit Fund in February 2010 to help stabilize the housing market and assist homeowners facing foreclosure in the states hardest hit by the housing crisis. State housing finance agencies, which are state-chartered authorities established to help meet affordable housing needs, were allocated funds to help unemployed homeowners and others affected by house price declines.

Status

As of October 2015, the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund) remained active. The Department of the Treasury (Treasury) obligated \$7.6 billion to the program to help borrowers in 18 states and the District of Columbia (each referred to as a “state”). States were selected for funding either because their unemployment rates were at or above the national average or because 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.

By September 2010, Treasury had allocated all of the funds it had obligated to the Hardest Hit Fund among the 18 states and the District of Columbia. And, as of October 31, 2015, states had drawn approximately \$5.73 billion (75 percent) of the funds (see fig. 4).

Figure 4: Hardest Hit Funds Drawn and Remaining as of October 2015 (dollars in billions)



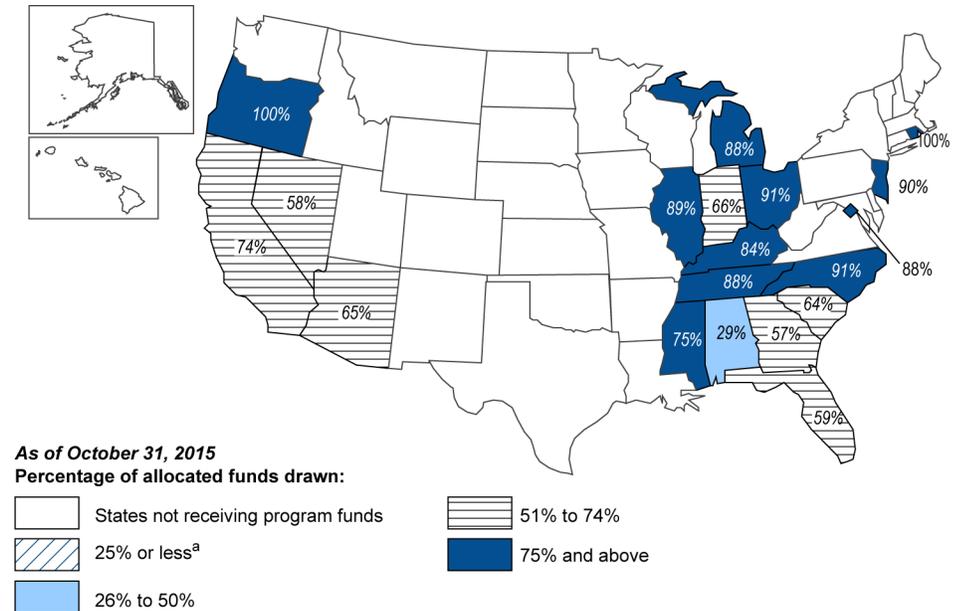
Source: GAO analysis of Treasury’s Monthly Report to Congress for the Troubled Asset Relief Program. | GAO-16-279R

Each state can have multiple HHF-funded programs—for example, to help unemployed homeowners, facilitate short sales, and provide loan modification assistance. Although the type of assistance provided has varied by state, all the states receiving Hardest Hit Fund money have used some of their funds to help unemployed homeowners make mortgage payments. Some states have principal reduction programs to help make mortgage payments more affordable, reduce or eliminate borrowers’ second liens, and provide transition assistance to borrowers leaving their homes.

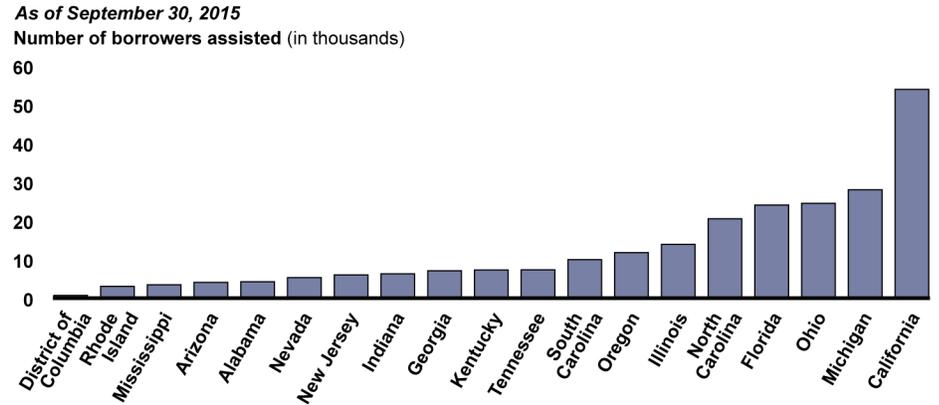
Some states have made more progress than others in utilizing allocated funds. As of October 2015, the District of Columbia, Illinois, Kentucky, Michigan, Mississippi, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, and Tennessee had each drawn more than 75 percent of their allocated funds. One state—Alabama—had drawn less than 30 percent (see fig. 5).

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Figure 5: Hardest Hit Fund: Percentage of Funds Drawn by States and Number of Households Assisted



^aNo states had drawn 25% or less of program funds.



Sources: GAO analysis of Treasury's Monthly Report to Congress for the Troubled Asset Relief Program and quarterly Hardest Hit Fund Performance Summary. | GAO-16-279R

As of September 2015, the states had assisted 241,775 unique households. Some of these households may have participated in one or more HHF-funded program. According to Treasury, participating states are continuing to expand the reach of their programs.



TROUBLED ASSET RELIEF PROGRAM

FHA Short Refinance

Background

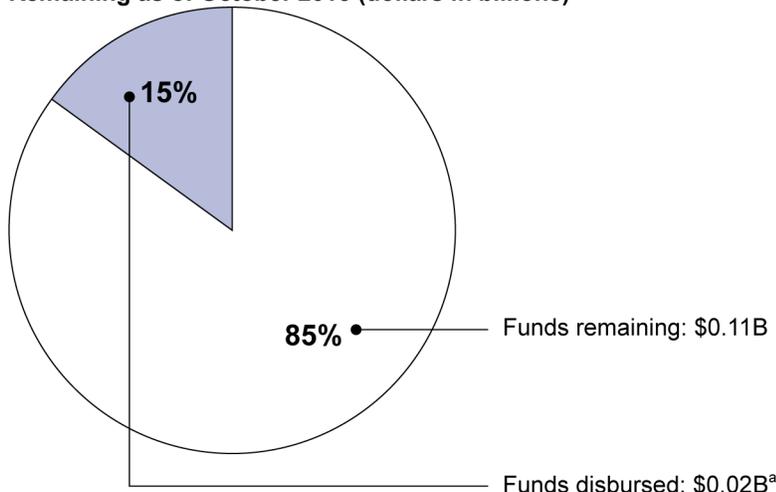
Treasury and the Department of Housing and Urban Development established the FHA Short Refinance program in September 2010 to help stabilize the housing market and assist homeowners facing foreclosure. Specifically, this program provides borrowers who meet certain criteria with the opportunity to refinance into an FHA-insured mortgage. TARP funds have been obligated in the event that Treasury must pay claims for losses on these loans.

Overall Status

As of October 2015, the Department of Housing and Urban Development's Federal Housing Administration Short Refinance program (FHA Short Refinance) remained active. The program 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. In the event of a default on the refinanced loan, the Department of the Treasury (Treasury) pays up to a certain percentage of the claim after FHA has paid its part. Treasury established a letter of credit facility to pay claims associated with this program.

As of October 2015, Treasury had disbursed \$0.02 billion (15 percent) of the \$0.13 billion in funds allocated to support the FHA Short Refinance program (see fig. 6). This includes about \$10 million in administrative expenses to establish and maintain the letter of credit facility and \$10 million of reserve funds, according to a Treasury official. As of September 30, 2015, Treasury had paid \$145,330 in claims under the program.¹² As of September 30, 2015, FHA had insured 4,156 refinanced loans with a total face value of almost \$611 million that could require a Treasury contribution. As of that same date, Treasury estimated that the lifetime costs of the program to Treasury would be \$0.03 billion.

Figure 6: Federal Housing Administration Short Refinance Funds Disbursed and Remaining as of October 2015 (dollars in billions)



Source: GAO analysis of Treasury's Monthly Report to Congress for the Troubled Asset Relief Program. | GAO-16-279R

^aThis includes about \$10 million in administrative expenses associated with the letter of credit facility and \$10 million of reserve funds, according to a Treasury official. The reserve funds are on deposit with Citibank, N.A. to provide loss coverage for the program. Treasury will be reimbursed for all of the unused amount from this Citibank account.

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¹²In 2013, Treasury reduced the amount obligated to this program from \$8.1 billion to \$1.0 billion, in part because participation levels were lower than originally projected. According to Treasury officials, the reduction was also intended to minimize the administrative costs associated with the program. In March 2015, Treasury further reduced the amount obligated to the program from \$1.0 billion to \$0.13 billion.