



July 2015

TROUBLED ASSET RELIEF PROGRAM

Treasury Could More Consistently Analyze Potential Benefits and Costs of Housing Program Changes

Accessible Version

GAO Highlights

Highlights of [GAO-15-670](#), a report to congressional committees

Why GAO Did This Study

Treasury has allocated \$37.5 billion in TARP funds to help struggling homeowners avoid potential foreclosure since 2009. The Emergency Economic Stabilization Act of 2008 includes a provision for GAO to report every 60 days on TARP activities. This 60-day report examines (1) the status of TARP-funded housing programs and (2) the extent to which Treasury’s analytic framework for considering recent program changes was consistent with federal guidance and best practices. To do this work, GAO analyzed borrower participation levels, reviewed program documentation, and interviewed Treasury officials.

What GAO Recommends

To bring greater rigor and efficiency to decisions about the use of federal funds, GAO recommends that Treasury develop and implement policies and procedures that establish a standard process to better ensure that TARP-funded housing program changes are based on benefit-cost analyses that meet key elements. Treasury agreed to consider applying GAO’s recommendation going forward.

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What GAO Found

Between February 2009 and May 2015, the U.S. Department of the Treasury (Treasury) disbursed approximately \$16.3 billion of the \$37.5 billion in Troubled Asset Relief Program (TARP) funds allocated to support housing programs. The number of new borrowers with permanent modifications added to the Home Affordable Modification Program (HAMP), the key component of these programs, began to decline in late 2013 but has stabilized at between 9,000 and 15,000 additions per month. Activity under HAMP Tier 1, the original modification for qualified borrowers seeking to reduce their mortgage payments to affordable levels (rates periodically reset), has gradually declined. HAMP Tier 2, a broader fixed rate modification announced in 2012, has gradually grown to account for the majority of new entrants. Since October 2014, Treasury has expanded incentives in order to draw new entrants into the programs and further assist existing participants.

In making program changes, Treasury took steps to assess their benefits and costs but did not fully meet all of the key elements of federal benefit-cost analysis guidance, and thus has limited assurance that the additional expenditures are an effective and efficient use of taxpayer dollars (see figure below). For example, it is unclear whether the recent changes, such as extending performance incentives to borrowers in the sixth year of their HAMP modification (estimated to cost \$4-6 billion), will reduce redefaults. Treasury officials told GAO that borrower surveys confirmed that borrowers responded to performance incentives. But Treasury does not have the estimates needed to fully assess the effectiveness of this or other recent changes. Treasury officials said that program benefits and costs depended on unknown factors and macroeconomic trends and that program benefits were difficult to quantify. Office of Management and Budget guidance and GAO’s past work stress that analyzing benefits and costs can help decision makers choose among alternatives. Without full and comprehensive analyses, Treasury will be challenged to determine whether program changes are actually achieving desired goals and are an efficient use of taxpayer dollars.

Extent Treasury Met the Four Key Elements of OMB Circular A-94’s Benefit-Cost Analysis for Three Recent Program Changes

Key Elements of a Benefit-Cost Analysis	Making Home Affordable Program Change		
	Home Affordable Modification Program Tier 2 Interest Rate Reduction	Home Affordable Foreclosure Alternatives Relocation Assistance	Year Six Pay-for-Performance Incentive and Recast
Policy Rationale	●	●	◐
Explicit Assumptions	◐	◐	◐
Evaluation of Alternatives	◐	◐	◐
Verification	◐	◐	◐

● Substantially/fully met ◐ Partially met ○ Not met

Source: GAO analysis of Treasury data. | GAO-15-670

View [GAO-15-670](#). For more information, contact Mathew Scire at (202) 512-8678 or sciremj@gao.gov.

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Abbreviations

2MP	Second Lien Modification Program
CBO	Congressional Budget Office
DTI	debt-to-income
EESA	Emergency Economic Stabilization Act of 2008
FHA	Federal Housing Administration
HAFA	Home Affordable Foreclosure Alternatives
HAMP	Home Affordable Modification Program
LTV	loan-to-value
MHA	Making Home Affordable
NPV	net present value
OMB	Office of Management and Budget
PMMS	Primary Mortgage Market Survey
PRA	Principal Reduction Alternative
RD	Rural Development
RHS	Rural Housing Service

SIGTARP	Special Inspector General for the Troubled Asset Relief Program
TARP	Troubled Asset Relief Program
Treasury	Department of the Treasury

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July 6, 2015

Congressional Committees

The U.S. Department of the Treasury (Treasury) has allocated \$37.5 billion of the \$700 billion Troubled Asset Relief Program (TARP), authorized by the Emergency Economic Stabilization Act of 2008 (EESA), to assist struggling homeowners avoid foreclosure, among other goals.¹ The cornerstone program under Treasury's Making Home Affordable (MHA) efforts is the Home Affordable Modification Program (HAMP), which provides financial incentives for servicers, mortgage holders/investors, and borrowers for mortgage loan modifications. These modifications are intended to prevent foreclosure by reducing homeowners' monthly mortgage payments to more 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 to the Department of Housing and Urban Development's Federal Housing Administration (FHA) to support its refinance program for borrowers with negative equity in their homes.²

Treasury has made extensive modifications to MHA programs, including HAMP, since their introduction. These modifications include extending the deadline for participation in HAMP, expanding the program to cover additional homeowners and investors, providing additional payment relief, and granting certain borrowers principal reduction. According to data provided by Treasury, the combined cost of these modifications will result in billions of dollars in additional outlays of program funds. To implement these program modifications, Treasury issues Supplemental Directives to servicers participating in MHA programs. Treasury has issued over 60

¹Pub. L. No 110-343, tit. I, 122 Stat. 3765, 3767-3800 (codified at 12 U.S.C. §§ 5201-5241). The Dodd-Frank Wall Street Reform and Consumer Protection Act: (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. Pub. L. No. 111-203, § 1302, 124 Stat. 1376, 2133 (2010) (codified at 12 U.S.C. § 5225(a)).

²Negative equity means a borrower's mortgage balance exceeds the current value of the home.

Supplemental Directives since the MHA programs were announced in 2009.

EESA includes a provision for GAO to report at least every 60 days on TARP's performance in meeting the purposes of the act, among other things, including the TARP-funded housing programs.³ 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.⁴ This 60-day report examines (1) the status of TARP-funded housing programs and (2) the extent to which Treasury's analytic framework for considering recent program changes was consistent with federal guidance and best practices.

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. For example, we analyzed data on the number of borrowers participating in the program and program-specific information on the help they received from Treasury's MHA performance reports from July 2009 through the first quarter of 2015. To assess Treasury's analytic framework, we analyzed program documentation, including Supplemental Directives for three recent

³Pub. L. No. 110-343, § 116(a), 122 Stat. 3765, 3783-85 (codified at 12 U.S.C. § 5226(a)).

⁴See 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); *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 *Troubled Asset Relief Program: Treasury Could Better Analyze Data to Improve Oversight of Servicers' Practices*, [GAO-15-5](#) (Washington, D.C.: Oct. 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).

program changes and program handbooks. We selected the three program changes based on key MHA changes that Treasury had initiated since our October 2014 report that would likely result in additional TARP program expenditures. We compared Treasury's process to key elements of effective benefit-cost analyses contained in guidance from the Office of Management and Budget (OMB).⁵ We analyzed internal Treasury memorandums, internal policy committee meeting agendas, and other internal documents. We also interviewed Treasury officials and staff about their process for making program changes. Additionally, we reviewed guidance from OMB and prior GAO reports to identify the key elements of effective benefit-cost analysis.⁶ To assess the reliability of the Treasury data, we reviewed related documentation and interviewed knowledgeable agency officials. We determined that the data were sufficiently reliable for the purposes of this report. For additional information on our scope and methodology, see appendix I.

We conducted this performance audit from November 2014 to July 2015 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 struggling homeowners avoid foreclosure and assist in stabilizing the housing market. 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 program (FHA Short Refinance).

⁵OMB, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*, Circular A-94 (Washington, D.C.: Oct. 29, 1992).

⁶For example, see OMB, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*, Circular A-94 (Washington, D.C.: Oct. 29, 1992) and GAO, *Government Operations: Cost-Benefit Analysis Can Be Useful in Assessing Environmental Regulations, Despite Limitations*, [RCED-84-62](#) (Washington, D.C.: April 6, 1984).

Making Home Affordable Programs

Treasury allocated \$29.8 billion of the \$37.5 billion in TARP housing funds to MHA to encourage the modification of eligible mortgages and provide other relief to distressed borrowers.⁷ Only loans originated on or before January 1, 2009, that meet certain requirements are eligible for assistance under MHA. Several programs have been designed under MHA 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 monthly mortgage 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 the companies servicing their mortgages have agreed to participate in the program.⁸ 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 6 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 the 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

⁷This amount includes only those funds allocated to MHA, and does not include funds allocated to the Hardest Hit Fund or FHA Short Refinance.

⁸Only 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.

primary residence and whose first-lien mortgage payments are more than 31 percent of their monthly gross income, as calculated using the debt-to-income (DTI) ratio.⁹ 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.

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.¹⁰ 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 (interest rate step-ups) 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 based on the weekly Freddie Mac Primary Mortgage Market Survey Rate at the time of the modification and remains fixed for the life of the loan.¹¹

For both HAMP Tier 1 and Tier 2, borrowers must demonstrate their ability to pay the modified amount by successfully completing a trial

⁹For 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 associations dues).

¹⁰Servicers 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. The mortgage holder/investor absorbs the reduced payment until 38 percent DTI is reached, and Treasury and the lender then share payment reductions until 31 percent DTI is reached.

¹¹The interest rate is rounded up to the nearest 0.125 percent. When the program was announced the rate also included a risk adjustment premium established by Treasury of 50 basis points. Effective July 1, 2014, the premium was removed and the rate was set to the Freddie Mac Primary Mortgage Market Survey Rate. Effective January 1, 2015, Treasury adjusted the rate to the Primary Mortgage Market Survey Rate less 50 basis points.

period of least 3 months before a loan is permanently modified and any government payments made. Borrowers who redefault on a permanent HAMP loan modification—that is, who miss three consecutive mortgage payments—no longer qualify for borrower incentives under the program. In addition, the servicer and investor do not continue to receive incentives for that loan. Borrowers who experience a subsequent hardship after receiving a 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 that show a clear need for the program (such as default or imminent default).

- *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. When a borrower's first lien is 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.¹² Treasury provides incentive payments to second-lien mortgage holders, including in the form of a percentage of each dollar in principal reduction on the second lien. Treasury has doubled the incentive payments offered to second-lien mortgage holders for 2MP permanent modifications that include principal reduction and have 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 has 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

¹²Servicers that hold the second lien do not need to be servicers for the related first lien to participate in 2MP.

HAMP first-lien modification.¹³ There is no requirement to forgive principal under HAMP, 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. However, servicers must adopt and follow PRA policies that treat all similarly situated loans in a consistent manner. When servicers include principal reduction in modifications under PRA, the principal reduction amount is initially treated as non-interest-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 who do not qualify for a HAMP trial 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.¹⁴ 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 borrowers are still unemployed after the 12-month period. Servicers are required to consider borrowers who later find employment or whose forbearance period expires for a HAMP loan

¹³An LTV ratio for a mortgage is the ratio of the mortgage amount to the value of the home.

¹⁴In 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.

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.¹⁵

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 providing ongoing servicer training and support. Freddie Mac serves as Treasury's compliance agent and has a designated independent division, Making Home Affordable Compliance, 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 Program

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.¹⁶ 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

¹⁵If a borrower's monthly mortgage payment is reduced by 6 percent or more through FHA-HAMP or is an RHS-guaranteed mortgage loan and the loan is in good standing, the servicer receives an annual incentive (pay-for-success) for a period of 3 years. The borrower receives an incentive (pay-for-performance) annually for the first 6 years after the first trial loan payment due date.

¹⁶The 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 a \$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.

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. The investor must agree to forgive a certain level of principal in order to reach 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 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. According to Treasury officials, the reduction was also intended to minimize the administrative costs associated with the program. In March 2015, Treasury subsequently reduced the amount obligated to the program from \$1.0 billion to \$125 million.

Treasury Continues Its Efforts to Reach More Borrowers and Address Interest Rate Increases

Treasury Has Disbursed More Than 40 Percent of Allocated TARP Housing Funds

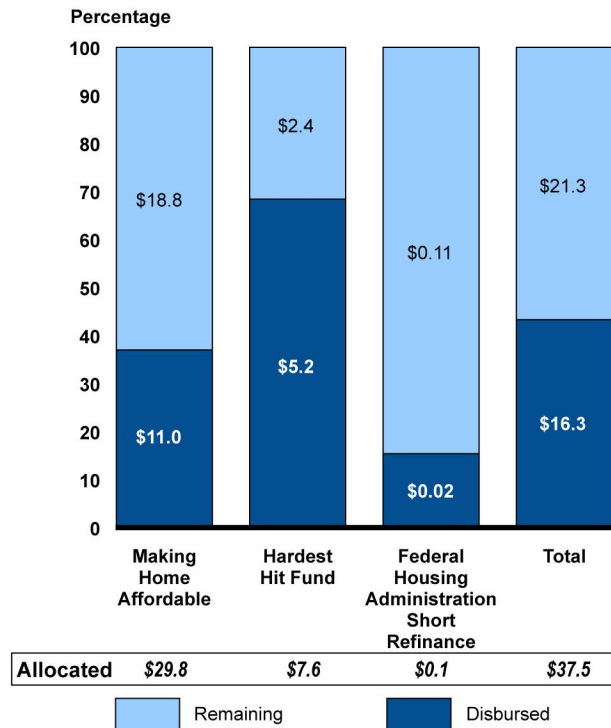
Between February 2009 and May 2015, Treasury disbursed approximately \$16.3 billion (43 percent) of the \$37.5 billion in TARP funds allocated to support housing programs. The amounts disbursed to each of the three TARP-funded housing programs varied (see fig. 1).¹⁷ Of the \$29.8 billion allocated to MHA, the largest TARP-funded program, Treasury had disbursed \$11 billion (37 percent) as of May 2015. Of the \$7.6 billion allocated to the Hardest Hit Fund program, \$5.1 billion (67 percent) had been disbursed as of that date, and of the \$125 million allocated to the FHA Short Refinance program, \$20 million (15 percent) had been disbursed.¹⁸ The original deadline for borrowers to be accepted into MHA programs was December 31, 2012. Treasury has since extended the program three times, most recently through at least December 2016. Treasury officials said that they anticipated using all of the remaining funds allocated to MHA.¹⁹

¹⁷The reduction in TARP funds allocated to support housing programs from \$38.5 billion to \$37.5 billion occurred in March 2015, after the FHA Short Refinance credit facility was reduced to \$100 million.

¹⁸In March 2015, Treasury reduced the amount of credit available through the credit facility supporting the FHA Short Refinance program for a second time, from \$1 billion to \$100 million. Originally, Treasury had allocated \$8 billion to the program. An additional \$25 million is allocated to cover program administrative fees.

¹⁹According to Treasury data as of April 2015, \$10.4 billion of the \$21.1 billion allocated to the MHA program but not yet disbursed is committed for payment of future financial incentives to borrowers, servicers, and investors/mortgage holders in connection with existing MHA transactions.

Figure 1: Percentage and Amount of Allocated TARP Housing Funds Disbursed and Remaining Balance, by Program and Total, as of May 2015 (dollars in billions)



Source: GAO analysis of Treasury's monthly TARP update to Congress. | GAO-15-670

Note: Remaining amounts include obligated amounts that have not been disbursed. Numbers may not sum to totals due to rounding.

In March 2015, the Congressional Budget Office (CBO) increased its estimate of likely outlays of TARP-funded housing programs by \$2 billion, primarily because of Treasury's announcement of an additional \$5,000 in principal reduction for participants in the sixth year of a mortgage modification in November 2014.²⁰ Nonetheless, CBO projects a \$9 billion dollar surplus in the amount that Treasury has estimated, because CBO anticipates that fewer households will participate in housing programs.

²⁰See Congressional Budget Office, *Report on the Troubled Asset Relief Program-March 2015* (Washington, D.C.: Mar. 18, 2015). CBO's current estimate of the total cost of TARP is \$28 billion (a \$1 billion increase from its last annual report issued in April 2014). Under EESA, as amended, CBO is required to prepare annual assessments of TARP's costs.

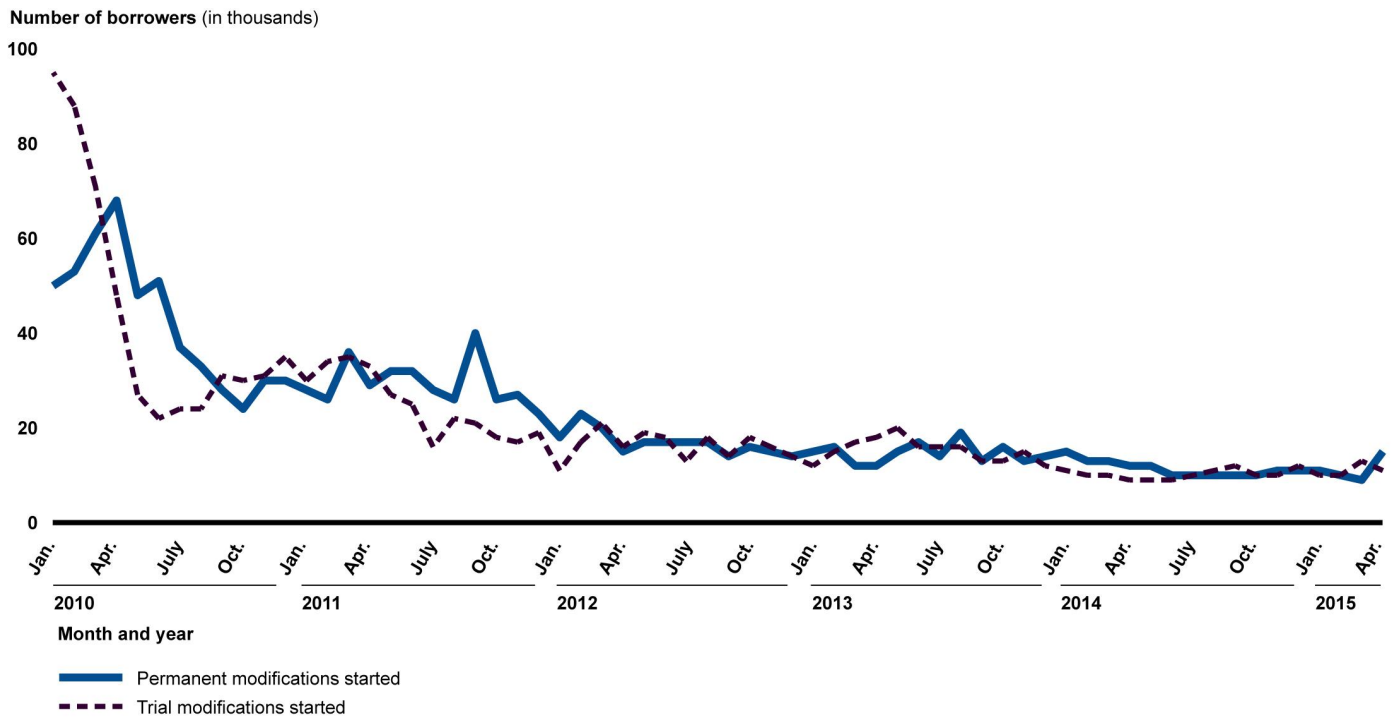
When HAMP, the largest MHA program, was announced in February 2009, Treasury projected that up to 3 million to 4 million borrowers who were at risk of default and foreclosure would be helped. As we noted in our July 2009 report, reaching the projected number of borrowers would be difficult for several reasons.²¹ In addition, as we found in our February 2014 report, the pool of mortgages eligible for MHA programs was declining.²²

As shown in figure 2, HAMP participation, as measured by trial and permanent modifications started each month, peaked at 145,000 in January 2010, generally declined in 2011, and then held relatively steady until the end of 2013. Since March 2015, the total amount of new modifications has ranged from 9,000 to 15,000 per month through April 2015 (the most recent month for which data were available).

²¹GAO, *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). Reasons cited included the problematic nature of forecasting the future macroeconomic situations including home prices, unemployment rates and other factors that have influenced default and foreclosure rates as well as the difficulty forecasting borrower decisions to default. Further complicating the projections were the lack of knowledge about the potential number of vacant homes and the number of investor-owned homes that are improperly or potentially fraudulently classified as owner occupied.

²²GAO, *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).

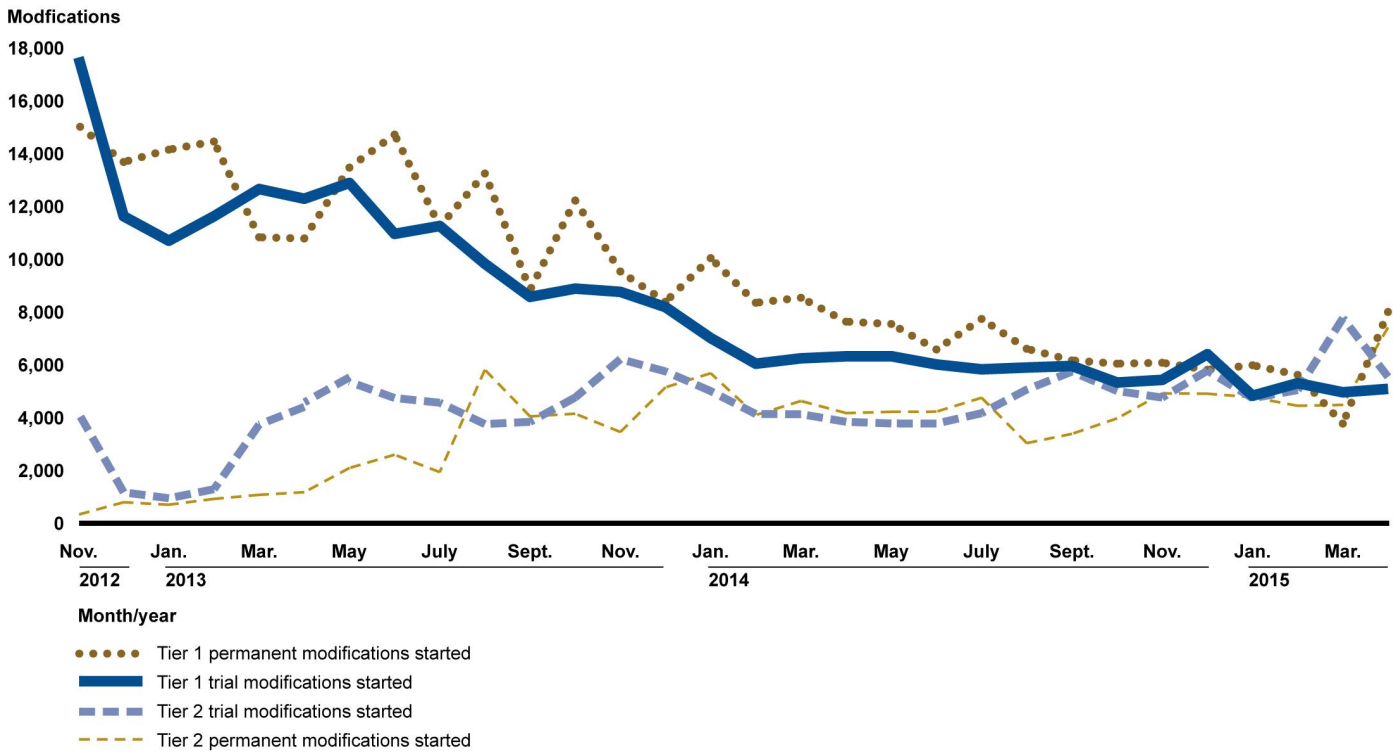
Figure 2: Monthly Combined HAMP Tier 1 and HAMP Tier 2 Activity Levels through April 2015



Source: GAO analysis of Treasury's Making Home Affordable program performance reports. | GAO-15-670

With the introduction of HAMP Tier 2 in 2012, the decline in HAMP Tier 1 modifications has been compensated by an increasing number of HAMP Tier 2 modifications (see fig. 3). As of March 2015, HAMP Tier 2 accounted for more than half of all new trial and permanent modifications.

Figure 3: Monthly HAMP Tier 1 and HAMP Tier 2 Activity Levels from November 2012 through April 2015



Source: GAO analysis of Treasury's monthly TARP reports to Congress. | GAO-15-670

As shown in table 1, from April 2010 through April 2015 the HAFA program has assisted the second-largest number of borrowers after HAMP, with approximately 363,000 transactions. In addition, about 182,000 borrowers had principal forgiven through the PRA program through March 2015.

Table 1: Status of MHA Programs, as of April 2015

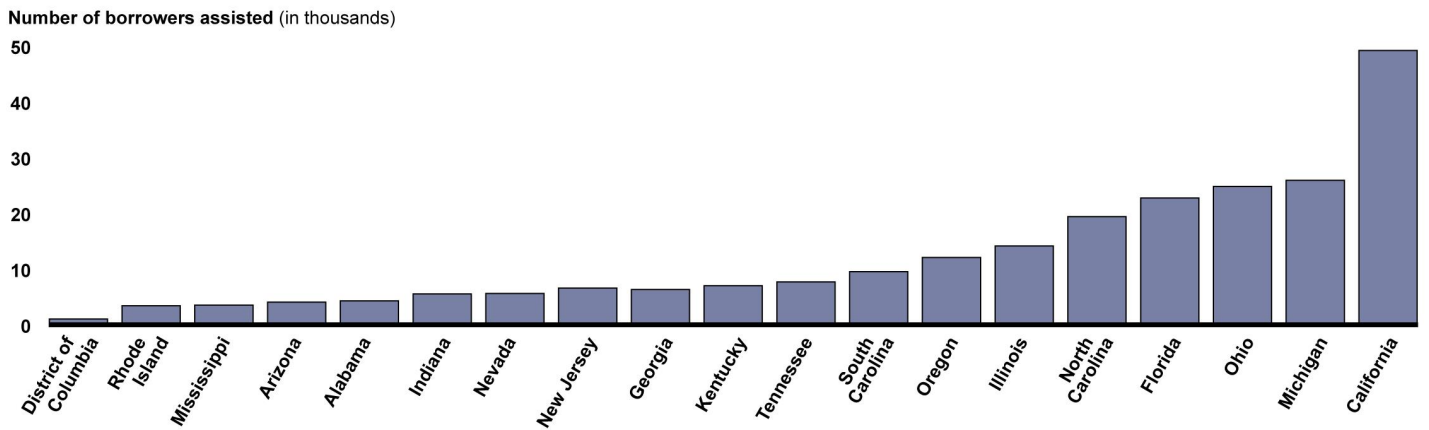
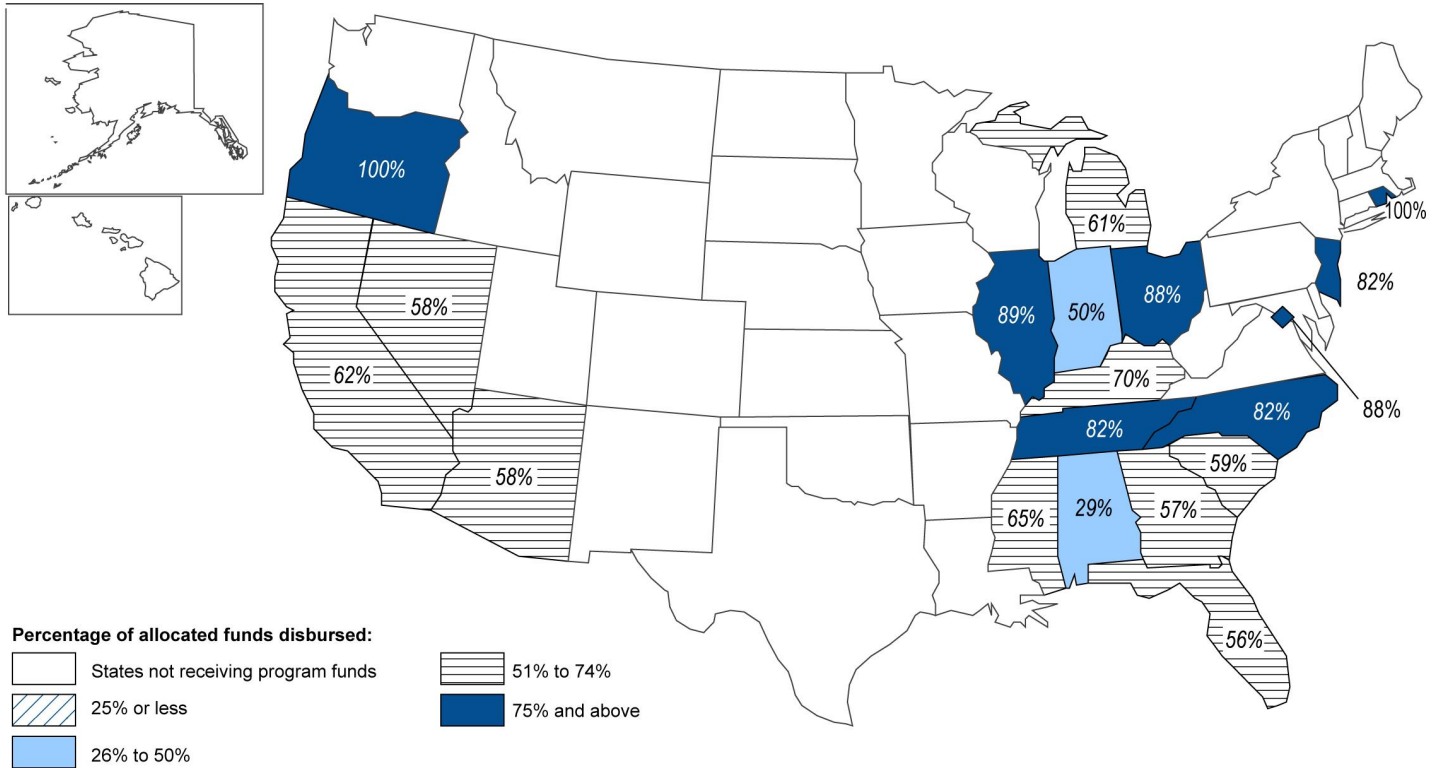
Program	Program start date	Number of loans
HAMP first lien modification	April 2009	2,322,710 trial modifications started and 1,492,982 permanent modifications started
HAFA	April 2010	363,087 HAFA transactions completed
PRA	October 2010	181,977 permanent modifications started (as of March 2015)
2MP	August 2009	147,705 second lien modifications started
Treasury FHA-HAMP and RD-HAMP ^a	<ul style="list-style-type: none">April 2009 (FHA-HAMP)September 2010 (RD-HAMP)	80,582 permanent modifications started (combined for both programs)

Source: May 2015 TARP Monthly Report to Congress and First Quarter 2015 MHA Quarterly Performance Report | GAO-15-670.

^aThe 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 May 2015, the Hardest Hit Fund program had disbursed approximately 68 percent of allocated funds (\$5.2 billion of \$7.6 billion). The District of Columbia, Oregon, Rhode Island, Tennessee, New Jersey, Illinois, North Carolina, and Ohio had each disbursed more than 75 percent of their allocated funds, and one state—Alabama—had disbursed less than 30 percent (see fig. 4). State housing finance agencies for the 18 states and the District of Columbia participating in the program originally estimated that the total number of Hardest Hit Fund participants would reach approximately 335,000 households by the end of the program in December 2017. As of December 2014, the states, along with the District of Columbia, had assisted approximately 219,000 households, or 65 percent of their goal.

Figure 4: Hardest Hit Fund: Amount Disbursed (as a Percentage of Allocated Funding) and Number of Households Assisted, as of March 2015



Sources: GAO analysis of Treasury's Hardest Hit Fund reports; Map Resources (map). | GAO-15-670

Treasury Has Expanded Incentives under HAMP to Reach More Borrowers and Further Assist Existing Program Participants

Treasury has taken steps to increase participation in its housing programs and further assist existing program participants. Since October 2014 (the date of our last report on HAMP), Treasury has on three occasions made substantive policy changes to its TARP-funded housing programs, including HAMP and HAFA:

- **HAMP Tier 2 Interest Rate Adjustment:** In October 2014 Treasury announced that it would adjust the HAMP Tier 2 loan modification interest rate from 0 basis points above the primary mortgage market survey rate to 50 basis points below the primary mortgage market survey rate.²³ According to Treasury, this action was taken primarily to assist borrowers who cannot sustain or do not qualify for a HAMP Tier 1 modification and otherwise expand the population of homeowners eligible for HAMP Tier 2.²⁴ Treasury had previously expanded the eligibility for the HAMP Tier 2 program to borrowers who had lost their good standing on their Tier 1 loan modification or were experiencing financial duress, such as that associated with a higher monthly mortgage payment due to an interest rate increase. Treasury estimated that the reduction would provide a median savings of \$258 on the median monthly HAMP Tier 1 payment after the first interest rate step-up.²⁵
- **HAFA Relocation Assistance Payment Increase:** At the same time, Treasury increased HAFA's relocation assistance payment to borrowers from \$3,000 to \$10,000.²⁶ Treasury noted that the costs of

²³Department of the Treasury, Supplemental Directive 14-04, *Making Home Affordable Program – Program Updates*, (Washington, D.C.: October 30, 2014). Freddie Mac surveys lenders on the rates and points for their most popular products—30-year fixed-rate, 15-year fixed-rate, 5/1 hybrid amortizing adjustable-rate, and 1-year amortizing adjustable-rate mortgages. The survey is based on first-lien prime conventional conforming home purchase mortgages with an LTV ratio of 80 percent.

²⁴Unlike HAMP Tier 1, HAMP Tier 2 provides a fixed interest rate for the life of the loan. Originally, the interest rate under HAMP Tier 2 was the primary mortgage market survey (PMMS) rate for 30-year fixed-rate mortgages at the time of the modification, plus a risk premium of 50 basis points (0.5 percentage points). Effective July 1, 2014, Treasury removed the risk premium and set the HAMP Tier 2 interest rate at the PMMS rate. We will refer to this change as “HAMP Tier 2 Interest Rate Reduction” throughout the report.

²⁵Treasury has estimated that approximately 83 percent of HAMP Tier 1 borrowers (approximately 752,000 borrowers) would experience at least one interest rate increase, or step-up, after the initial 5 years of their HAMP loan modification.

²⁶We will refer to this change as “HAFA Relocation Assistance” throughout the report.

relocating—such as rental deposits and moving expenses—could be especially burdensome for recently delinquent homeowners who were often struggling with unemployment and/or may have exhausted their cash reserves. According to Treasury, increasing the relocation assistance payment could also provide an alternative to foreclosure for HAMP Tier 1 borrowers unable to make their monthly mortgage payments due to interest rate step-ups. Further, Treasury also increased the incentive payments an investor can receive for extinguishing a subordinated second lien from \$8,500 to a minimum of \$12,000, noting that participation by subordinate lien holders, who were in a first-loss position, was critical to the success of a short sale or deed-in-lieu under HAFA. According to Treasury, without the incentive, investors might resort to foreclosure, leaving a struggling borrower with no other alternative.

- **Year Six Pay-for-Performance Incentive and Recast:** In November 2014, Treasury extended the HAMP Tier 1 pay-for-performance principal balance reduction payment for a sixth year and increased the payment from \$1,000 to \$5,000 in year six as of November 2014.²⁷ According to Treasury officials, increasing financial incentives for homeowners who remain in good standing after receiving a HAMP modification can help lower the risk of redefault by (a) providing a stronger incentive for borrowers to remain current on their modified loans, (b) lessening the impact of the interest rate step-up, and (c) helping homeowners build equity in their homes, something that is particularly beneficial for those struggling with negative equity. Treasury also extended the Year Six Pay-for-Performance Incentive to borrowers with HAMP Tier 2 loan modifications. Before the directive, HAMP Tier 2 borrowers, whose mortgage interest rate is fixed, did not receive performance incentives.

The \$5,000 principal balance reduction payment becomes payable one month after the sixth anniversary of the month the HAMP trial period plan became effective. The loan must be in good standing and not paid in full. This Supplemental Directive also requires servicers to offer to recast an eligible HAMP Tier 1 borrower's loan after the 6-year anniversary of the trial period

²⁷We will refer to this change as “Year Six Pay-for-Performance Incentive and Recast” throughout the report. Department of the Treasury, Supplemental Directive 14-05, *Making Home Affordable Program—MHA Program Updates*, (Washington, D.C.: November 26, 2014).

plan.²⁸ Treasury estimates that a recast could lower HAMP Tier 1 borrowers' monthly mortgage payment by a median of \$56 per month. In addition, servicers may, but are not required to, offer to recast the unpaid principal balance for HAMP Tier 2 borrowers who are in good standing after the application of borrower incentives in year 6.

Subsequently, in January 2015, Treasury extended the \$5,000 Year Six Pay-for-Performance Incentive and Recast to HAMP loans owned or guaranteed by the enterprises.²⁹ This change represented the first use of TARP dollars to assist borrowers with enterprise-backed loans. The requirements are similar to those that are already in place for non-enterprise loans. If the servicer has not signed an amended MHA servicer participation agreement with respect to enterprise loans on or before March 15, 2015, the enterprise pays the cost of the incentive, according to internal guidance.³⁰

²⁸Recasting (also referred to as re-amortizing) a loan involves recalculating the monthly mortgage payment based on the reduced principal balance, and the remaining term of the mortgage.

²⁹Department of the Treasury, Supplemental Directive 15-01, *Making Home Affordable MHA Program Updates*, (Washington, D.C.: January 29, 2015).

³⁰Servicers are required to sign a servicer participation agreement. Servicer participation agreements governed servicer participation in MHA for all non-enterprise mortgages; Supplemental Directive 15-01 and the related amendment expanded servicer participation agreements to certain enterprise loans.

Treasury Has Not Fully Assessed the Benefits and Costs of Recent MHA Program Changes

Treasury had taken steps to assess the benefits and costs of the three recent MHA program changes we reviewed but did not fully meet all of the key elements of effective benefit-cost analyses. Among the stated purposes of the legislation that created the TARP program are protecting home values and preserving homeownership, while key considerations include minimizing the impact on the national debt, among other things.³¹ OMB has issued guidance on using benefit-cost analyses to help federal agencies efficiently allocate resources through well-informed decision making.³² While Treasury is not required to follow the OMB guidance because MHA program changes are not issued under a rulemaking framework, the guidance does contain practices that are still relevant and may be useful for Treasury to consider. Additionally, since the formal rulemaking process does not apply in this instance and no public comment period is required, it is therefore even more important that a framework is used to maintain accountability and efficiency in the use of public funds. In our 2010 report on Treasury's decision to extend TARP we found that Treasury could improve its decision making by establishing a robust analytic framework that included clear objectives and meaningful measures.³³ A benefit-cost analysis provides such a framework by linking potential agency actions to program goals, delineating the benefits and costs of potential actions, comparing potential actions to alternative actions, and developing mechanisms to track the performance of the proposed actions. We also have noted in prior work that the systematic process of analyzing benefits and costs can help decision makers organize and evaluate information about alternatives and determine trade-offs among them.³⁴

³¹ Stated purposes of EESA include restoring liquidity and stability to the financial system and ensuring that the authority and facilities under the act are used in a manner that promotes jobs and economic growth, provides public accountability, and preserves homeownership. Pub. L. No. 110-343, § 2, 122 Stat. 3765, 3766 (codified at 12 U.S.C. § 5201). Key considerations include helping families keep their homes, stabilizing communities, and protecting the taxpayer by maximizing overall returns and minimizing the national debt, among other things. § 103, 122 Stat. at 3770 (codified at 12 U.S.C. § 5213).

³² OMB, Circular A-94 (Revised 1992).

³³ GAO, *Troubled Asset Relief Program: Treasury's Framework for Deciding to Extend TARP Was Sufficient, but Could be Strengthened for Future Decisions*, [GAO-10-531](#) (Washington, D.C.: June 30, 2010).

³⁴ For example, see GAO, *Highlights of an Expert Panel: The Benefits and Costs of Highway and Transit Investments*, [GAO-05-423SP](#) (Washington, D.C.: May 6, 2005).

OMB’s guidance outlines four key elements of a benefit-cost analysis—a policy rationale, explicit assumptions, evaluation of alternatives, and verification (see table 2).

Table 2: Key Elements of a Benefit-Cost Analysis

Policy rationale	The analysis should clearly present the justification for the program change.
Explicit assumptions	The analysis should be explicit about the underlying assumptions used to arrive at estimates of future benefits and costs. It should include a statement of the assumptions, the rationale behind them, and a review of their strengths and weaknesses. Reporting key data and results, such as year-by-year estimates of benefits and costs, can promote independent analysis and review.
Evaluation of alternatives	The analysis should also consider alternative means of achieving program objectives, including doing nothing, by examining different program sizes, methods of provision, and degrees of government involvement.
Verification	Agencies should have a plan for periodic, results-oriented evaluation of program effectiveness. Retrospective studies to determine whether anticipated benefits and costs have been realized are potentially valuable.













Source: OMB, Circular A-94. | GAO-15-670

Treasury officials told us they do consider the benefits and costs of their program changes. However, Treasury officials also explained that they must balance a number of additional factors, such as operational and time constraints. Treasury officials described how Treasury is trying to be proactive and quickly implement changes, especially those intended to assist homeowners facing interest rate step-ups in the near future. As a result, Treasury officials explained they are required to make programmatic decisions based on limited information. Also, Treasury officials indicated that program benefits and costs are dependent upon a number of unknown factors, such as national mortgage delinquency rates and other macroeconomic trends, borrower application rates and the performance of modified loans over time. Further, program benefits extend beyond individual borrowers to the larger community and are difficult to quantify.

Based on our review of available documentation and discussions with Treasury officials for this review, we determined that Treasury substantially or partially met some but not all four of the OMB elements in considering benefits and costs of the three recent program changes we reviewed—the HAMP Tier 2 Interest Rate Reduction, HAFA Relocation Assistance, and the Year Six Pay-for-Performance Incentive and Recast (see fig. 5). Treasury used action memorandums to summarize the need for and basis of these program changes. However, the action memorandums and the additional supporting documentation provided by Treasury varied in terms of the content of the material discussed and the

degree to which they addressed the key elements of benefit-cost analysis.

Figure 5: Extent to which Treasury Met the Four Key Elements of OMB Circular A-94's Benefit-Cost Analysis for Three Recent Program Changes

Key Elements of a Benefit-Cost Analysis	Making Home Affordable Program Change		
	Home Affordable Modification Program Tier 2 Interest Rate Reduction	Home Affordable Foreclosure Alternatives Relocation Assistance	Year Six Pay-for-Performance Incentive and Recast
Policy Rationale			
Explicit Assumptions			
Evaluation of Alternatives			
Verification			

 Substantially/fully met  Partially met  Not met

Source: GAO analysis of Treasury data. | GAO-15-670

Note: "Not met": we found no evidence that satisfied the element. "Partially met": we found evidence that satisfied a portion of the element. "Substantially/fully met": we found documentary evidence that satisfied a large portion or the entire element.

HAMP Tier 2 Interest Rate Reduction

Policy rationale: Treasury substantially met this element. Treasury considered lowering the interest rate as a way of making HAMP Tier 2 modifications a more effective alternative for homeowners that cannot sustain, or do not qualify, for a HAMP Tier 1 modification. These borrowers include, in particular, HAMP Tier 1 borrowers who may struggle with interest rate increases in years 6 and beyond of their loan modification. According to Treasury, after all of the HAMP Tier 1 interest rate increases, the median monthly HAMP Tier 1 payment will increase about \$212. Increasing a borrower's monthly payment by increasing the interest rate, something that will happen to many HAMP Tier 1 borrowers in 2015, increases the borrower's risk of defaulting. Treasury has reported that 83 percent of HAMP Tier 1 borrowers (approximately 752,000) will experience at least one interest rate increase and that the majority of them will experience two or three increases.³⁵

³⁵Department of the Treasury, Office of Financial Stability, *Making Home Affordable Program Performance Report through the Fourth Quarter of 2014* (Washington, D.C.: March 11, 2014).

Treasury determined that reducing a borrower's monthly mortgage payments continues to be the primary driver of the long-term effectiveness of HAMP modifications.³⁶ Likewise, in our June 2012 HAMP report, our econometric analysis showed that reducing a borrower's monthly payment by reducing either their mortgage interest rate or principal balance reduced the borrower's risk of defaulting on the loan, but only up to a certain point.³⁷ HAMP Tier 2 loan modifications offer borrowers a below-market interest rate that is fixed for the life of the loan and that may be lower than the scheduled interest rate increases under HAMP Tier 1. For example, the average interest rate cap would be 5.04 percent for borrowers who received a HAMP Tier 1 loan modification in 2009. When Treasury made the program change, it assumed a Freddie Mac Primary Mortgage Market Survey rate of approximately 4 percent resulting in an expected fixed rate under Tier 2 of about 3.5 percent (after 50 basis point discount).

Explicit assumptions: Treasury partially met this element. Treasury assumed that reducing HAMP Tier 1 borrowers' monthly payments through a HAMP Tier 2 loan modification would offset the increased risk of redefault caused by the HAMP Tier 1 interest rate reset. Treasury determined that the median HAMP Tier 1 monthly payment would rise by \$95 after the first interest rate increase and would have risen by \$212 after the last increase.³⁸ Assuming a Freddie Mac Primary Mortgage Market Survey rate of approximately 4 percent and 50 basis points discount, Treasury estimated that the HAMP Tier 2 interest rate reduction

³⁶According to the research, the most significant factors driving HAMP modification performance are the amount of monthly payment reduction relative to the borrower's pre-modification payment, the length of the borrower's delinquency at time of modification, and, to a slightly lesser extent, credit score at time of modification. See, Department of the Treasury, *Comparing the Performance of Home Affordable Modification Program (HAMP) Modifications and Non-HAMP Modifications: Early Results* (Washington, D.C.: 2014).

³⁷Specifically, loans with monthly payment reductions of 40 percent to 49 percent had redefault rates of 12 percent—as compared to a redefault rate of 20 percent for loans that received a payment reduction of less than 10 percent. Larger reductions in the monthly payment—that is, 50 percent or more—did not result in further improvement in the 6-month redefault rate. See *Foreclosure Mitigation: Agencies Could Improve Effectiveness of Federal Efforts with Additional Data Collection and Analysis*, [GAO-12-296](#) (Washington, D.C.: June 28, 2012).

³⁸Treasury, *MHA Program Performance Report through the Fourth Quarter of 2014*, 7.

would provide a median savings of \$258 from the median payment under HAMP Tier 1 after the first interest rate increase.

Treasury conducted significant analysis to arrive at its decision to lower the HAMP Tier 2 interest rate. Before Treasury's most recent change, the HAMP Tier 2 interest rate was the same as the Freddie Mac Primary Mortgage Market Survey rate.³⁹ Treasury officials provided analysis showing that, assuming a 4-percent primary mortgage market survey rate, reducing the HAMP Tier 2 interest rate 50 basis points below the market rate could help a number of HAMP Tier 1 borrowers experiencing an interest rate increase by increasing the number of HAMP Tier 1 borrowers passing the HAMP Tier 2 NPV eligibility test. However, Treasury's analysis also found that a more deeply discounted HAMP Tier 2 interest rate decreased the number of HAMP Tier 1 borrowers who might benefit. That is, with a deeper discounting of the HAMP Tier 2 interest rate, fewer HAMP Tier 1 borrowers would pass the HAMP Tier 2 NPV eligibility test. Treasury's analysis showed that setting the HAMP Tier 2 interest rate at 50 basis points below the market rate allowed the largest number of HAMP Tier 1 borrowers (approximately 192,000) to be NPV positive while giving them some payment reduction. Treasury's analysis also showed setting the rate at 100 basis points (instead of 50 basis points) below the market rate would increase the amount of Tier 1 borrowers' payment reduction (an additional \$22 or from \$258 to \$280) but would decrease the number of Tier 1 borrowers eligible for a Tier 2 loan modification (approximately 12,000 fewer loans).

However, Treasury does not appear to have estimated the percentage of the 192,000 HAMP Tier 1 borrowers who would likely redefault or be in imminent default (i.e., future HAMP Tier 1 beneficiaries of this program change). According to Treasury officials, Treasury data shows that approximately 25 percent of HAMP Tier 2 modifications relate to borrowers who previously received HAMP Tier 1 trial or permanent modifications that they could not thereafter sustain. Treasury officials stated that given the unique criteria and circumstances of HAMP Tier 1 borrowers, it would be difficult to predict how many additional borrowers will redefault as a result of an interest rate increase. However, an Urban Institute study on interest rate resets, which Treasury officials told us they

³⁹Originally, the HAMP Tier 2 interest rate was the Freddie Mac Primary Mortgage Market Survey plus 50 basis points. Effective July 2014, Treasury reduced the rate to the Freddie Mac Primary Mortgage Market Survey plus 0 basis points.

reviewed and considered, using Treasury published loan file information assumed a 10 percent increase in redefaults.⁴⁰

In addition to not estimating redefaults, Treasury did not estimate future costs to the HAMP program as a result of this program change. Treasury officials told us that because their goal was to help as many homeowners as possible avoid foreclosure, they settled on the rate that would benefit the larger number of HAMP Tier 1 borrowers. As a result of the reduction in the HAMP Tier 2 interest rate, Treasury's share of the costs of the monthly reductions will increase a maximum of 25 basis points for the first five years of all new HAMP Tier 2 loan modifications.⁴¹ In March 2015, HAMP Tier 2 transactions represented more than half of all new HAMP transactions. According to Treasury, because the \$29.8 billion in obligated funds remains unchanged, the interest rate change will have no impact on the MHA budget and will fit into Treasury's existing budgetary authority. However, this assessment does not take into account the fact that unused MHA program funds could be returned to the federal government general fund if deobligated by Treasury, ultimately reducing federal government expenditures and minimizing the impact on the national debt.

Evaluation of alternatives: Treasury partially met this element, primarily due to the lack of documentation of some alternatives considered. Treasury provided documentation showing that it considered lowering the interest rate in increments of 50 basis points, 100 basis points, 150 basis points, 200 basis points and not lowering the interest rate at all. Treasury also evaluated the effect of the interest rate reduction at various Primary Mortgage Market Survey rates, (e.g., 4 percent, 5 percent, etc.) given that such rates may change over time. Although Treasury did not provide any

⁴⁰Laurie Goodman and Jun Zhu, "HAMP Modifications: Is Reset Risk an Issue?" *Housing Finance Policy Center Commentary*, (Washington, D.C.: Urban Institute, May 14, 2014), <http://www.urban.org/research/publication/hamp-modifications-reset-risk-issue>. The study was based on publicly available HAMP data and data on proprietary modifications. Using data from the private-label securities market, the authors found that defaults increased 15 percent when borrowers were faced with large resets. This should be regarded as an upper bound: the population is different, the HAMP resets are occurring in a healthier housing market, and the resets are gradual. So, the authors believe an increase of 10 percent in redefaults is more reasonable.

⁴¹Treasury's payment share is the lesser of 50 percent of (a) the difference between the principal and interest payment before modification and principal and interest payment after modification or (b) 15 percent of the principal and interest payment before modification.

supporting documentation, officials told us that they had considered a number of other alternatives as well. For example, Treasury officials said they considered limiting the reduction to HAMP Tier 1 borrowers only. However, Treasury officials told us that limiting the change to redefaulting HAMP Tier 1 borrowers only would have limited the overall assistance provided and would not have increased the overall number of potentially eligible borrowers.

Treasury officials said they also considered further targeting the rate reduction only at the Tier 1 borrowers most in risk of default. Treasury officials told us that HAMP Tier 2 already does that by virtue of its eligibility criteria. In order to qualify for HAMP Tier 2, a HAMP Tier 1 borrower must meet basic eligibility criteria, which includes being either delinquent or at risk of imminent default. Treasury officials added that creating a bifurcated rate would add considerable operational complexity that would have reduced effectiveness by delaying implementation and putting borrowers at risk until the changes could be implemented.

Treasury officials also told us that they had considered a stakeholder's suggestion of freezing HAMP Tier 1 borrowers' interest rate (i.e., eliminate interest rate increases). However, Treasury officials told us they rejected the suggestion as unfeasible because stakeholders advised them that it would have required the remodification of all Tier 1 loans, including executing new loan documents. Officials also added that freezing rates would likely cost significantly more than the selected approach.

Verification: Treasury partially met this element. Treasury identified the maximum number of HAMP Tier 1 borrowers who could possibly benefit from its decision to reduce the HAMP Tier 2 interest rate. However, Treasury did not estimate the number of these HAMP Tier 1 borrowers that it expected to use HAMP Tier 2 or the total number of borrowers (both existing Tier 1 and new borrowers) expected to benefit from HAMP Tier 2. According to Treasury officials, they do not attempt to estimate the number of borrowers it expects to serve under HAMP Tier 2 or other programs because Treasury found servicer estimates of future participation to not be reliable predictors of future participation. Treasury officials said that their objective is to serve the greatest number of borrowers possible. However, as we found in July 2009 and June 2010, Treasury will be unable to effectively evaluate the success of program

changes if it does not establish specific outcomes-based performance measures (expected benefits) at the outset to compare actual results versus the additional program outlays.⁴²

Further, according to Treasury officials it is difficult to estimate the number of borrowers that will ultimately receive assistance under HAMP Tier 2 or other programs, given borrowers' unique situations, the dynamic nature of the housing market, and broader economic forces including changes in unemployment rates and rates of new mortgage defaults. OMB's guidance recognizes that uncertainty is basic to many analyses and therefore its effects should be analyzed and reported. For example, OMB's guidance states that the analysis should include information surrounding the key sources of uncertainty, expected value estimates of outcomes, sensitivity of results to sources of uncertainty, and where possible, probability distributions of benefits, costs, and net benefits.

Treasury officials told us that they would closely track the number of homeowners who entered HAMP Tier 2 before and after the discounted rate went into effect to identify the impact of the change and the percent of HAMP Tier 2 borrowers who come from HAMP Tier 1. According to officials, this information will help Treasury fully assess the effectiveness of the program change. While following trends is a necessary component of a verification plan, it remains unclear how Treasury will be able to assess the effectiveness of this program change (i.e. whether anticipated benefits and costs have been realized, and whether it is minimizing the impact on the national debt) without a specific estimate or benchmark to track.

HAFAs Relocation Assistance

Policy rationale: Treasury substantially met this element. Treasury noted that negative equity continued to be a persistent problem for many communities in the United States, with nearly 1 in 10 homeowners still underwater. Treasury also concluded that HAFAs would be an important alternative for underwater homeowners facing interest rate increases and at risk of default. Treasury officials said they increased the HAFAs relocation assistance after reviewing relocation costs, including moving expenses and rental deposits. Additionally, Treasury officials told us that HAFAs can provide a safety net for borrowers who cannot sustain, or do not qualify for, HAMP Tier 1 including those struggling with interest rate

⁴²GAO-09-837 and GAO-10-634.

increases. While not a home retention option, HAFA can provide an alternative to foreclosure for those borrowers through the use of short sales and deeds-in-lieu. Treasury officials provided us with academic research they used when making changes to HAFA supporting these conclusions.⁴³ According to Treasury, this research indicated that such mobility helped resolve regional unemployment differences through the movement of individuals to areas with greater employment opportunity. Treasury also demonstrated that some of the states with the most HAFA transactions also had above-average unemployment rates.

Explicit assumptions: Treasury partially met this element. As noted above, Treasury noted that nearly 1 in 10 homeowners were still underwater. Being underwater effectively prevents many borrowers from selling their homes to pay off their mortgages. Treasury also concluded that the costs of relocating, such as rental deposits and moving expenses, could be especially burdensome for recently delinquent homeowners, who were often struggling with unemployment, may have exhausted their cash reserves, or both. However, Treasury did not fully meet this element because while it provided arguments for a higher assistance amount, the assumptions that went into its decision to more than triple the amount of assistance provided from \$3,000 to \$10,000 per borrower remain unclear. Treasury's action memorandum noted rental rates in California, Florida, and Arizona (the states with the highest number of HAFA transactions) were steadily increasing. For example, Treasury focused on California when calculating rental deposits, because California accounted for more HAFA transactions than any other state. Treasury estimated rental deposits for a two-bedroom apartment to be approximately \$4,500 in California. Officials also explained that the increase would help ensure that interstate moves remained a viable option for borrowers seeking employment opportunities. Treasury officials told us that the average cost of moving a two-bedroom household out of state was estimated at more than \$5,600, almost five times more than an intrastate move, which was estimated at \$1,170 based on data from the American Moving and Storage Association.

⁴³Oliver J. Blanchard and Lawrence F. Katz, "Regional Evolutions," *Brookings Papers on Economic Activity*, Economic Studies Program, The Brookings Institution, vol. 23, no. 1 (1992); Alicia C. Sasser, "Voting with Their Feet: Relative Economic Conditions and State Migration Patterns," *Regional Science and Urban Economics*, vol. 40 (2010); and Raven E. Saks and Abigail Wozniak, "Labor Reallocation over the Business Cycle: New Evidence from Internal Migration," (working paper, January 2009).

In its action memorandum, Treasury noted that the funds obligated to MHA remain unchanged at \$29.8 billion and that the changes would have no impact on the MHA budget or TARP overall. However, this assessment does not take into account the fact that unused MHA program funds could be returned to the federal government general fund if deobligated by Treasury.

Evaluation of alternatives: Treasury partially met this element. Treasury did not provide evidence that it conducted research or analysis that would allow it to evaluate a potential alternative of adjusting the benefits provided on a needs-based approach to assistance. Treasury officials told us that they had considered basing the relocation assistance on borrower location, but because HAFA is a national program Treasury wanted to treat borrowers in all states equally. Also, Treasury officials said they had concerns about servicers communicating the details of a needs-based or tiered approach to borrowers. Using a tiered approach might have led to borrower confusion about how much assistance they would receive and would require borrowers to provide additional documentation evidencing their relocation costs. Treasury officials also stated that using a needs-based or tiered approach would have required significant adjustments to both Treasury's and servicers' systems and processes, and that ease of implementation was an important consideration. Treasury officials noted that if Treasury had chosen a different approach it would not have had the assistance in place by February 2015. A more complicated alternative could not have been implemented until summer 2015 at the earliest. It remains unclear what impact such a delay might have had, particularly if it had permitted a more tiered approach that recognized borrowers' unique circumstances and needs. Providing equal amounts of relocation assistance regardless of borrowers' location and circumstances can result in inequitable treatment and potentially unintended results. For example, borrowers with underwater mortgages residing in low-cost areas might be more likely to seek the HAFA incentive, even if they were likely to remain current on their modified mortgage without it.

Verification: Treasury partially met this element. Treasury did not provide specific estimates on the number of homeowners, including HAMP Tier 1 borrowers, whom it expected to receive HAFA assistance. Treasury noted that the amount that would be ultimately disbursed in connection with the HAFA relocation assistance payment increase would depend on a number of factors that it could not predict at the time (e.g., national mortgage delinquency rates and other economic conditions, borrower application rates, and the performance of modified loans over time).

Year Six Pay-for-
Performance Incentive
and Recast

Treasury officials said they will continue to track the number of HAFA transactions before and after the relocation assistance increase. However, without specific estimates, Treasury will be unable to assess the expected effectiveness of this program change, particularly for HAMP Tier 1 borrowers. Treasury officials told us they would be unable to determine whether the increased incentive influenced borrowers' decisions to seek a HAFA transaction.

Policy rationale: Treasury partially met this element, but did not fully justify key aspects of the program change. Treasury provided three main justifications for making this change. First, Treasury officials noted that increasing financial incentives for homeowners in good standing after a HAMP modification could help lower the risk of redefault by providing a strong incentive for remaining current on modified loans. Previously, Treasury conducted a survey of active HAMP Tier 1 borrowers. The survey showed that nearly two-thirds of borrowers were aware of the incentives, and 73 percent of those respondents said they were motivated by them.⁴⁴ Treasury officials said that the survey's results confirmed that borrowers responded to performance incentives. Second, Treasury officials told us that having more equity in their homes—something this incentive provided—was important to lower the risk of redefault, particularly for those struggling with negative equity. Research by Treasury found higher redefault risks associated with underwater borrowers, who have no or negative equity in their homes.⁴⁵ Third, officials said that they decided to offer the \$5,000 incentive at the end of year 6 to lessen the financial impact of HAMP Tier 1 interest rate increases. Specifically, they said that the combination of a recast of the HAMP Tier 1 loan (which servicers are required to offer in conjunction with this program change) and all of the pay-for-performance incentives would lower monthly payments for a large population of homeowners facing increasing interest rates.⁴⁶ Treasury officials also noted that this

⁴⁴Department of the Treasury, *The Homeowner's Perspective on Obtaining a Government-Sponsored Home Mortgage Modification* (Washington, D.C.: 2014), <http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/mha/Documents/MHAProgramPerformanceSurveyPhase2.pdf>.

⁴⁵Treasury, "Comparing the Performance of HAMP and Non-HAMP Modifications".

⁴⁶HAMP Tier 1, Treasury FHA-HAMP, RD-HAMP, and enterprise-HAMP borrowers can potentially earn up to \$10,000 in incentives for remaining in good standing during the first 6 years of their loan modification. Borrowers can earn \$1,000 in each of the first 5 years of the modification plus the additional \$5,000 performance incentive after year 6. Eligible HAMP Tier 2 borrowers only receive the year 6 incentive.

incentive was among options that they believed both Treasury and MHA servicers could implement relatively quickly because it did not require complex infrastructure changes.

However, it is less clear why Treasury extended the \$5,000 Year Six Pay-for-Performance Incentive to borrowers with HAMP Tier 2, RD-HAMP, and Treasury FHA-HAMP loan modifications. Borrowers in these programs do not face interest rate increases, because the modified interest rate of their loans is fixed for the life of the loan. Also, prior to Supplemental Directive 14-05, HAMP Tier 2 borrowers did not receive any pay-for-performance incentives. According to Treasury officials, borrowers in HAMP Tier 2, RD-HAMP and FHA-HAMP can still benefit from the increased equity that performance incentives provide. Officials stated that HAMP data showed that redefault rates fell as a loan's post-modification LTV ratio decreases, and lowering the LTV ratio is especially important for those homeowners who remain underwater. In addition, officials said that increasing borrower incentives for these three programs could also incentivize more borrowers to apply for assistance with HAMP in the future.

In addition to the survey results showing that borrowers are motivated by existing incentives, Treasury officials pointed to their own analysis to support the year 6 incentive's expansion to those programs. Treasury's research showed that holding all other factors constant, borrowers with HAMP modifications performed better than similarly situated borrowers with proprietary modifications.⁴⁷ Officials stated that HAMP's borrower incentives were a probable explanation for these results. However, the borrower incentives were not included in the study's analytical model. As a result, we believe the research cannot be used as evidence to support Treasury's conclusions. Lastly, Treasury was unable to provide documentation to explain how it determined that \$5,000 was the appropriate dollar amount for the incentive, given its stated goal of reducing loan modification redefaults.

Explicit assumptions: Treasury partially met this element. Treasury assumed that providing these changes would incentivize HAMP borrowers to remain current in their monthly payments. While Treasury officials pointed to surveys of HAMP Tier 1 borrowers to demonstrate the

⁴⁷Treasury, "Comparing the Performance of HAMP and Non-HAMP Modifications."

effect of performance incentives, Treasury did not provide data supporting a greater willingness of borrowers already current on their modified mortgages—including HAMP Tier 2, RD-HAMP, FHA-HAMP and enterprise HAMP borrowers—to continue paying because of an increase in incentives.

Treasury also assumed that the incentive would encourage HAMP Tier 1 borrowers in good standing and facing interest rate increases to remain current. Treasury estimated that the median HAMP Tier 1 monthly payment would increase by \$95 after the first interest rate increase and by \$212 after all interest rate increases. Treasury further estimated that the proposed recast would result in a median monthly payment reduction of \$56 for HAMP Tier 1 borrowers. Treasury estimated that the reduction would offset 27 percent of the \$211 cumulative payment increase for the median borrower. Treasury has reported that payment reduction strongly correlates with decreased defaults on HAMP loan modifications.⁴⁸ However, our June 2012 report found that certain levels of payment reductions have a greater effect on reducing redefaults and that beyond these levels greater payment reductions have a diminishing impact on reducing redefault.⁴⁹ It is unclear whether Treasury determined the extent to which this offset would help HAMP Tier 1 borrowers experiencing interest rate increases avoid redefault because of the increase in their monthly mortgage payments.

HAMP Tier 1 borrowers will see their first rate increase at the beginning of year 6, and these borrowers will not receive the benefit until the beginning of year 7. Treasury officials told us that they expected many borrowers to be able to absorb the first interest rate increase. However, according to an Urban Institute study on interest rate resets, all HAMP borrowers with resetting loans in 2017 and 2018 will have an average increase of 33 percent, or about \$254 in monthly payment increases. Moreover, according to a study by the Urban Institute large numbers of 2010 HAMP Tier 1 borrowers (nearly 235,000) in 2017 and 2011 HAMP Tier 1 borrowers (nearly 160,000) in 2018 are expected to encounter much

⁴⁸For example, see Treasury, *MHA Program Performance Report through the Fourth Quarter of 2014*.

⁴⁹[GAO-12-296](#).

higher monthly payment increases of \$318 (a 43 percent increase) and \$313 (a 41 percent increase), respectively.⁵⁰

According to Treasury, approximately one million total borrowers already in HAMP are potentially eligible for the incentive, of which 752,000 in HAMP Tier 1 will see at least one interest rate increase. The balance of the one million represents homeowners in HAMP Tier 1, HAMP Tier 2, RD HAMP and Treasury FHA-HAMP who will not experience an interest rate change on their loan modifications. Treasury officials told us that they had not estimated how many of these potentially eligible borrowers will benefit from the additional incentive. Further, Treasury has not indicated the number of redefaults it expects the new incentive to prevent.

Treasury estimated the total cost of the additional incentives at between \$4 billion and \$6 billion in additional TARP fund outlays, depending on how many potentially eligible homeowners participate and remain current. According to Treasury, this number includes the cost of extending the incentives to all HAMP programs and the maximum cost of Treasury's agreement to fund the extension of the additional incentive to enterprise HAMP loans meeting the requirements of Supplemental Directive 15-01. Treasury did not report the expected costs for each specific program, making a cost comparison across programs difficult.

Officials told us that Treasury's goal was more than to prevent HAMP Tier 1 borrowers from defaulting and that Treasury wanted to increase the performance and sustainability of all HAMP modifications. However, while Treasury's action memorandum did discuss the general benefits of incentive payments, Treasury's analysis did not address its decision to extend the incentive to HAMP Tier 2, RD-HAMP, and FHA-HAMP borrowers.

Evaluation of alternatives: Treasury partially met this element. Treasury officials noted that they had explored options to enhance MHA programs to provide continued assistance to homeowners at risk of default, including those facing interest rate increases under HAMP. For example, the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) recommended that Treasury increase the amount of the annual borrower incentives and require servicers to apply the annual

⁵⁰Goodman and Zhu, "HAMP Modifications," 6.

incentive against the borrowers' monthly mortgage payment rather than using it as a principal curtailment.⁵¹ Treasury did increase borrower incentives (e.g., by adding the sixth year \$5,000 incentive), but officials said that they found multiple complications with SIGTARP's suggestion to apply the annual incentive against the borrower's monthly mortgage payment. For instance, borrowers on an automatic payment plan might have trouble making payments as the monthly payment amount changed, depending on whether it included the month's incentive. According to Treasury officials, the mechanics of a monthly incentive would be difficult to explain to borrowers.

Treasury officials told us that they had discussed SIGTARP's suggestion with servicers, one of which suggested utilizing a recast option as an alternative means of lowering the borrower's monthly payment. Treasury officials also told us that they had discussed SIGTARP's recommendation with housing advocates that had expressed some concerns regarding logistics and changing monthly payments.

Treasury officials told us that because servicers already had infrastructure in place to apply incentives to borrowers' principal balance, they could quickly implement the additional incentive after the sixth year. Officials also told us that given Treasury's experience implementing HAMP, Treasury had to consider implementation difficulties, feasibility for servicers, time constraints, and costs associated with any potential solution. Because interest rate increases had already begun and officials wanted to get assistance to borrowers as quickly as possible, Treasury had to consider the limitations of its administrative system and servicers' systems when making its decision.

Treasury internal documents said that they had considered variations of the pay-for-performance incentive, such as limiting it to borrowers with the most demonstrated need, reducing the amount of the incentive, or limiting the number of eligible HAMP programs. Treasury officials told us that they had made the judgment that a \$5,000 amount in the sixth year with a recast option appropriately balanced the effect of a significant incentive, the desire for a timely and substantial payment relief option, and the time required to implement program changes. With regard to the selected

⁵¹Office of the Special Inspector General for the Troubled Asset Relief Program, *Quarterly Report to Congress*, SIG-QR-14-02 (Washington, D.C.: April 30, 2014).

amount of the incentive—\$5,000—Treasury documents discussed how it considered providing smaller or larger amounts but reached the current amount after taking into account a number of possible factors. However, Treasury officials could not point to analysis of this and alternative amounts, and their relative impact on reducing redefault (i.e., HAMP Tier 1 program redefaults or the other included programs redefault rates), or other expected outcomes.

Verification: Treasury partially met this element. Treasury identified the universe of potentially eligible HAMP borrowers for the additional incentive but did not estimate how many borrowers would likely qualify (e.g., remain in good standing for six years and, as to enterprise borrowers, be serviced by a participating SPA servicer). Further, Treasury does not have a plan for evaluating the effectiveness of the pay-for-performance incentive on HAMP Tier 2, RD-HAMP, FHA-HAMP, and enterprise borrowers. Treasury did identify the universe of potentially eligible HAMP Tier 1 borrowers but did not provide specific numbers on the number of HAMP Tier 1 borrowers most likely to receive the benefit.

Treasury officials told us that they would continue to collect performance data on all of the HAMP programs. According to officials, the data will allow them to monitor the incentive's impact on default curves after borrowers are notified of the increased incentive by comparing borrowers' performance over time. However, such an approach would not permit isolating the impact of this incentive, because it is unable to control for other factors that could affect the number of HAMP Tier 1 borrowers that redefaulted. As a result, Treasury will be limited in its ability to adequately determine whether the incentive has helped prevent redefaults after the interest rate increases.

Conclusions

Approximately 1.5 million borrowers have received permanent HAMP first-lien modifications, and \$18.8 billion (63 percent) of TARP funds allocated to MHA remain to be disbursed (as of May 2015). Treasury has recently made a series of program changes that are intended to increase participation in MHA programs and mitigate the impact of HAMP Tier 1 interest rate increases. Treasury's analysis showed that these changes could result in additional outlays of TARP funds in the billions of dollars. However, inconsistencies we saw with regards to Treasury's analysis suggest the lack of a standard process in place to ensure that program changes were subject to a comprehensive benefit-cost analysis. Treasury did not fully meet all of the key elements of benefit-cost analysis for the three program changes that we reviewed. As noted in OMB guidance and our past work, benefit-cost analysis improves decision-making by

providing a framework for systematic analysis of objectives, influencing factors, and their effects. Each of the four elements of a benefit-cost analysis—policy rationale, explicit assumptions, evaluation of alternatives, and verification—are important in promoting efficient resource allocation through well-informed decision-making. Since such program changes do not require Treasury to engage in a formal rulemaking process that includes a public comment period, standardizing the process might allow for increased accountability of Treasury’s program changes. Because Treasury did not comprehensively address each of the four key elements of an effective benefit-cost analysis, when it has made recent program changes, it has limited assurance that the changes will effectively mitigate expected rate increases in a manner that minimizes the impact on the national debt. It is important that MHA program changes that will result in additional TARP outlays be based on key elements of benefit-cost analysis since any unused MHA funds could be returned to the federal government general fund and available for other purposes, thereby reducing the national debt.

Recommendations for Executive Action

To bring greater rigor and efficiency to decisions about the use of federal funds allocated for TARP housing programs, we recommend that the Secretary of the Treasury develop and implement policies and procedures that establish a standard process to better ensure that TARP-funded housing program changes are based on analyses that comprehensively and consistently meet the key elements of benefit-cost analysis.

Agency Comments and Our Evaluation

We provided a draft of this report to Treasury for review and comment. Treasury provided written comments, which are presented in appendix II. We also received technical comments from Treasury that are incorporated as appropriate in the report. In its written comments, Treasury agreed that it is important to assess the costs and benefits of proposed program modifications. Treasury highlighted some of its efforts to evaluate alternatives along with costs and benefits of the recent changes made to the MHA program. Treasury stated that it would seriously consider the extent to which it can apply our recommendation going forward.

In its comment letter, Treasury noted that the recent enhancements to the MHA program can be implemented with existing allocated financial resources since any costs associated with these program changes will draw from funds already allocated. However, any unused allocated funds

can be deobligated and returned to the general fund, allowing the funds to be used for other purposes. For this reason, we believe it is important that Treasury consider carefully whether the additional costs associated with these program changes are consistent with the expected benefits provided. In fact, Treasury has previously deobligated significant funds when it determined that a program was unnecessary. For example, Treasury recently deobligated almost \$8 billion in allocated TARP funds based on lower than expected participation in the FHA Short Refinance Program. Moving forward, it will be important that Treasury follow the best practices discussed in OMB's Circular A-94 to ensure taxpayer funds are spent efficiently and effectively and to minimize the impact on the national debt.

In its technical comments, Treasury also raised concern about how we evaluated its plans to meet the verification element of benefit-cost analysis for the three program changes we reviewed. Specifically, Treasury expressed concern that we did not fully credit Treasury for its plans to monitor the effects of the program changes. Based on our review of the additional information provided by Treasury during the agency comment period, we made modifications to our draft report ratings for the verification element for all three program changes and the evaluation of alternatives element for the HAFA relocation assistance program change. However, even with the consideration of this additional information, our analysis found that Treasury has not fully addressed critical components of OMB's guidance for the verification element. As we discussed in the report, without estimating the number of potential beneficiaries, Treasury will be limited in its ability to conduct results-oriented evaluations of the effectiveness of the changes. Further, we maintain that it is important that Treasury estimate the number of borrowers who are likely to receive an additional benefit in order to effectively evaluate the outcomes of providing those additional benefits.

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 III.

A handwritten signature in black ink, appearing to read "Mathew J. Scire". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mathew J. Scire
Director
Financial Markets and Community Investment

List of Committees

The Honorable Thad Cochran
Chairman
The Honorable Barbara Mikulski
Vice Chairwoman
Committee on Appropriations
United States Senate

The Honorable Richard Shelby
Chairman
The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Mike Enzi
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The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate

The Honorable Hal Rogers
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The Honorable Nita Lowey
Ranking Member
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House of Representatives

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The Honorable Chris Van Hollen
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Committee on the Budget
House of Representatives

The Honorable Jeb Hensarling
Chairman
The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

The Honorable Paul Ryan
Chairman
The Honorable Sander Levin
Ranking Member
Committee on Ways and Means
House of Representatives

Appendix I: Objectives, Scope, and Methodology

In response to a provision in the Emergency Economic Stabilization Act of 2008 (EESA), this report examines (1) the status of TARP-funded housing programs and (2) the extent to which Treasury's analytic framework for considering recent program changes was consistent with federal guidance and best practices.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 and FHA Short Refinance 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 reports through March 2015.² 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 percent of funds disbursed. 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 reliability of the Treasury data, we reviewed related documentation and interviewed knowledgeable agency officials. From this, we determined that the data were sufficiently reliable for the purposes of this report.

To assess Treasury's efforts to consider the costs and benefits of a range of policy options when making program changes, we interviewed Treasury officials about their process for making program changes; we reviewed MHA Monthly Performance Reports, quarterly Special Inspector General for TARP reports to Congress, the MHA program handbook,

¹EESA includes a provision that GAO report at least every 60 days on TARP's performance in meeting the purposes of the act. Pub. L. No. 110-343, § 116(a), 122 Stat. 3765, 3783-85 (codified at 12 U.S.C. § 5226(a)).

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

Treasury's supplemental directives communicating program changes, internal Treasury documents, prior GAO work, and reviewed Treasury's website. We also interviewed one organization that acts as the sole contractor for Treasury's borrower hotline and a think tank that recently issued a relevant study. We compared Treasury's process to key elements of effective cost-benefit analysis contained in guidance from the Office of Management and Budget (OMB).³

We conducted this performance audit from November 2014 to July 2015 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.

³OMB, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*, Circular A-94 (Washington, D.C.: Oct. 29, 1992).

Appendix II: Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 22, 2015

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

Dear Mr. Scirè:

Thank you for the opportunity to review and comment on the Government Accountability Office's (GAO) draft report (Draft), GAO-15-670, on Treasury's Making Home Affordable (MHA) program. We value the GAO's continuing efforts to analyze the housing programs created under Treasury's Troubled Asset Relief Program (TARP), programs of unprecedented size and scope designed to prevent foreclosures and aid the housing market in recovery from an historic crisis.

The MHA program has helped stabilize the housing market and provided assistance, directly and indirectly, to millions of families. Since its launch, more than two million mortgage assistance actions have taken place under MHA. MHA provides a variety of solutions to struggling homeowners through mortgage modifications, short sales or deeds-in-lieu of foreclosure, and other loss mitigation options. Preventing avoidable foreclosures also can provide economic and social benefits to those beyond the homeowners and families directly assisted, helping to stabilize communities and supporting neighborhood home values. In addition, MHA programs have introduced important standards and borrower protections widely adopted by the mortgage servicing industry that have helped millions more homeowners avoid foreclosure.

We agree that it is important to assess the costs and benefits of proposed program modifications, and we appreciate GAO's acknowledgement that Treasury has taken steps to do so. Treasury's recent enhancements — the expansion of the borrower pay-for-performance incentive, the lower interest rate in HAMP Tier 2 modifications, and the changes to our short sale program (HAFA) — were intended to expand the reach of our programs to assist additional troubled homeowners and create a safety net for the 750,000 homeowners participating in HAMP who will experience an increase in their modified payments. These increases began affecting homeowners in 2014.

In making these enhancements, we evaluated numerous alternatives and based our decisions on a variety of information, including six years of program data on modification performance, economic and housing data (delinquency rates, negative equity, etc.), borrower surveys, and conversations with servicers, housing counselors and other program stakeholders. The information evaluated by Treasury indicated that these enhancements would help avoid future foreclosures and could be implemented in an operationally feasible manner within a reasonable timeframe.

**Appendix II: Comments from the Department
of the Treasury**

Treasury also considered the costs of program enhancements and balanced these considerations with the overall objective of helping struggling homeowners. The MHA programs are designed so that funds are spent only for homeowners who remain in good standing on their mortgages or for transactions that are complete. In short, the MHA program only uses taxpayer funds to the degree it succeeds. As a result, the MHA program controls costs and protect taxpayers. Moreover, the enhancements can be implemented with existing allocated financial resources. Any costs associated with these program changes will draw from funds already allocated to foreclosure prevention activities as authorized by Congress under the Emergency Economic Stabilization Act. Treasury concluded that the recent enhancements were appropriate and important steps to assist struggling homeowners prevent avoidable foreclosures and strengthen the housing market.

As GAO notes, Treasury will be taking steps to evaluate the effectiveness of these enhancements. However, as GAO previously explained when discussing Treasury's housing programs, "[i]solating the impact of TARP from general market forces and other foreclosure initiatives will be a challenge."¹ We have found GAO's earlier view accurate. Treasury will continue to utilize continuous tracking and analysis of hundreds of separate program data points, broader economic and housing data, and consideration of information from borrowers, servicers and program stakeholders to evaluate program performance.

We will also seriously consider the extent to which Treasury can apply GAO's recommendation going forward. Treasury is committed to improving MHA to ensure its effectiveness and efficiency. We value GAO's review of our efforts and we appreciate its feedback and continuing assessments of the MHA program. We look forward to continuing to work with you and your team.

Sincerely,



Mark McArdle
Chief Homeownership Preservation Officer

¹ *Troubled Asset Relief Program: Continued Attention Needed to Ensure the Transparency and Accountability of Ongoing Programs*, GAO-10-933T (Washington, D.C.: July 21, 2010)

Appendix III: 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), Jon D. Menaster, (Analyst-in-Charge), Bethany M. Benitez, Christina S. Cantor, Emily R. Chalmers, William R. Chatlos, Lynda E. Downing, Cheryl L. Jones, John A. Karikari, Susan E. Offutt, Jena Y. Sinkfield, Estelle M. Tsay-Huang, James D. Vitarello, and William T. Woods made key contributions to this report.

Appendix IV: Accessible Data

Data Table for Highlights Figure and Figure 5: Extent Treasury Met the Four Key Elements of OMB Circular A-94's Benefit-Cost Analysis for Three Recent Program Changes

Making Home Affordable Program Change			
Key Elements of a Benefit-Cost Analysis	Home Affordable Modification Program Tier 2 Interest Rate Reduction	Home Affordable Foreclosure Alternatives Relocation Assistance	Year Six Pay-for-Performance Incentive and Recast
Policy Rationale	Substantially/fully met	Substantially/fully met	Partially met
Explicit Assumptions	Partially met	Partially met	Partially met
Evaluation of Alternatives	Partially met	Partially met	Partially met
Verification	Partially met	Partially met	Partially met

Source: GAO analysis of Treasury data. | GAO-15-670

Note: “**Not met**” = we found no evidence that satisfied the element. “**Partially met**” = we found evidence that satisfied a portion of the element. “**Substantially/fully met**” = we found documentary evidence that satisfied a large portion or the entire element.

Data Table for Figure 1: Percentage and Amount of Allocated TARP Housing Funds Disbursed and Remaining Balance, by Program and Total, as of May 2015 (Dollars in billions)

	Disbursed		Remaining		Allocated
	Dollars (in billions)	Percentage	Dollars (in billions)	Percentage	Dollars (in billions)
Making Home Affordable	\$11.0	36.2%	\$18.8	63.8%	\$29.8
Hardest Hit Fund	\$5.2	67.2%	\$2.4	32.8%	\$7.6
Federal Housing Administration Short Refinance	\$0.02	15.4%	\$0.11	84.6%	\$0.1
Total	\$16.3	42.4%	\$21.3	57.6%	\$37.5

Source: GAO analysis of Treasury's monthly TARP update to Congress. | GAO-15-670

Note: Remaining amounts include obligated amounts that have not been disbursed. Numbers may not sum to totals due to rounding.

Data Table for Figure 3: Monthly HAMP Tier 1 and HAMP Tier 2 Activity Levels from November 2012 through April 2015

Number of borrowers (in thousands)

Year	Month	Trial modifications started	Permanent modifications started
2010	Jan.	95	50
	Feb.	88	53
	Mar.	71	61
	Apr.	48	68
	May	27	48
	June	22	51
	July	24	37

Appendix IV: Accessible Data

Year	Month	Trial modifications started	Permanent modifications started
	Aug.	24	33
	Sept.	31	28
	Oct.	30	24
	Nov.	31	30
	Dec.	35	30
2011	Jan.	30	28
	Feb.	34	26
	Mar.	35	36
	Apr.	33	29
	May	27	32
	June	25	32
	July	16	28
	Aug.	22	26
	Sept.	21	40
	Oct.	18	26
	Nov.	17	27
	Dec.	19	23
2012	Jan.	11	18
	Feb.	17	23
	Mar.	21	20
	Apr.	16	15
	May	19	17
	June	18	17
	July	13	17
	Aug.	18	17
	Sept.	14	14
	Oct.	18	16
	Nov.	16	15
	Dec.	14	14
2013	Jan.	12	15
	Feb.	15	16
	Mar.	17	12
	Apr.	18	12
	May	20	15
	June	16	17
	July	16	14
	Aug.	16	19

Year	Month	Trial modifications started	Permanent modifications started
2014	Sept.	13	13
	Oct.	13	16
	Nov.	15	13
	Dec.	12	14
	Jan.	11	15
	Feb.	10	13
	Mar.	10	13
	Apr.	9	12
	May	9	12
	June	9	10
	July	10	10
	Aug.	11	10
2015	Sept.	12	10
	Oct.	10	10
	Nov.	10	11
	Dec.	12	11
	Jan.	10	11
	Feb.	10	10
	Mar.	13	8

Source: GAO analysis of Treasury's Making Home Affordable program performance reports. | GAO-15-670

Data Table for Figure 3: Monthly HAMP Tier 1 and HAMP Tier 2 Activity Levels from November 2012 through April 2015

Year	Month	Tier 1 trial modifications started	Tier 2 trial modifications started	Tier 1 permanent modifications started	Tier 2 permanent modifications started
2012	Dec.	11,630	1,175	13,685	799
2013	Jan.	10,704	950	14,153	705
	Feb.	11,629	1,292	14,460	926
	Mar.	12,661	3,741	10,834	1,079
	Apr.	12,294	4,409	10,787	1,179
	May	12,892	5,359	13,475	2,096
	June	10,963	4,747	14,724	2,599
	July	11,262	4,568	11,243	1,940
	Aug.	9,830	3,759	13,251	5,818
	Sept.	8,577	3,844	8,834	4,050
	Oct.	8,890	4,765	12,231	4,152

Year	Month	Tier 1 trial modifications started	Tier 2 trial modifications started	Tier 1 permanent modifications started	Tier 2 permanent modifications started
2014	Nov.	8,767	6,219	9,536	3,460
	Dec.	8,188	5,754	8,392	5,152
	Jan.	7,017	5,008	10,045	5,684
	Feb.	6,045	4,139	8,353	4,102
	Mar.	6,250	4,135	8,545	4,634
	Apr.	6,326	3,845	7,638	4,175
	May	6,329	3,783	7,550	4,224
	June	6,017	3,780	6,583	4,230
	July	5,833	4,172	7,742	4,756
	Aug.	5,901	5,067	6,610	3,038
	Sept.	5,960	5,747	6,170	3,389
	Oct.	5,333	5,012	6,048	3,975
2015	Nov.	5,433	4,762	6,082	4,921
	Dec.	6,406	5,781	5,816	4,909
	Jan.	4,832	4,738	5,988	4,777
	Feb.	5,309	5,047	5,623	4,451
	Mar.	4,963	7,772	3,776	4,486

Source: GAO analysis of Treasury's Making Home Affordable monthly and quarterly performance reports. | GAO-15-670

Data Table for Figure 4: Hardest Hit Fund: Amount Disbursed (as a Percentage of Allocated Funding) and Number of Households Assisted, as of March 2015

State/District	Number of borrowers (in thousands)	Percentage of allocated funds
District of Columbia	0.695	88.1
Mississippi	2.984	64.6
Rhode Island	3.075	100
Arizona	3.533	58.2
Alabama	3.789	28.9
Indiana	4.682	49.9
Nevada	5.539	57.7
Georgia	5.909	57.2
New Jersey	5.993	81.7
Kentucky	6.369	69.8
Tennessee	7.355	81.6
South Carolina	8.808	59.2

State/District	Number of borrowers (in thousands)	Percentage of allocated funds
Oregon	11.62	100
Illinois	13.722	88.6
North Carolina	18.277	81.9
Florida	21.3	56.4
Ohio	24.214	87.5
Michigan	24.568	61
California	46.018	61.6

Sources: GAO analysis of Treasury's Hardest Hit Fund reports; Map Resources (map). | Gao-15-670

Text in Appendix II: Comments from the Department of the Treasury

Page 1

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 22, 2015

Matthew J. Scirè
Director
Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, N.W.
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Dear Mr. Scirè:

Thank you for the opportunity to review and comment on the Government Accountability Office's (GAO) draft report (Draft), GAO-15-670, on Treasury's Making Home Affordable (MHA) program. We value the GAO's continuing efforts to analyze the housing programs created under Treasury's Troubled Asset Relief Program (TARP), programs of unprecedented size and scope designed to prevent foreclosures and aid the housing market in recovery from an historic crisis.

The MHA program has helped stabilize the housing market and provided assistance, directly and indirectly, to millions of families. Since its launch, more than two million mortgage assistance actions have taken place under MHA. MHA provides a variety of solutions to struggling homeowners through mortgage modifications, short sales or deeds-in-lieu of foreclosure, and other loss mitigation options. Preventing avoidable foreclosures also can provide economic and social benefits to those beyond the homeowners and families directly assisted, helping to stabilize communities and supporting neighborhood home values. In addition, MHA programs have introduced important standards and borrower protections widely adopted by the mortgage servicing industry that have helped millions more homeowners avoid foreclosure.

We agree that it is important to assess the costs and benefits of proposed program modifications, and we appreciate GAO's acknowledgement that Treasury has taken steps to do so. Treasury's recent enhancements – the expansion of the borrower pay-for-performance incentive, the lower interest rate in HAMP Tier 2 modifications, and the changes to our short sale program (HAFA) – were intended to expand the reach of our programs to assist additional troubled homeowners and create a safety net for the 750,000 homeowners participating in HAMP who will experience an increase in their modified payments. These increases began affecting homeowners in 2014.

In making these enhancements, we evaluated numerous alternatives and based our decisions on a variety of information, including six years of program data on modification performance, economic and housing data (delinquency rates, negative equity, etc.), borrower surveys, and conversations with servicers, housing counselors and other program stakeholders. The information evaluated by Treasury indicated that these enhancements would help avoid future foreclosures and could be implemented in an operationally feasible manner within a reasonable timeframe.

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Treasury also considered the costs of program enhancements and balanced these considerations with the overall objective of helping struggling homeowners. The MHA programs are designed so that funds are spent only for homeowners who remain in good standing on their mortgages or for transactions that are complete. In short, the MHA program only uses taxpayer funds to the degree it succeeds. As a result, the MHA program controls costs and protect taxpayers. Moreover, the enhancements can be implemented with existing allocated financial resources. Any costs associated with these program changes will draw from funds already allocated to foreclosure prevention activities as authorized by Congress under the Emergency Economic Stabilization Act. Treasury concluded that the recent enhancements were appropriate and important steps to assist struggling homeowners prevent avoidable foreclosures and strengthen the housing market.

As GAO notes, Treasury will be taking steps to evaluate the effectiveness of these enhancements. However, as GAO previously explained when discussing Treasury's housing programs, "[i]solating the impact of TARP from general market forces and other foreclosure initiatives will be a challenge." [Note 1] We have found GAO's earlier view accurate. Treasury will continue to utilize continuous tracking and analysis of hundreds of separate program data points, broader economic and housing data, and consideration of information from borrowers, servicers and program stakeholders to evaluate program performance.

We will also seriously consider the extent to which Treasury can apply GAO's recommendation going forward. Treasury is committed to improving MHA to ensure its effectiveness and efficiency. We value GAO's review of our efforts and we appreciate its feedback and continuing assessments of the MHA program. We look forward to continuing to work with you and your team.

Sincerely,

Signed by
Mark McArdle
Chief Homeownership Preservation Officer

Note 1: Troubled Asset Relief Program: Continued Attention Needed to Ensure the Transparency and Accountability of Ongoing Programs, GAO-10-933T (Washington, D.C.: July 21, 2010)

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