

July 2012

TROUBLED ASSET RELIEF PROGRAM

Further Actions Needed to Enhance Assessments and Transparency of Housing Programs



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Why GAO Did This Study

More than 3 years have passed since Treasury made up to \$50 billion available to help struggling homeowners through the MHA program, and foreclosure rates remain near historically high levels. Further, more than 2 years after Treasury set up the Hardest Hit Fund to help homeowners in high-unemployment states, much of the money remains unspent. The Emergency Economic Stabilization Act of 2008, which authorized Treasury to create TARP, requires GAO to report every 60 days on TARP activities. This 60-day report examines (1) the steps Treasury took to design and implement recent changes to MHA, and (2) Treasury's monitoring and oversight of states' implementation of Hardest Hit Fund programs. To address these questions, GAO analyzed data and interviewed officials from Treasury, five selected Hardest Hit Fund states, and five large MHA servicers.

What GAO Recommends

Treasury should (1) expeditiously assess the risks associated with the recent changes to MHA and develop activity-level performance measures for each program, and (2) consolidate the states' Hardest Hit Fund performance and financial data, including administrative expenses, into a single public report. Treasury neither agreed nor disagreed with the recommendations but took exception to the finding that it did not conduct a comprehensive risk assessment prior to implementing the MHA program changes. In response, GAO provided examples of key components of a comprehensive risk assessment that Treasury had not addressed.

View [GAO-12-783](#). For more information, contact Mathew Scire at (202) 512-8678 or sciremj@gao.gov.

TROUBLED ASSET RELIEF PROGRAM

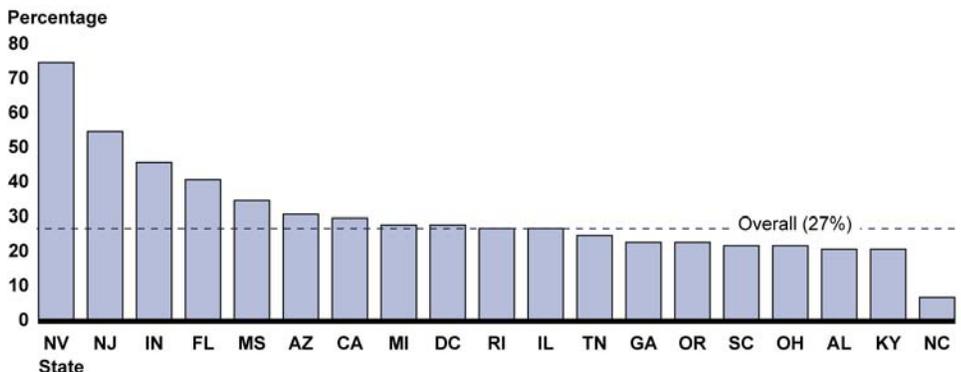
Further Actions Needed to Enhance Assessments and Transparency of Housing Programs

What GAO Found

The Department of the Treasury announced changes in January 2012 to its Making Home Affordable (MHA) programs, which are funded by the Troubled Asset Relief Program (TARP), to address barriers to borrower participation. These changes include expanding eligibility criteria and extending application deadlines through 2013. Not enough time has passed to assess the extent to which these changes will increase participation. Several large servicers were not able to fully implement the changes by the June 1, 2012, effective date, and servicers that GAO queried had mixed views about possible effects. Treasury consulted with servicers, investors, and federal banking regulators before implementing the changes but did not perform a comprehensive risk assessment for the changes or develop meaningful performance measures in accordance with standards for internal control. As a result, Treasury may have difficulty mitigating potential risks, such as an increase in redefaults or the misuse of funds; effectively assessing program outcomes; or holding servicers accountable.

After a slow start, states increased their spending on borrower assistance under the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund). The assistance provided as of March 2012 totaled about 5 percent of the \$7.6 billion allocation. All but one state that GAO spoke to anticipated spending their full allocations, and all noted that with Treasury's help they had dealt with challenges related to staffing, infrastructure, servicer participation, borrower outreach, and program implementation. Treasury officials said that they expected initial administrative spending to be high as states established their programs, and as shown below, 27 percent of states' total spending was for administrative expenses as of March 2012. Treasury officials stated that states would be required to report publicly on administrative costs beginning with the third quarter of 2012. Treasury has been monitoring states' performance and compliance but has not reported consolidated performance and financial data (including administrative expenses) for the programs. The lack of consolidated reporting of performance and financial data limits transparency and efforts to ensure that resources are used effectively to achieve program goals.

Administrative Expenses as a Percent of Total Hardest Hit Fund Disbursements, by State, as of March 2012



Source: GAO analysis of Treasury Hardest Hit Fund data.

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Abbreviations

2MP	Second Lien Modification Program
DTI	debt-to-income ratio
EESA	Emergency Economic Stabilization Act of 2008
the enterprises	Fannie Mae and Freddie Mac
FHA	Federal Housing Administration
FHA Short Refinance	FHA Refinance of Borrowers in Negative Equity Positions
FHFA	Federal Housing Finance Agency
HAMP	Home Affordable Modification Program
Hardest Hit Fund	Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets
HFA	housing finance agency
HUD	Department of Housing and Urban Development
LTV	loan-to-value
MHA	Making Home Affordable
NPV	net present value
OFS	Office of Financial Stability
PRA	Principal Reduction Alternative
SIGTARP	Office of the Special Inspector General for TARP
TARP	Troubled Asset Relief Program
USDA	Department of Agriculture
VA	Department of Veterans Affairs

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United States Government Accountability Office
Washington, DC 20548

July 19, 2012

Congressional Committees

Since the Home Affordable Modification Program (HAMP) was first announced in February 2009, concerns have been raised that the program has not reached the expected number of homeowners. HAMP was created after the Emergency Economic Stabilization Act of 2008 (EESA) authorized the Department of the Treasury to establish the \$700 billion Troubled Asset Relief Program (TARP), which was intended to, among other things, preserve homeownership and protect home values.¹ Under HAMP, Treasury initially indicated that up to \$50 billion would be used to help 3 to 4 million struggling homeowners avoid potential foreclosure.² HAMP is the key component of Treasury's Making Home Affordable (MHA) program and provides servicers and mortgage holders/investors with incentive payments to offer modifications on first-lien mortgages to reduce borrowers' monthly mortgage payments to affordable levels and thus help borrowers avoid foreclosure and keep their homes.

In three prior reports, we looked at the implementation of the HAMP first-lien modification program and other MHA programs, noting that Treasury faced challenges in implementing them and making several

¹Pub. L. No. 110-343, 122 Stat. 3765 (2008), codified at 12 U.S.C. §§ 5201 et seq. The Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, Div. A, 123 Stat. 1632 (2009), amended the act to reduce the maximum allowable amount of outstanding troubled assets under the act by almost \$1.3 billion, from \$700 billion to \$698.741 billion. The Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010) (1) reduced Treasury's authority to purchase or insure troubled assets to a maximum of \$475 billion and (2) prohibited Treasury, under the Emergency Economic Stabilization Act of 2008, from incurring any additional obligations for a program or initiative, unless it had already been introduced prior to June 25, 2010.

²Treasury subsequently reduced the total support for housing programs from TARP to \$45.6 billion, of which \$29.9 billion was allocated to HAMP and other Making Home Affordable programs.

recommendations intended to address these challenges.³ In addition, the Special Inspector General for TARP (SIGTARP) and the Congressional Oversight Panel have issued several reports containing various recommendations to Treasury intended to improve the transparency, accountability, and effectiveness of MHA.⁴

Questions continue to be raised about the extent to which the HAMP first-lien program has effectively reached struggling homeowners and reduced avoidable foreclosures. In January 2012, Treasury announced several enhancements to its MHA program intended to help additional homeowners stay in their homes and strengthen hard-hit communities. It expanded HAMP to include mandatory assessments of borrowers for alternate modifications with relaxed eligibility requirements, extended MHA programs through 2013, and increased incentives for certain subprograms. Questions have also been raised about the Housing Finance Agency Innovation Fund for Hardest Hit Housing Markets (Hardest Hit Fund), a \$7.6 billion TARP-funded initiative that provides funding to selected states to develop innovative solutions to housing market difficulties in their states.

As required by EESA, we have provided oversight of TARP activities since they began in 2008 through reports issued every 60 days. This 60-day report examines (1) steps Treasury has taken to design and implement recent changes to the Making Home Affordable programs and

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

⁴For example, see Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), *Factors Affecting Implementation of the Home Affordable Modification Program*, SIGTARP 10-005 (Washington, D.C.: Mar. 25, 2010) and Congressional Oversight Panel, *April Oversight Report: Evaluating Progress on TARP Foreclosure Mitigation Programs* (Washington, D.C.: Apr. 14, 2010).

(2) Treasury's monitoring and oversight of state housing finance agencies' (HFA) implementation of the Hardest Hit Fund. In addition, appendix II provides an update on the status of recommendations made to Treasury in previous reports related to TARP-funded housing programs.

To address these questions, we reviewed MHA and Hardest Hit Fund program documentation that Treasury issued, including supplemental directives for the recent MHA program changes, and interviewed officials from Treasury and the Federal Housing Finance Agency (FHFA). We obtained information from and spoke with five of the largest MHA servicers, which collectively represent about 68 percent of the TARP funds allocated to servicers participating in the program. We interviewed and obtained information from officials in five states that are administering Hardest Hit Fund programs. To select these states, we considered factors such as the size of the funding allocation and geographic location. Further, we spoke with various mortgage industry participants, including associations representing servicers, housing counselors, and legal services attorneys. We analyzed loan-level data from Treasury's HAMP database, which included data reported by servicers on borrowers evaluated for HAMP participation through March 2012. This analysis allowed us to identify the characteristics of borrowers who received modifications under HAMP. We coordinated our work with SIGTARP. For additional information on our scope and methodology, see appendix I.

We conducted this performance audit from February 2012 through July 2012 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 (OFS), which administers TARP, addresses the issues of preventing avoidable foreclosures and preserving homeownership. Treasury established three initiatives funded under TARP to address these issues: MHA, the Hardest Hit Fund, and, in conjunction with the Department of Housing and Urban Development's (HUD) Federal

Housing Administration (FHA), the FHA Refinance of Borrowers in Negative Equity Positions (FHA Short Refinance).⁵

Treasury allocated \$29.9 billion in TARP funds to MHA to be used to encourage the modification of eligible mortgages that financial institutions owned and held in their portfolios (whole loans) or that they serviced for private-label securitization trusts, as well as to provide other relief to distressed borrowers.⁶ Only financial institutions that voluntarily signed a Commitment to Purchase Financial Instrument and Servicer Participation Agreement with respect to loans not owned or guaranteed by the government-sponsored enterprises Fannie Mae or Freddie Mac (the enterprises) on or before October 3, 2010, are eligible to receive TARP financial incentives under the MHA program.⁷ MHA was initially set to end December 31, 2012, but Treasury recently extended the MHA application deadline by 1 year to December 31, 2013. In addition to the original HAMP first-lien modifications, MHA TARP-funded efforts include the Principal Reduction Alternative (PRA), the Second Lien Modification Program (2MP), the Home Affordable Unemployment Program, the Home Affordable Foreclosure Alternatives program, Home Price Decline Protection incentives, and several other incentive programs.⁸

⁵The FHA Short Refinance program took effect in September 2010 and provides underwater borrowers—those with properties worth less than the remaining principal they owe on their mortgage—whose loans are not insured by FHA to refinance into an FHA-insured mortgage. In order to qualify, the mortgage holder must write down at least 10 percent of the outstanding principal and achieve a loan-to-value ratio on the first lien of no more than 97.75 percent. 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.

⁶Loans held in private-label securitization trusts include loans not securitized by Fannie Mae or Freddie Mac and not insured by FHA or guaranteed by the Department of Veterans Affairs (VA) or the Department of Agriculture (USDA).

⁷Under HAMP, the enterprises provide additional funds from their own balance sheets to provide incentives to servicers and borrowers for modifying loans owned or guaranteed by them. The enterprises have directed all of their servicers to participate in the enterprises' HAMP programs.

⁸These incentive programs include servicer and borrower incentives for certain modifications completed in accordance with the HAMP companion programs implemented by FHA (FHA-HAMP) and USDA (Rural Development or RD-HAMP) and a second-lien modification program to facilitate refinances under the FHA Short Refinance program.

HAMP

The largest component of MHA is the HAMP first-lien modification program, which was intended to help eligible homeowners stay in their homes and avoid potential foreclosure. HAMP first-lien modifications are available to qualified borrowers who took out their loans on or before January 1, 2009. Only single-family properties (one to four units) with mortgages no greater than \$729,750 for a one-unit property are eligible.⁹ HAMP uses a standardized net present value (NPV) model to compare expected cash flows from a modified loan to the same loan with no modification, using certain assumptions. If the NPV of the expected investor cash flow with a modification is greater than the NPV of the expected cash flow without a modification, the loan servicer is required to modify the loan. In addition, Treasury shares some of the costs of modifying mortgages with mortgage holders/investors and provides incentives of up to \$1,600 to servicers for completing modifications.¹⁰

In early 2012, Treasury announced a second evaluation for a modification under HAMP, at which point the original HAMP first-lien modification structure was redesignated as HAMP Tier 1, and the new evaluation was named HAMP Tier 2. HAMP Tier 2 became available to borrowers June 1, 2012. Generally, HAMP Tier 1 is available to qualified borrowers who occupy their properties as their primary residences and whose first-lien mortgage payment is more than 31 percent of their monthly gross income, calculated using the front-end debt-to-income (DTI) ratio.¹¹ In contrast, HAMP Tier 2 is available for either owner-occupied properties or rental properties, and borrowers' monthly mortgage payments prior to modification do not have to exceed a specified threshold. Mortgages secured by owner-occupied properties must be in imminent default or be two or more payments delinquent to be considered for HAMP Tier 1 or HAMP Tier 2. For mortgages secured by rental properties, only those that are two or more payments delinquent are eligible.

⁹Unpaid principal balance limits (prior to modification) are \$729,750 for a one-unit building; \$934,200 for a two-unit building; \$1,129,250 for a three-unit building; and \$1,403,400 for a four-unit building.

¹⁰Additional incentive payments are available to servicers, borrowers, and mortgage holders/investors if certain conditions are met.

¹¹The front-end DTI ratio used for the HAMP program is the percentage of a borrower's gross monthly income required to pay the borrower's monthly housing expense, which includes mortgage principal, interest, taxes, insurance, and if applicable, condominium or cooperative fees or homeowners' association dues.

The HAMP Tier 1 standard modification waterfall provides servicers with a sequential modification process to reduce mortgage payments to as close to 31 percent of gross monthly income as possible. Servicers must first capitalize accrued interest and certain expenses paid to third parties and add this amount to the loan balance (principal) amount. Next, the interest rate must be reduced in increments of one-eighth of 1 percent until the 31-percent DTI target is reached, but servicers are not required to reduce interest rates below 2 percent.¹² 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 in 1-month increments 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. Servicers may also forgive mortgage principal at any step of the process to achieve the target monthly payment ratio of 31 percent, provided that the investor allows principal reduction.¹³

In contrast, the HAMP Tier 2 modification provides servicers with a uniform set of actions that must result in a reduction in the principal and interest payments of at least 10 percent and a postmodification DTI that is greater than or equal to 25 percent but less than or equal to 42 percent in order for the modification to proceed. The NPV model applies the following steps, using information provided by the servicer to evaluate borrowers for HAMP Tier 2:

- accrued interest and certain expenses paid to third parties are capitalized (added to the principal amount);
- the interest rate is adjusted to the weekly Freddie Mac Primary Mortgage Market Survey Rate, rounded up to the nearest 0.125

¹²The modified interest rate is fixed for 5 years and then is gradually adjusted up to the interest rate cap, which is the Freddie Mac Primary Mortgage Market Survey rate at the time of the evaluation for the modification.

¹³The principal forbearance amount is non-interest-bearing and nonamortizing—that is, it cannot accrue interest under the HAMP guidelines or be amortized over the loan term. Rather, the amount of principal forbearance will result in a balloon payment fully due and payable upon the borrower's transfer of the property, payoff of the interest-bearing unpaid principal balance, or maturity of the mortgage loan. If, in order to reach the target DTI ratio, the investor is required to forbear more than 30 percent of the unpaid principal balance after capitalization or an amount of principal necessary to reach 100 percent of the mark-to-market loan-to-value ratio (LTV), the servicer may, but is not required to, modify the loan.

percent, plus a risk adjustment established by Treasury (initially 50 basis points);

- the mortgage term is extended to 480 months and reamortized; and,
- if the premodification current loan-to-value (LTV) ratio is greater than 115 percent, principal forbearance is applied in the amount of the lesser of 30 percent of the unpaid principal balance (including capitalized amounts) or the amount required to create a postmodification LTV ratio of 115 percent.

Borrowers must also demonstrate their ability to pay the modified amount by successfully completing a trial period of at least 3 months (or longer if necessary) before a loan is permanently modified and any government payments are made under both HAMP Tier 1 and HAMP Tier 2.

According to Treasury data, about 880,000 trial modifications had been started under the TARP-supported (nonenterprise) portion of HAMP Tier 1 through April 2012. Of these, approximately 493,000 were converted to permanent modifications, 347,000 had been canceled, and 40,000 remained in active trial periods. Of the HAMP Tier 1 permanent modifications started, approximately 384,000 remained active, and 109,000 had been canceled.¹⁴

Treasury has entered into agreements to have Fannie Mae and Freddie Mac act as its financial agents for MHA. Fannie Mae serves as the MHA program administrator and is responsible for developing and administering program operations, including registering servicers and executing participation agreements with and collecting data from them, as well as providing ongoing servicer training and support. Within Freddie Mac, the MHA-Compliance team is the MHA compliance agent and is responsible for assessing servicers' compliance with nonenterprise program guidelines, including conducting onsite and remote servicer loan file reviews and audits.

¹⁴The enterprises had started about 969,000 trial modifications as of April 2012, of which 516,000 were converted to permanent modifications, 421,000 had been canceled, and 32,000 remained in active trial periods. Of the enterprises' permanent HAMP modifications, approximately 417,000 remained active, and 99,000 had been canceled.

Principal Reduction Alternative

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 of principal reduction. Treasury tripled the PRA incentive amounts offered to mortgage holders/investors for permanent modifications that had trial period effective dates on or after March 1, 2012.¹⁵

Servicers participating in the nonenterprise portion of HAMP are required to evaluate for PRA borrowers who are being considered for HAMP and owe more than 115 percent of their home's value. This evaluation involves running an NPV test using the standard HAMP Tier 1 waterfall of modification actions, as well as an alternative modification waterfall that includes reducing the borrower's unpaid principal balance before reducing the interest rate.¹⁶ For HAMP Tier 2, the NPV model automatically evaluates such borrowers for PRA by replacing principal forbearance with principal reduction.¹⁷ Servicers must follow their internal PRA policy but are not required to offer principal reductions in modifications even when the NPV result with a principal reduction is both positive and exceeds the NPV result for a modification without principal reduction. When servicers include principal reductions 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. As of April 2012, about 55,000 of the active permanent HAMP modifications had received reductions in their principal balances under PRA, along with about 17,000 active trial modifications, and

¹⁵Treasury also announced that it was offering PRA investor incentives to the enterprises, which had not been participating in PRA. According to FHFA officials, FHFA had not yet made a final decision at the time of our review about allowing the enterprises to participate in PRA.

¹⁶At their own discretion, servicers may also offer modifications under PRA to borrowers with LTV ratios that are less than 115 percent. However, PRA incentives are provided only for the portion of the principal reduction that brings the LTV no lower than 105 percent. No PRA incentives are provided for the portion of the principal reduction that reduces the LTV below 105 percent.

¹⁷As described earlier, HAMP Tier 2 modifications involve servicers taking a uniform set of modification actions for all borrowers rather than following a waterfall of actions to achieve a target DTI, as they do with HAMP Tier 1.

Treasury had paid about \$42 million in PRA incentives to participating mortgage holders/investors.

Second Lien Modification Program

According to Treasury, 2MP is designed to work in tandem with HAMP modifications to provide a comprehensive solution to help borrowers afford their total mortgage payments. A participating servicer of a second lien on a property with a first lien that receives a HAMP modification must offer to modify the borrower's second lien, accept a lump sum payment from Treasury to fully extinguish it, or accept a lump sum payment from Treasury to partially extinguish it and modify the remaining portion. Under 2MP, servicers are required to take modification actions in the following order: capitalize accrued interest and other past due amounts; reduce the interest rate to as low as 1 percent for 5 years (when the interest rate will reset at the rate of the HAMP-modified first lien); extend the term to at least match the HAMP-modified first lien; and forbear or forgive principal in at least the same proportion as the forbearance or forgiveness on the HAMP-modified first lien, although servicers may choose to forbear or forgive more than that amount. According to Treasury, nearly 60,000 2MP modifications were active as of April 2012, in addition to more than 17,000 second liens that were fully extinguished. As it does with PRA, Treasury provides incentive payments to the second-lien mortgage holders in the form of a percentage of each dollar of principal reduction on the second lien. Treasury doubled the incentive payments offered to second-lien mortgage holders for 2MP permanent modifications that included principal reduction and had an effective date on or after June 1, 2012.

Hardest Hit Fund

Treasury established the Hardest Hit Fund program in February 2010, 1 year after announcing MHA. The goal of the program was to fund innovative measures developed by state HFAs and approved by Treasury to help borrowers in states hit hardest by the aftermath of the housing bubble. The Hardest Hit Fund program was originally announced as a \$1.5 billion effort to reach borrowers in five states. Treasury subsequently provided three additional rounds of funding to bring the total allocation to \$7.6 billion across 18 states and the District of Columbia. The 18 states are Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, and Tennessee. In a recent report examining the implementation of the Hardest Hit Fund program, SIGTARP found that Treasury consistently applied its criteria in selecting

states to participate but that the selections in the second round of funding were not transparent.¹⁸

Treasury Has Not Fully Assessed the Risks of or Developed Performance Measures for the Recent Changes to MHA Programs

Treasury designed the recently announced changes to its MHA programs to address barriers to participation it identified in the existing programs, but the changes may have a limited impact on increasing MHA participation rates. Because most of the changes became effective on June 1, 2012, we could not determine the extent to which they would in fact increase MHA participation rates. The servicers that we queried had mixed views on the likely effectiveness of these changes on increasing MHA participation. Also, Treasury reported that several servicers were not able to fully implement the HAMP Tier 2 changes by the effective date, including two large servicers that Treasury indicated would need several additional months to fully implement them. Additionally, we found that Treasury had not fully assessed or estimated the number of borrowers who would receive assistance as a result of these changes or the costs that would be incurred. Lastly, Treasury has not completed program-specific risk assessments to mitigate potential risks or developed performance measures to hold itself and servicers accountable for the MHA changes.

Recent Changes Designed to Boost Participation Rates Could Have a Limited Effect

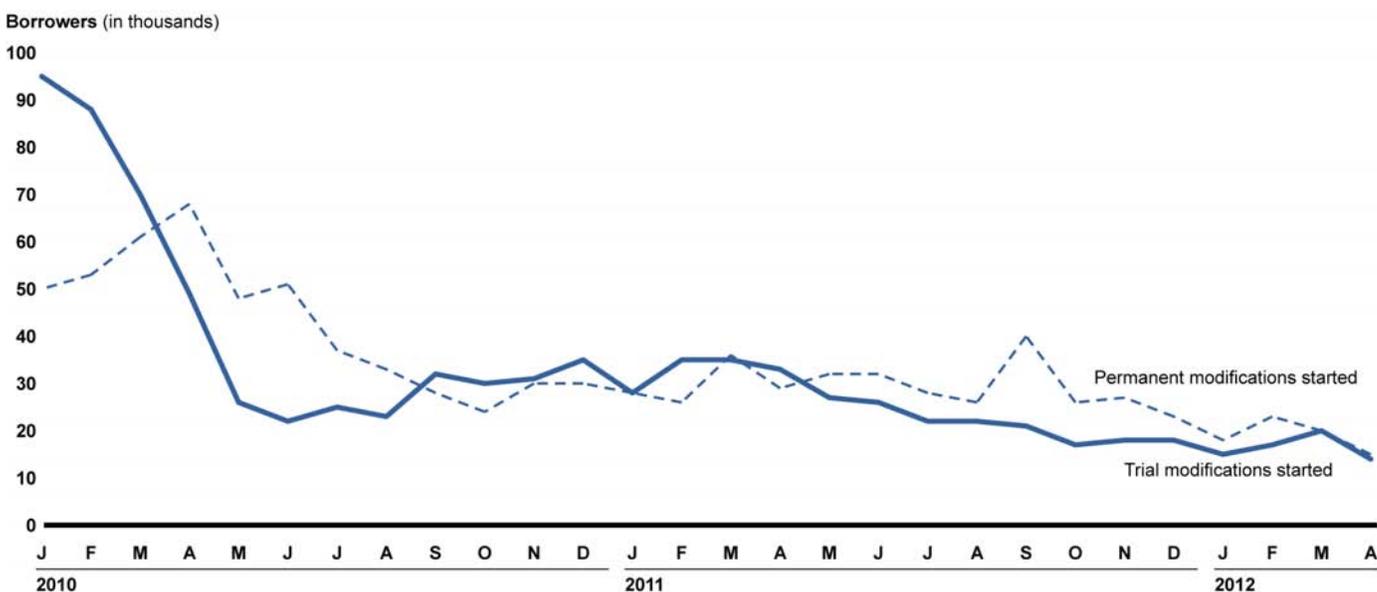
Treasury officials told us that the recent changes to MHA—expanding HAMP eligibility, extending the program deadline for all MHA programs, and increasing incentives for PRA and 2MP—were designed to address several issues identified in Treasury’s analyses of the existing MHA programs. However, the likely effect of these changes on participation is not yet known and could be limited, according to servicers that we contacted.¹⁹ The numbers of newly started trial and permanent modifications have generally been in decline since early 2010 and in April

¹⁸Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), *Factors Affecting Implementation of the Hardest Hit Fund Program*, SIGTARP 12-002 (Washington, D.C.: Apr. 12, 2012).

¹⁹Treasury typically releases MHA performance reports approximately 5 weeks after the end of the covered month. The first MHA performance report that will include data for the month following the HAMP Tier 2 and 2MP changes likely will not be released until early August 2012. The changes to PRA were effective on March 1, 2012, but there was little difference in the average percentage of trial modifications with PRA started in the months after the change (March and April 2012) compared with the months just before the change (October 2011 through February 2012).

2012 reached their lowest levels since the HAMP first-lien program began (see fig. 1). One factor contributing to the initial decline was that as of June 1, 2010, Treasury required servicers to verify borrowers' income before offering them a trial modification. In addition, according to Treasury officials, the pool of borrowers potentially eligible for HAMP has been shrinking, falling from an estimated 1.4 million in December 2010 to less than 900,000 12 months later.

Figure 1: Monthly HAMP Trial and Permanent Modifications Started, January 2010 through April 2012



Source: GAO analysis of Treasury data.

Note: According to the Financial Stability Oversight Board's Quarterly Report to Congress for the quarter ending December 31, 2011, a technological enhancement to the HAMP reporting system resulted in a one-time boost in permanent modifications, which rose to more than 40,000 in September 2011 before falling again. These modifications had previously been reported as aged trial modifications under the Principal Reduction Alternative program.

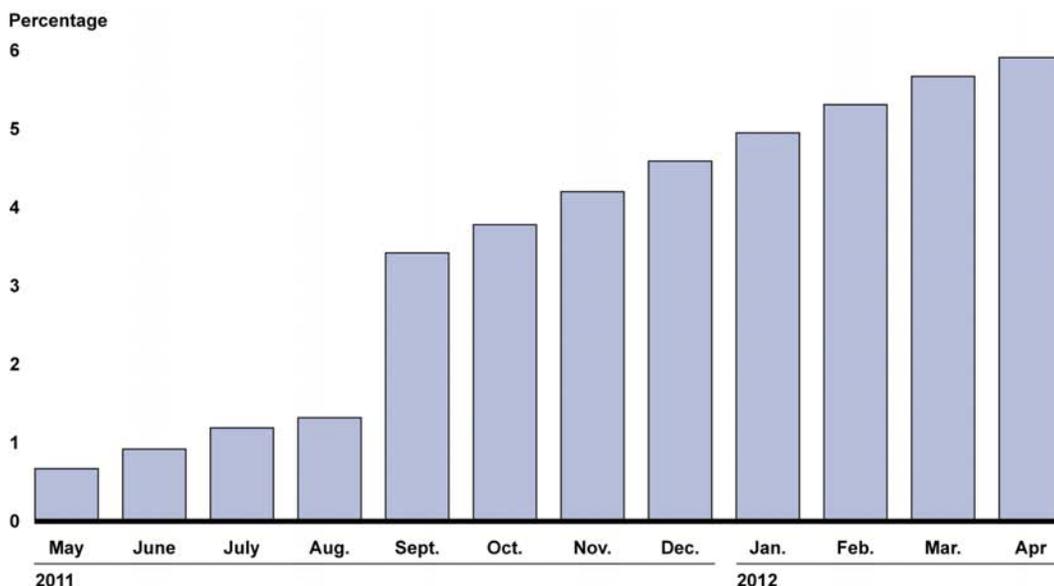
Treasury officials said that the changes in eligibility were made on the basis of an analysis of delinquent loans held by borrowers who had not been assisted by HAMP and might not receive assistance through non-MHA programs. Specifically, Treasury found that the 31-percent DTI threshold for HAMP Tier 1 was excluding a significant number of borrowers who could have experienced financial hardships. Other borrowers were being excluded because the modification steps required

to bring their DTI down to 31 percent resulted in excessive forbearance or made the NPV result negative.²⁰ These factors contributed to Treasury's adopting the flexible postmodification DTI under HAMP Tier 2. In addition, Treasury found that tenants were being displaced because the property owners could not obtain loan modifications for properties that were not the owners' primary residence. The large number of non-owner-occupied properties with delinquent mortgages was another factor in Treasury's decision to allow modifications on certain rental properties. Treasury officials told us that other borrowers could not be assisted under HAMP for a variety of reasons—for example, because their servicers did not participate in the HAMP program or their loans fell within the jurisdiction of FHA or Department of Veterans Affairs (VA) loan assistance programs. Treasury decided to keep the maximum loan limit and the origination date cutoff because these exclusions did not affect the target population of borrowers Treasury was trying to reach.

Treasury officials said that their analysis suggested that increasing incentives for PRA and 2MP could also increase investor participation in these programs. The officials told us that they thought the rate of participation in PRA should be higher and that they wanted to encourage principal reduction for deeply underwater borrowers with a hardship because reducing principal would make for a more sustainable modification. Our analysis of Treasury's HAMP data indicates that after PRA went into effect in October 2010, about 32 percent of nonenterprise trial modifications included principal reduction under the program as of April 2012. On a cumulative basis, the proportion of HAMP permanent modifications that include principal reduction under PRA has increased from less than 1 percent in May 2011 to nearly 6 percent in April 2012 (see fig. 2). Officials told us that PRA participation had also resulted in additional 2MP participation because servicers must make a corresponding principal reduction on any second-lien mortgage when the corresponding first-lien mortgage is reduced.

²⁰Servicers are not required to forbear more than the greater of (a) 30 percent of the unpaid principal balance at the time of modification (after capitalization) or (b) an amount that would result in an interest-bearing principal balance that would create a mark-to-market LTV of 100 percent.

Figure 2: Percent of Permanent HAMP First-Lien Modifications That Use PRA, Cumulative Starts from May 2011 through April 2012



Source: GAO analysis of Treasury data.

Treasury officials also told us that they had found that increasing investor incentive levels would change a number of NPV evaluation results from negative to positive.²¹ Further, by increasing incentives officials hope to encourage greater participation among investors that already participate in PRA and those that do not but might be encouraged to participate. Treasury officials said that their discussions with servicers and investor groups indicated that the previous incentive levels were not high enough to entice all investors to participate in PRA. The expansion of HAMP eligibility to include HAMP Tier 2 also means that additional second-lien mortgages would be eligible for modification under 2MP. By increasing 2MP incentives, officials stated that Treasury intended to encourage continued participation going forward for these loans and to give servicers

²¹Servicers may offer borrowers a HAMP modification even when the NPV results are negative. According to our analysis of Treasury HAMP data, about 4 percent of borrowers who received permanent HAMP modifications on nonenterprise mortgages had negative NPV results. In addition, since 2009 only about 4 percent of HAMP applicants have been denied trial modifications because of negative NPV results. The most common reasons for denial were a DTI of less than 31 percent or an incomplete request. Together, these two reasons accounted for almost half of all denied trial modifications.

an incentive to increase write-downs, including full extinguishments on second-lien mortgages.

Continued fragility in the housing market prompted Treasury to extend the MHA program application deadline another year. While there has been some improvement in the housing market, house prices remain near postbubble lows. In addition, default levels, which are associated with high unemployment and underemployment, have declined from their peak levels but remain high by historical standards. Further, Treasury projected that total spending for existing HAMP Tier 1 modifications and other MHA interventions would be approximately \$9 billion of the \$29.9 billion allocated by the time the program ended in December 2017. Treasury officials noted that this amount would increase as additional modifications were completed.

Treasury has not identified the number of modifications that may be made under HAMP Tier 2 or the potential costs of the changes to MHA. According to Treasury officials, a number of external factors that could have an impact on these calculations remain uncertain, including the implementation of the national mortgage settlement involving the federal government, state attorneys general, and the five largest servicers; the participation of Fannie Mae and Freddie Mac in some of the recent MHA program changes; and the ability of the participating servicers to implement HAMP Tier 2 changes. Before the final program guidance was issued, Treasury's preliminary estimate was that the changes could result in an additional 1 million borrowers potentially becoming eligible for MHA programs. Treasury has not provided a revised estimate that reflects the final changes, although Treasury officials stated that it would be lower due to the impact of narrowing the DTI range from what had initially been considered and other factors.

When we asked five servicers how they thought the changes might affect their loan modification volumes, their responses varied. One servicer anticipated a 15- to 18-percent increase in HAMP modifications because of the expanded DTI range, and another servicer stated that 50 percent of the borrowers it had been unable to help under HAMP Tier 1 had not met the 31-percent DTI restriction, so the changes could potentially increase its HAMP modifications. However, some servicers also indicated that HAMP Tier 2 might not reach many additional borrowers because the HAMP modifications would likely offset proprietary modifications that would have otherwise been made to those borrowers' loans. Of the two servicers that expected the number of their modifications on rental properties to increase, one servicer stated that it had a large population of

delinquent loans on rental properties but did not know how many would meet the other eligibility requirements for a HAMP modification. The other servicer expected the changes would increase its HAMP modification volume but had not projected the magnitude. Another servicer said that it did not have enough information to project the number of loans it might make under HAMP Tier 2. One servicer stated that increased PRA incentives should increase HAMP participation, and several also mentioned that the national mortgage settlement would have an impact, because part of the settlement required servicers to provide principal reduction. However, two of the servicers we contacted did not anticipate any increase in their HAMP participation levels from the increased incentives. One servicer indicated that its portfolio loans would not be affected by these new investor incentives but that more of the loans it serviced for other mortgage holders/investors might be modified. Specifically, about 15 percent of its mortgage holders/investors had opted out of PRA but had told this servicer that they might be willing to reconsider in response to the increased incentives, especially for loans that would qualify for the highest incentive on the principal reduction (LTVs greater than or equal to 105 percent but less than 115 percent).²²

Given the currently low participation rates and the reasons for them, as well as the mixed expectations of the servicers we interviewed, it is not yet possible to determine whether the changes will significantly increase the number of troubled borrowers assisted under MHA. Nevertheless, Treasury's steps may further support the still-fragile housing market and help reduce the number of potential foreclosures.

Some Servicers Were Not Ready to Implement the Changes

Treasury has taken several steps to help servicers meet the program requirements for the recent changes to MHA programs, but challenges could affect some servicers' capacity to effectively implement the new program changes beyond the June 1, 2012, effective date. Treasury officials stated that they had modeled the HAMP Tier 2 program after the enterprises' existing standard modification, believing that servicers would

²²Under the recent changes, the highest incentive rate was increased from \$0.21 to \$0.63 per dollar of principal reduction for LTVs greater than or equal to 105 percent but less than 115 percent. Principal reduction for the portion of the loan balance above 115 percent LTV is compensated at lower rates (\$0.45 per dollar for LTVs greater than or equal to 115 percent but less than or equal to 140 percent and \$0.30 per dollar for LTVs greater than 140 percent).

be better able to implement a new modification that was similar to a type of modification they already offered. Several servicers told us that Treasury had provided an early draft of the proposed HAMP Tier 2 changes for their review, and Treasury officials told us that they had consulted with servicers to establish effective dates for some changes. In addition, the officials told us that as part of the process of implementing HAMP Tier 2, Treasury's program administrator, Fannie Mae, had relied on existing servicer integration teams obtain implementation plans from the largest servicers, facilitate responses to servicers' policy questions, and conduct onsite meeting with the largest servicers to address operational and reporting question. Treasury officials also stated that they responded to servicers' questions on a weekly basis and had met with several of the largest servicers to discuss their implementation plans.

In spite of Treasury's efforts to help ensure that servicers had the capacity to implement the recent changes and to facilitate implementation of the changes, some servicers did not have the necessary resources or infrastructure to effectively implement all the new program requirements at the announced start date of the program. While the similarities between the HAMP Tier 2 changes and the enterprises' standard modification should ease implementation in areas such as staff training, some large servicers told us that there were some significant differences between HAMP Tier 2 and the enterprises' standard modification programs, such as certain eligibility requirements and the use of an NPV model. Several servicers we spoke with thought that they might not be able to meet the effective date for the changes, and subsequently Treasury reported that ten servicers were unable to fully implement the changes by the effective date, including two large servicers that were not expected to fully implement them for several more months (mid-October 2012 for one large servicer). However, 17 of the 18 largest servicers were able to implement some aspects of HAMP Tier 2 as of the effective date, and 14 of the 18 had fully implemented HAMP Tier 2 by June 30, according to Treasury. To help ensure that the delays would not impact borrowers, Treasury imposed additional requirements on all servicers that did not fully implement HAMP Tier 2 by the June 1 effective date. These servicers must develop a process to identify borrowers who are potentially eligible for HAMP Tier 2; halt foreclosure referrals and foreclosure sales for those borrowers; and ensure that each borrower has a single point of contact. Additionally, servicers that are unable to fully implement HAMP Tier 2 by mid-July will be required to evaluate and offer eligible borrowers proprietary modifications similar to HAMP Tier 2 and either automatically convert those borrowers to or reevaluate them for HAMP Tier 2 modifications when the changes are fully implemented. Treasury will

conduct compliance reviews to help ensure that all servicers appropriately implement HAMP Tier 2 and adhere to the applicable interim requirements.

Previously, Treasury officials had acknowledged that servicers might face some challenges, as they did when they implemented the enterprises' standard modification. For example, according to the officials the larger servicers do not process proprietary loan modifications and modifications for the enterprises in the same geographic location. Servicers may also use different servicing platforms at each location, so that processing and personnel can be completely separate. Other federal housing officials also noted that the enterprises' standard modification was more streamlined than the HAMP Tier 2 modification, in that it did not require an NPV test and allowed a broader DTI range. Treasury officials also acknowledged several other major operational issues that could affect implementation of the HAMP Tier 2 changes. For example, the five largest servicers need to implement operational changes in response to the recent mortgage settlement with the federal government and state attorneys general. Fourteen servicers must comply with consent orders issued by federal banking regulators in April 2011, and others have been involved in mergers or acquisitions.

Treasury Has Not Conducted a Comprehensive Risk Assessment of HAMP Tier 2 Changes

Treasury officials told us that they had identified certain risks associated with the recent changes based on internal analyses and discussions with stakeholders, but Treasury has not conducted a comprehensive risk assessment. Treasury officials said that they had incorporated ways to mitigate risks as part of their deliberations when designing the program changes and provided us with a summary document showing examples of actions they had taken to mitigate certain risks and challenges. For example, Treasury officials stated that they had lowered the allowable DTI ceiling for HAMP Tier 2 modifications to 42 percent (below the allowable DTI ceiling of 55 percent for the enterprises' standard modification) to mitigate redefault risks after discussing the proposed changes with servicers, investors, and federal banking regulators. In addition, Treasury raised the allowable DTI floor to 25 percent (above the allowable DTI floor of 10 percent for the enterprises' standard modification) to help ensure that borrowers who received HAMP Tier 2 modifications were really in need of assistance. Further, Treasury noted that it had taken several steps to mitigate the risk that servicers would not be able to implement HAMP Tier 2 in a timely or effective manner due to lack of capacity—efforts that we discussed earlier in the report.

However, based on our review of available documentation and discussions with Treasury officials, Treasury did not appear to have performed key components of a risk assessment that are outlined in standards for internal control in the federal government prior to implementing HAMP Tier 2.²³ Although Treasury took the first step of identifying risks, it did not analyze the significance and likelihood of occurrence of the identified risks. As we previously reported, agencies must identify the risks that could impede the success of new programs and determine appropriate methods of mitigating these risks.²⁴ In particular, we highlighted the need for Treasury to develop appropriate controls to mitigate risks before the programs' implementation dates.²⁵ Our internal control guidance further states that risks should be extensively analyzed whenever agencies begin the production or provision of new outputs or services and that agencies should give special attention to risks that can have more dramatic and pervasive effects.²⁶ Officials told us that they had nearly completed a systematic risk assessment of the existing MHA programs and that they planned to conduct a formal risk assessment of HAMP Tier 2 once it was up and running and the servicers had been given the time to put their internal controls in place. In the meantime, several potential risks identified in the course of our review remain.

- Allowing borrowers to receive loan modifications that result in front-end DTIs of up to 42 percent under HAMP Tier 2, rather than the 31-percent target required under HAMP Tier 1, could increase redefault risk. Borrowers with high front-end DTIs may also have higher back-end DTIs (which include mortgage debt from subordinate liens in addition to the first-lien mortgage debt used to calculate the front-end DTI) that could affect their ability to make the modified mortgage payments. Although the back-end DTIs are not restricted under either the HAMP

²³GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

²⁴[GAO-09-837](#), [GAO-10-634](#), and [GAO-11-288](#).

²⁵[GAO-11-288](#).

²⁶GAO, *Internal Control Management and Evaluation Tool*, [GAO-01-1008G](#) (Washington, D.C.: August 2001).

Tier 1 or HAMP Tier 2 program, they may be higher under HAMP Tier 2, potentially posing a greater risk.²⁷

- Permitting borrowers to obtain modifications for rental properties without sufficient controls and enforcement mechanisms could increase both default risk and the risk that the program will be misused for ineligible properties—for example, investment properties that are never rented. In order to receive a modification under HAMP Tier 2 for a rental property, borrowers must self-certify under penalty of perjury that they intend to rent the property if it is or becomes vacant and that they do not own more than five single-family properties (in addition to their principal residence). However, these borrowers may encounter significant delays renting one or more properties for a variety of reasons, such as adverse housing market conditions and poor property condition, or the properties may eventually rent for less than expected. In either case, the borrower's ability to remain current in either the trial modification or, more importantly, the permanent modification, could be compromised, risking redefault. Further, self-certifications do little to help ensure that borrowers are in compliance with program requirements unless extensive controls are in place to ensure that borrowers are telling the truth. SIGTARP's April 2012 Quarterly Report to Congress made several recommendations related to the need for Treasury to protect against the possible misuse of HAMP Tier 2 funds to modify loans on vacation homes or investment properties that were never rented.²⁸
- Further, some servicers expressed concern that extending the deadline to December 31, 2013, and opening up HAMP Tier 2 to mortgages on rental properties might jeopardize the safe harbor protection provided under the Helping Families Save Their Homes Act of 2009.²⁹ The act provides a safe harbor for servicers that modify

²⁷Treasury officials said that some of the risks associated with high back-end DTIs may be addressed through 2MP since borrowers who are newly eligible for HAMP Tier 2 will also be potentially eligible for 2MP. However, not all servicers participate in 2MP, and therefore not all borrowers with high back-end DTIs will receive modifications of their second liens under that program.

²⁸SIGTARP, Quarterly Report to Congress (Washington, D.C.: Apr. 25, 2012).

²⁹Pub. L. 111-22, Div. A., § 203, 123 Stat. 1632, 1638 (2009), amending section 129A of the Truth in Lending Act, 15 U.S.C. § 1639a. The safe harbor limits the liability of the servicer to investors and others if the servicer implements a qualified loss mitigation plan that meets the statutory criteria.

mortgages and engage in other loss mitigation activities consistent with guidelines issued by Treasury and that satisfy specific requirements, including implementing a loss mitigation plan prior to December 31, 2012. Although Treasury officials stated that the significance of this issue was unclear, two servicers we spoke to noted that it could affect the reach of the program. Treasury officials noted that servicers would face potential liability only if mortgage holders or investors were to take legal action against them.

Treasury Has Not Developed Meaningful Performance Measures to Assess Program Changes

As we reported previously, Treasury must establish specific and relevant performance measures that will enable it to evaluate a program's success against stated goals in order to hold itself and servicers accountable for these TARP-funded programs.³⁰ We recommended that Treasury finalize and implement benchmarks for performance measures under the first-lien modification program, as well as develop measures and benchmarks for other TARP-funded homeowner assistance programs. As discussed in appendix II, Treasury has estimated the expected funding levels for the MHA component programs (except for HAMP Tier 2) and established performance measures to assess servicer compliance and implementation of MHA programs. But it has not fully developed specific and quantifiable outcome measures or benchmarks to determine the success of these programs, including goals for the number of homeowners these programs are expected to help.³¹

Similarly, Treasury has not identified outcome measures that will be used to evaluate the overall success of HAMP Tier 2 in achieving the goals of preventing foreclosures and preserving homeownership. The measures of servicer performance used in the quarterly servicer assessments are valuable indicators for monitoring how MHA programs are being implemented, but they do not provide a way to assess the extent to which each program is achieving the objectives spelled out in EESA. Treasury officials said that they would assess redefault rates for different MHA programs. Treasury officials believe that HAMP redefault rates compare favorably with the rates of other types of modifications, but Treasury has

³⁰ [GAO-11-288](#).

³¹ SIGTARP also recommended that Treasury set meaningful and measurable goals, including at a minimum the number of borrowers Treasury estimates will be helped by HAMP Tier 2, in its recent quarterly report to Congress (SIGTARP, Quarterly Report, April 2012).

not yet established redefault rate benchmarks or goals. Also, Treasury has noted that it may not be possible to gauge the unique contribution of any one program among the array of activities aimed at supporting housing markets and homeowners. Treasury officials told us that they wanted to avoid creating unrealistic expectations when setting goals for participation, given that external factors that affect participation are difficult to predict. Instead, Treasury officials said that they were focusing their efforts on working closely with servicers to encourage them to reach out to homeowners and on encouraging homeowners to get help.

Treasury has established performance measures to assess servicers' compliance with MHA program requirements and their performance that are published in quarterly servicer assessments. The compliance measures include quantitative measures with explicit benchmarks, such as the percentage of servicers' eligibility determinations and borrower income calculations that are accurate. However, the servicer performance measures, which include the servicer's rate of converting trials to permanent modifications, the number of trials lasting 6 months or longer, response time to resolve inquiries that have been escalated to the HAMP Solution Center, and the percentage of missing modification status reports, do not have such benchmarks or goals. Instead, these measures look at relative performance by comparing a servicer's current performance to either its past performance or to the best and worst performance among the 9 largest MHA servicers.

Treasury Helped States Increase Hardest Hit Fund Spending but Could Improve Monitoring and Transparency

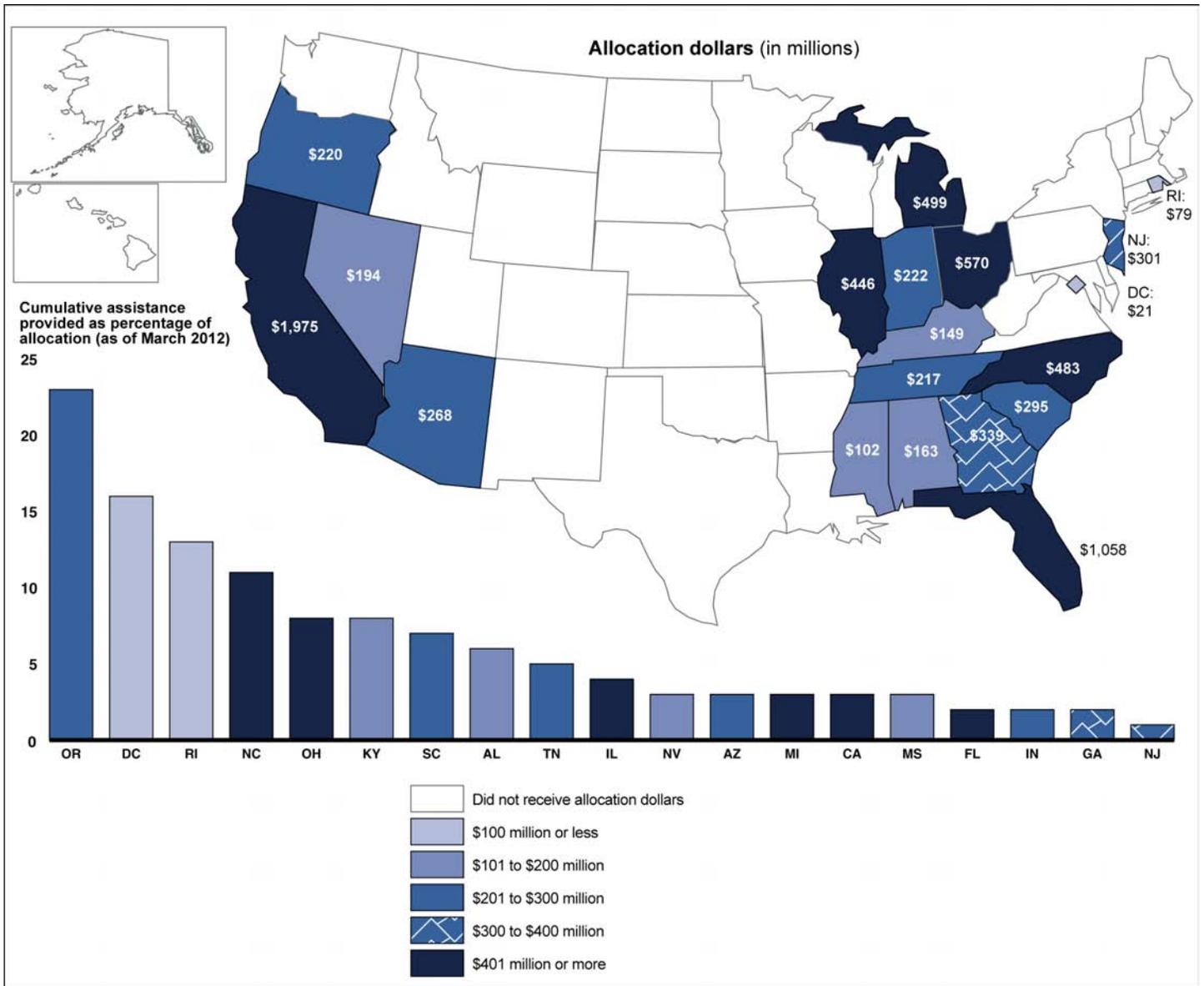
After a slow start, states have increased their spending on borrower assistance under the Hardest Hit Fund in recent months, but it is not clear that all the states will meet their spending and borrower assistance goals. Nonetheless, most of the state officials we spoke to said that they anticipated being able to spend their full allocation. State officials told us that, with some help from Treasury, they had confronted challenges related to staffing and infrastructure, servicer participation, borrower outreach, and program implementation. In particular, they noted that Treasury's efforts to facilitate communication among the states and with servicers through regular conference calls and two national summits had been key to addressing a variety of challenges through the sharing of best practices and solving problems together. These officials told us that Treasury continued to work with them to address some of the remaining barriers. In addition to assisting states in implementing their programs, Treasury oversees the states' activities, including reviewing and approving all proposed changes to program eligibility requirements and funding allocations. In addition, Treasury's Hardest Hit Fund program staff

and compliance teams conduct oversight and monitoring of states' Hardest Hit Fund activity monthly, quarterly, and annually. However, Treasury has not required states to report data on administrative expenses in a consistent format and does not report any data on these expenses publicly. Treasury also has not consolidated states' performance and financial data, including administrative expenses, into a single public report.

Disbursements Began Slowly and Have Focused on Payment Assistance and Reinstating Loans

Treasury made the full Hardest Hit Fund allocations available to HFAs in 18 states and the District of Columbia in September 2010. However, of the \$7.6 billion allocated, states had provided combined assistance of \$359 million (5 percent) as of March 2012. More than two-thirds of the amount spent (\$246 million) was disbursed during the fourth quarter of 2011 and first quarter of 2012, representing a substantial increase relative to previous quarters. The states also reported that they had provided assistance to 43,580 borrowers as of March 31, 2012, more than half of whom were approved during the most recent two quarters. The states varied widely in the proportion of the funds they had disbursed, from less than 1 percent of their total allocation to more than 20 percent (see fig. 3). The two states with the largest Hardest Hit Fund allocations—California and Florida—had spent about 3 percent of their allocated funds (less than \$80 million out of more than \$3 billion) as of March 31, 2012. Despite the recent increases in disbursements, Treasury estimated that most states would need to further increase the rate of spending in order to fully spend their allocation and reach their borrower assistance goals by the time the program terminated on December 31, 2017. Using the first quarter 2012 disbursement rates, Treasury's analysis showed that 14 of the 19 HFAs would not meet their disbursement targets by the time the program ended. In addition, although the states had estimated that they would assist more than 450,000 borrowers by the end of the program, Treasury's projections indicated that, using the monthly rate of borrowers approved during the first quarter of 2012, the states would assist fewer than 350,000. Nonetheless, officials in four of the states we spoke to said that they anticipated being able to spend their full allocation as they continued to ramp up their programs. Officials in the fifth state said they were actively exploring ways to increase participation in order to be able to spend their full allocation.

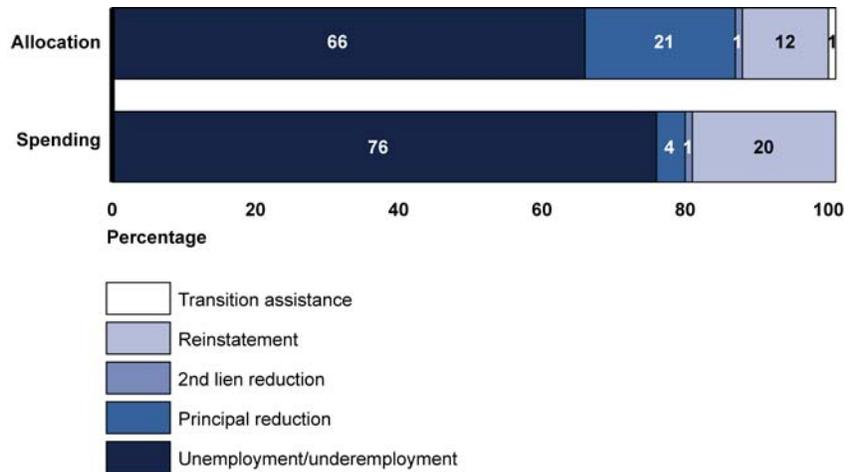
Figure 3: Hardest Hit Fund Allocations and Borrower Assistance Provided, as a Percentage of the Total Allocation, by State, as of March 2012



Source: GAO analysis of Treasury Hardest Hit Fund data; Map Resources (map).

As shown in figure 4, most of the funds allocated and spent as of March 31, 2012, have gone to helping unemployed homeowners make mortgage payments (66 percent of allocations and 76 percent of expenditures) or to reinstating delinquent mortgages (12 percent of allocations and 20 percent of expenditures). All 18 states and the District of Columbia have implemented programs to provide partial or full mortgage payments to borrowers who are unemployed. Some states, such as North Carolina and Indiana, have incorporated reinstatement components into their payment assistance programs. In addition, seven states have implemented separate reinstatement programs. However, the eligibility requirements for and terms of these programs vary across states. In some states, the borrower's household income must be below a certain ceiling (for example, 120 percent of the area median income in California). Another state (New Jersey) has no maximum household income level, but the borrower's monthly mortgage payment must be at least 31 percent of household income. Some states have expanded the eligibility requirements to reach more borrowers—for example, by adding a definition of underemployment and allowing underemployed borrowers to qualify for the program. Further, across states the length of time that borrowers can receive assistance can be as short as 9 months and as long as 36 months, while the maximum payment assistance an unemployed or underemployed borrower can receive ranges from \$9,000 to \$48,000. Several states we spoke with were considering or had already made changes to their program requirements in order to allow borrowers to receive more assistance than initially planned in an effort to disburse Hardest Hit Fund money more quickly. According to servicers we spoke with, these types of programs complement other foreclosure mitigation programs available to borrowers through federal and proprietary programs.

Figure 4: Hardest Hit Fund Allocations and Disbursements by Program, as of March 31, 2012



Source: GAO analysis of state Hardest Hit Fund participation agreements and quarterly reports.

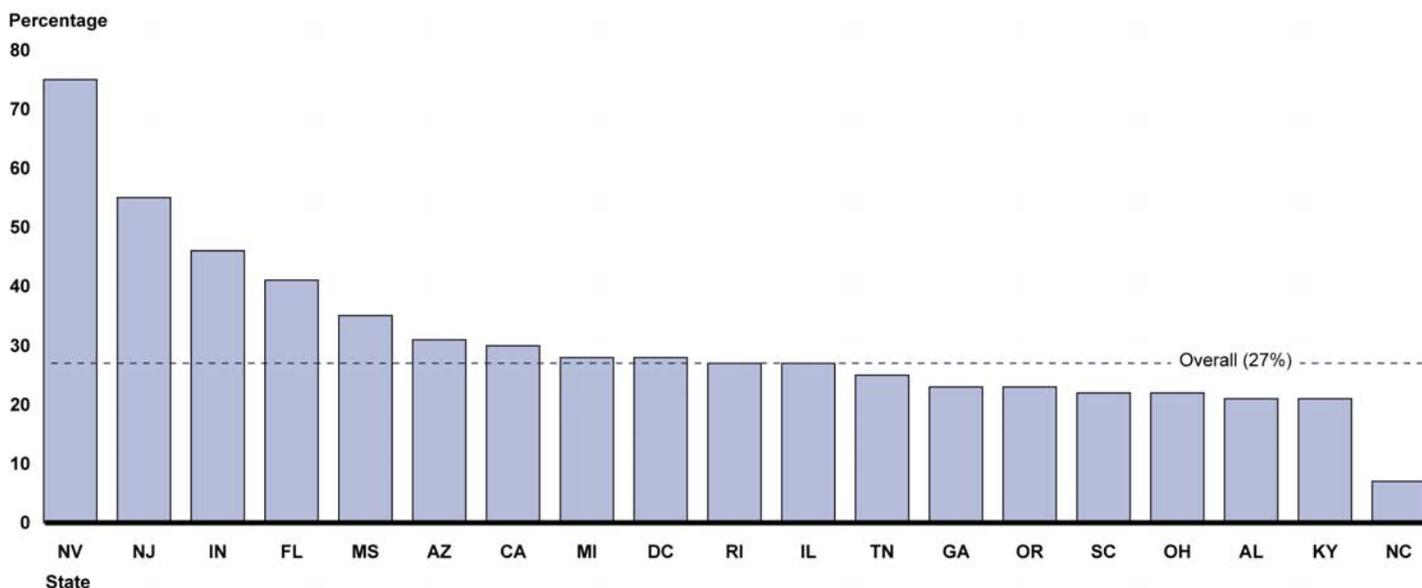
Note: Some states' unemployment programs include reinstatement components. The "Reinstatement" category in the figure represents the allocations and spending of states with separate reinstatement programs.

States have also implemented other types of programs using Hardest Hit Fund funds, including principal reduction, second-lien reduction, and transition assistance. Through the first quarter of 2012, these programs represented 22 percent of funds allocated to borrower assistance but less than 5 percent of the states' spending on such assistance. According to states and servicers we spoke with, these programs have been more difficult to implement widely because they generally require a greater level of involvement and decision making from servicers than other Hardest Hit Fund programs, such as payment assistance and loan reinstatement. In addition, the enterprises do not participate in Hardest Hit Fund principal reduction programs that require matching funds from investors or servicers. Because most of the states with principal reduction programs require matching funds, the pool of borrowers who are potentially eligible for these programs is limited.³²

³²In May 2012, California dropped the requirement for a funding match from the servicer or investor for its principal reduction program under the Hardest Hit Fund in an effort to enable the enterprises to participate.

As of March 31, 2012, the states had spent \$132 million on administrative costs for implementing the programs, representing more than a quarter of their total spending (see fig. 5). Treasury approves allocations for administrative expenses as part of the program agreements it makes with the states. As of March 2012, states had allocated about \$864 million, or 11 percent of their funds, to administrative expenses. Two states (Nevada and New Jersey) spent more on administrative expenses than they did on borrower assistance (that is, administrative expenses were more than 50 percent of their total disbursements). Hardest Hit Fund officials in one state pointed out that their program faced large initial costs because they did not have the necessary infrastructure in place to implement it and therefore had to spend time and resources at the outset developing policies and procedures, leasing office space, and purchasing equipment. Officials from another state said that their high initial administrative costs were driven in part by up-front investments in technology they needed to make in order to implement the program.

Figure 5: Administrative Expenses as a Percent of Total Hardest Hit Fund Disbursements, by State, Cumulative through March 2012



Source: GAO analysis of Treasury Hardest Hit Fund data.

Treasury officials said that states had budgeted for initially high administrative expenses to cover start-up costs. State officials and Treasury staff told us that they expected administrative costs to fall after the programs were established. However, it is not yet clear whether

states have spent all their budgeted start-up funds and transitioned to using ongoing administrative expenditures to cover program activities. For example, four states increased their cumulative administrative spending by more than 50 percent in the first quarter of 2012. In addition, several states have requested increases in their administrative budgets—for example, to hire additional staff to implement their programs. Although most states have spent less than 20 percent of their allocated administrative expenses and are not at risk of running out of administrative funds, efficient use of these resources will be important in order for the states to achieve their goal of assisting borrowers. In addition, Treasury’s rigorous oversight of spending decisions throughout the life of the program will be critical to helping ensure that funds are spent as intended.

Treasury Helped States Overcome Some Challenges, Although Other Challenges Remain

The states were slow to start disbursing funds for borrower assistance, in part because of challenges they faced in getting their programs up and running. In many cases, the state HFAs did not have direct experience administering the types of programs they were putting in place and had to learn as they went. Over time, they have been able to overcome some of the challenges they face, although others remain.

Staffing and Infrastructure

In some cases, administering Hardest Hit Fund programs involved unexpected activities. For example, officials in Ohio said that they did not initially realize that they would need a call center or a closing unit to work with servicers to finalize agreements to provide borrower assistance. State officials had to identify the positions and skill sets that would be needed to administer their programs and decide whether to use existing HFA staff, hire new staff, or contract out certain functions. Florida officials stated that they were using both new and existing HFA staff to administer the Hardest Hit Fund programs, although not all of them were working on these programs fulltime. Nevada and Ohio officials told us they had hired new staff to perform functions specific to Hardest Hit Fund activities, while California officials told us they had outsourced most of the operational work to a third-party service provider. This company provides staff for a call center and for processing, underwriting, and fulfillment on behalf of the HFA. All of the states we spoke with were using local housing counselors to help with borrower intake. States are also challenged to make sure they have the right number of personnel to administer the program. Officials in one state noted that it was a challenge to determine how to scale up staffing (as well as systems, processes, facility needs, and technology infrastructure) that had been put in place for the initial Hardest Hit Fund allocation to accommodate the unexpected increase

after Treasury nearly doubled all the states' allocations in the final round of funding. Treasury officials told us that they monitored state staffing and capacity to help ensure that states were able to administer Hardest Hit Fund programs effectively.

State officials we spoke to also faced challenges related to getting the needed infrastructure—office space, equipment, and information technology—in place to implement the program quickly. One concern of the states was getting a software and technology system in place to facilitate the application process. Some states developed their own systems, while others sought to identify existing products that could be used. According to one state official we spoke with, Treasury facilitated the sharing of best practices among the states, leading this state to adopt a system that other states had tried and found to work for their Hardest Hit Fund programs, which were similar in structure. This system, Counselor Direct, has been adopted by 11 of the 19 states, according to Treasury. While there have been some problems with the system, state officials told us that they had found Counselor Direct to be responsive to their needs.

Servicer Participation

In general, the states we spoke to said that servicer participation had been a significant issue initially but that most servicers were now participating in the mortgage payment assistance and reinstatement programs. SIGTARP recently reported that states had some initial difficulty getting servicers—particularly large servicers—to agree to participate in their programs.³³ These large servicers cited the administrative burden of implementing more than 50 programs in 19 different states. Further, Fannie Mae and Freddie Mac did not initially issue specific guidance to servicers about participating in the Hardest Hit Fund programs. However, Treasury later took action to facilitate participation by holding a national summit in September 2010 with the states, servicers, and the enterprises that resulted in some standardization of programs and communication methods. After the summit, the enterprises issued guidance in October 2010 directing servicers to participate in Hardest Hit Fund programs providing mortgage payment assistance or reinstating delinquent loans, and subsequently large servicer participation greatly increased.

³³SIGTARP 12-002.

The lack of servicer participation in other types of programs, such as principal reduction and second-lien reduction, remains a challenge for states that offer those programs. Nevada officials said that they were having more success working with servicers on a case-by-case basis to reduce or eliminate second liens than they had trying to require servicers to sign formal agreements committing them to broad participation in their second-lien program. As we noted earlier, the enterprises do not permit servicers to participate in principal reduction programs that require matching funds from the investor or the servicer, as most Hardest Hit Fund principal reduction programs do. Without these loans, the number of borrowers these programs can assist is limited. In addition, Treasury officials and servicers we spoke with pointed out that the principal reduction programs required greater involvement from servicers to evaluate borrowers, something that servicers may not see as worthwhile given the relatively small scale of the Hardest Hit Fund programs. Further, given the requirements under the national mortgage settlement with the federal government and state attorneys general, the large servicers are more likely to focus on putting programs in place to meet those obligations. According to one servicer, it is easier to develop one solution that will satisfy the principal reduction requirements under the settlement than to try to incorporate the various Hardest Hit Fund principal reduction efforts. However, two states—Illinois and Oregon—are piloting different types of principal reduction programs that bypass the servicers. These programs involve buying the loans from the investor and then modifying or refinancing them to reduce the principal. State officials credited the regular conference calls that Treasury facilitated with spreading information about these programs. Several states, including Ohio and Florida, are waiting to see the outcomes of these pilot programs in order to determine whether to pursue them.

Program Implementation

Several states mentioned ongoing implementation challenges, in particular in the area of exchanging information with servicers. One of the barriers to servicer participation at the outset of the programs was the lack of standardization across state programs. One of the solutions that came out of the September 2010 national summit was the development of a common data file that all states and servicers would use to exchange information about borrowers and the assistance being provided. After the summit, Treasury and several servicers and states jointly developed the common data file. Initially, Treasury hosted a weekly teleconference with the states and servicers that has since changed to a monthly schedule, and any servicer or state can participate. Treasury has also overseen the formation of a committee to discuss problems with and proposed changes to the common data file. However, state officials told us that some

problems continued to come up related to the common data file and the exchange of information. For example, they told us that servicers had differing interpretations of how certain fields should be completed. One state said that it had over 200 servicers participating in its Hardest Hit Fund program and that each one had its own idea of how to complete the fields. Servicers we spoke with said that states did not always provide complete or accurate information in a timely manner—for example, instructions for applying a payment to a borrower’s account were not always clear or complete. Treasury officials said that although these issues came up from time to time, the reduced frequency of the calls reflected the decreasing number of issues raised related to the common data file. Treasury officials told us that the data dictionary Treasury helped to create clarified much of the confusion relating to interpreting data fields. According to Treasury officials, several states have developed their own training materials for using the common data file, including Ohio, which has posted a tutorial on its website.

Outreach to Borrowers

Reaching the targeted population of eligible borrowers is another challenge states continue to face. Although broad marketing efforts help to raise awareness of the programs states offer, they also result in a large number of ineligible borrowers seeking assistance. For example, California officials said they had received many inquiries from borrowers about the state’s principal reduction program. However, a substantial proportion of these borrowers were not eligible because their servicer was not participating or they did not have a financial hardship but were merely seeking a way to reduce their principal balance. In contrast, targeted solicitations of distressed borrowers may not result in a high response rate. Part of the problem in those cases, according to Nevada officials, is that borrowers have been repeatedly warned about scams and are therefore skeptical about the solicitation and unwilling to respond. In some cases, borrowers may have made the decision not to seek assistance and instead live rent-free until the foreclosure process runs its course, which in Nevada can take 2 or 3 years. Florida officials said that they relied on housing counselors to help steer borrowers to the most appropriate program for their circumstances, including Hardest Hit Fund programs. The officials said that they had developed marketing materials that they distributed at events and to housing counselors. These materials have different codes that can be used to track referrals. This technique helps to identify the marketing channels that are most effective at reaching eligible borrowers.

Treasury has incorporated the Hardest Hit Fund into its existing marketing and outreach activities. Treasury officials told us that they had invited the

state HFAs to Treasury events in Hardest Hit Fund states, allowing the HFAs to make presentations about their programs and network with servicers and counselors. At some events, the states may even take applications for assistance. Treasury's website managers have also exchanged information with HFAs on methods to improve their sites. Treasury officials said that Hardest Hit Fund marketing must be done locally because the programs differ from state to state and that these differences had prevented Treasury from developing a national campaign.

Officials in the District of Columbia said that they had been successful in partnering with the department that administers unemployment benefits to obtain a list of those receiving unemployment benefits. By comparing the addresses of individuals who appear on that list with a list of properties receiving delinquency or foreclosure notices, they have been able to effectively target their efforts to a relatively small population of borrowers who are potentially eligible. According to Treasury officials, other states have had similar success working across departments in their state governments. Hardest Hit Fund officials in California told us they were able to partner with the state office administering unemployment benefits to mail out information on the Hardest Hit Fund unemployment program. As a result, nearly 10,000 homeowners were identified as eligible for the program.

Finally, state officials told us that they tracked the reasons borrowers who were reached did not qualify for Hardest Hit Fund programs, an effort that helped them identify borrowers in need of assistance who were ineligible for it because they did not meet certain requirements. Officials in California and Ohio said that the state uses these efforts to evaluate the Hardest Hit Fund program requirements. As a result, they have been able to propose changes to their programs to better reach borrowers who need assistance.

Treasury Monitors Performance and Compliance but Has Not Standardized or Publicly Reported Administrative Expense Data

Treasury has established procedures to oversee the implementation and performance of states' Hardest Hit Fund programs but has opportunities to improve both its monitoring and program transparency. Treasury officials approve state Hardest Hit Fund programs and review and approve all proposed changes to help ensure that the programs address the goals laid out in EESA. When states propose changes to their programs—for example, changing eligibility requirements, reallocating funds, or adding or subtracting programs—they must submit amendments to their agreements with Treasury for its approval. Treasury's Hardest Hit Fund program staff review the changes and supporting rationale to

ensure that the changes are consistent with the principles laid out in EESA. Although some state officials we spoke with did not have concerns about Treasury's process for reviewing proposed amendments, they also told us that they were not aware of specific criteria beyond consistency with EESA that Treasury used to determine whether to approve the proposals or request changes.

Treasury officials told us that they did not have prescriptive guidelines (other than EESA), because the intent of the program was to let states develop innovative solutions to the problems they faced. When the amendment involves an increase in the amount allocated to administrative expenses, state officials must state how the additional funds will be spent. A committee of officials representing various parts of OFS reviews and approves the proposed amendment, which the state and Treasury often discuss in detail. The magnitude of the changes, as well as whether another state has proposed something similar, can affect how long it takes Treasury to review and approve them. Generally, state officials told us that Treasury had been very responsive to requests for program changes, often getting changes approved in a matter of weeks or even days.

Treasury has established several layers of review and reporting to monitor the states' Hardest Hit Fund activity: annual compliance reviews conducted by OFS compliance staff; required annual financial and internal controls audits performed by independent third parties; quarterly performance and financial reporting to Treasury, with the performance reports posted on the HFAs' websites; and monthly progress reports submitted directly to Treasury.

- *Annual compliance reviews.* The compliance team from OFS spends one week on site at each HFA. These reviews examine the HFAs' internal controls, eligibility determinations, program expenses, administrative expenses, and reporting. The first round of compliance reviews was scheduled to be completed by September 2012, with the second round to be completed in 2013. Treasury has developed a database to track items identified in the first round of compliance reviews, and officials told us they were working to populate the database with information from the compliance review reports that had already been completed. Officials in one state who had recently completed an initial compliance review said that they found the process to be transparent and helpful. Treasury staff provided them with a list of documents they needed and a schedule of interviews with HFA staff. One other state told us that the compliance review and

findings were very helpful and that it had taken steps to implement Treasury's recommendations. Treasury stated that the compliance reviews discovered issues that were largely one-time problems—for example, control failures involving undocumented fee schedules or unrecorded approvals. States generally correct these types of issues on the spot, according to Treasury officials.

- *Annual financial and internal controls audits.* As outlined in the agreements with Treasury, states must submit annual audited financial statements. Treasury has directed the states to post these publicly on their websites. In addition, the states must certify that they have an effective internal control program and must have a third party independently verify the effectiveness of their internal control programs on an annual basis. According to Treasury officials, although states certified that their internal control programs were effective during the first year, many of them did not get the independent third-party verification. Treasury officials told us that they had been addressing this issue by emphasizing the need for states to have their internal control systems verified in the first round of compliance reviews.
- *Quarterly performance and financial reports.* Under the agreements they signed with Treasury, the states are required to submit quarterly performance and financial reports to Treasury and post the performance reports on their websites. These performance reports follow a standardized format specified by Treasury and detail borrower characteristics and program outcomes. Treasury's Hardest Hit Fund program staff review states' performance relative to the goals they have established and discuss any challenges the states are facing in reaching their goals. According to Treasury officials and state officials we spoke with, the performance measures that they focus on include denial rates and the percentage of completed applications that receive assistance. State officials also look at the percentage of applications started that are completed. As more borrowers transition out of the program, states will focus more on outcome measures, such as the percentage of borrowers that are able to retain their homes 6, 12, and 24 months after receiving assistance. The financial reports are submitted directly to Treasury, but there is no standardized format for them. Treasury officials said that states are required to submit responses to seven standard questions, including requests for the total administrative expenses for the quarter and cumulative administrative expenses, and must reconcile the financial reports to the quarterly performance reports.

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- *Monthly progress reports.* The monthly reports outline the activities each state undertook that month and the amounts spent on borrower assistance and administrative expenses. According to Treasury officials, the monthly reports are less formalized than the quarterly performance reports and allow the states to provide qualitative information about their programs. Treasury's Hardest Hit Fund staff discusses the contents of the progress reports with each state at least quarterly (monthly if there are any performance concerns).

Even with these efforts, Treasury's monitoring of administrative expenses incurred by the states is limited by the lack of consistency in states' reporting. Treasury has built controls into the system that states use to draw down funds that prevent states from requesting draws for administrative expenses that exceed the approved amount. Similarly, Treasury has developed analytical tools to track administrative expenses and the rate of spending overall. Treasury officials told us that they had compared the rate of spending against state administrative expense budgets that detailed expected spending over time. However, Treasury has not standardized the format in which states are to provide administrative expense data, limiting Treasury's ability to compare spending patterns across states and identify areas requiring greater oversight. In addition, Treasury does not require states to submit detailed reports of administrative expenses by category that would allow for a comparison of actual expenses and the administrative budgets the states submitted as part of their agreements with Treasury.³⁴ According to Treasury, administrative expenses are not easily comparable across states because of differences in programs and their structures. However, having states report this information to Treasury in a consistent format could provide greater insight into states' progress in implementing the Hardest Hit Fund and inform Treasury's oversight and monitoring decisions. Standards for internal control state that operational and financial data are necessary for program managers to determine whether the programs are meeting goals and effectively and efficiently using resources.³⁵ Further, effective internal control systems provide reasonable assurance to taxpayers that federal funds are used as

³⁴Treasury officials said that the compliance reviews include an examination of individual transactions to determine whether they are appropriate under the states' participation agreement with Treasury and in accordance with OMB Circular No. A-87, which sets out cost principles for state, local, and Indian tribal governments.

³⁵[GAO/AIMD-00-21.3.1](#).

intended and in accordance with applicable laws and regulations. Without detailed and consistent information on the types of administrative expenses states have incurred relative to their plans for the program, Treasury may be constrained in its ability to monitor (1) whether program funds are being used effectively to achieve program goals and (2) the relationships among program expenses, activities, outputs, and outcomes.

Further, the transparency of the status of the Hardest Hit Fund and states' performance could be enhanced. Although the quarterly performance reports that detail the number of borrowers assisted and the total amount of assistance the states provide are publicly available, Treasury does not require states to publicly disclose the administrative expenses they incur to implement the Hardest Hit Fund as part of the reporting. Treasury officials told us that they informed the states in a recent teleconference that this information would be required to be reported in the quarterly performance report for the third quarter of 2012. In addition, Treasury does not aggregate the quarterly performance and financial data it receives to provide policymakers and the public with a snapshot of the Hardest Hit Fund's status. Treasury also has not made available to the public consolidated reports on the states' relative performance when activities and performance measures are comparable across states—for example, under the payment assistance or reinstatement programs—although Treasury officials said that they provided consolidated reports to the states on a quarterly basis and to policymakers on request. As we have previously reported, transparency remains a critical element in the context of TARP and the unprecedented government assistance it has provided to the financial sector.³⁶ Such transparency could help clarify for policymakers and the public the costs of Hardest Hit Fund assistance and increase understanding of Hardest Hit Fund results. Improving the clarity of communications about the costs and performance of Hardest Hit Fund would help to inform decisions about how best to target remaining funds to achieve program goals.

³⁶GAO, *Troubled Asset Relief Program: As Treasury Continues to Exit Programs, Opportunities to Enhance Communication on Costs Exist*, [GAO-12-229](#) (Washington, D.C.: Jan. 9, 2012).

Conclusions

HAMP, the Hardest Hit Fund, and the newer MHA programs were part of an unprecedented response to a particularly difficult time for our nation's mortgage markets. But 3 years after Treasury first announced that it would use up to \$50 billion in TARP funds for various programs intended to preserve homeownership and protect home values, the number of borrowers who received permanent HAMP first-lien modifications is far below Treasury's original estimates of the number of people who would be helped by this program. The number of borrowers starting HAMP trial modifications has continued to decline. In an effort to boost participation, Treasury recently rolled out HAMP Tier 2 to extend and expand the program. However, Treasury has made no definitive projections of the number of borrowers who might be helped. The program has not been fully implemented, and servicers have mixed opinions on its possible effect. The recent changes are a positive step in the effort to reach borrowers who have previously been denied HAMP assistance, but the pool of eligible borrowers is diminishing over time.

Further, Treasury has taken steps to assess and facilitate servicers' readiness, but several of the large servicers did not have the system changes in place to process all aspects of HAMP Tier 2 modifications by June 1, 2012. As we have noted in past reports, swift action on the part of Treasury is imperative to help ensure that servicers have the ability to implement new initiatives. As demonstrated by the initially slow rollout of the HAMP first-lien modification program, the success of these TARP-funded initiatives will be largely driven by the capacity and willingness of servicers to implement them expeditiously and effectively. Servicers could be hampered by the myriad programs they currently must deal with, including the settlement reached with the state attorneys general.

Treasury has established performance measures to assess servicers' compliance with MHA program requirements and identified certain risks associated with the recent changes, but it has not provided meaningful performance goals or comprehensive risk assessments for HAMP Tier 2. As we previously reported, agencies must identify the risks that could impede the success of new programs and determine meaningful methods of mitigating these risks. We have highlighted the need for Treasury to develop necessary controls to mitigate those risks before a program is implemented. Without the more meaningful risk assessments, Treasury will not be able to fully and effectively use the nearly \$46 billion in TARP funds that it has obligated to meet the statutory goals of protecting homeownership because of the possibility of increased redefaults or other risks that could impede the success of the new program changes. In addition, Treasury has not developed program-specific performance

measures for HAMP Tier 2. Without specific program measures, Treasury will not be able to effectively assess the outcomes of these programs and hold servicers accountable for performance goals.

Treasury has established several layers of review and reporting to monitor the states' Hardest Hit Fund activity, but its oversight and monitoring of state administrative expenses for the Hardest Hit Fund are limited, and the administrative expenses associated with these programs are not transparent. Further, Treasury has not published consolidated state performance reports and financial reports, including administrative expenses incurred, limiting the ability of policymakers and the public to assess the status of the program and each state's performance relative to other states. Without this information, policymakers and the public will have difficulty evaluating whether the Hardest Hit Fund program is achieving its goals in an effective manner.

Recommendations for Executive Action

In order to continue improving the transparency and accountability of MHA and the Hardest Hit Fund programs, we recommend that the Secretary of the Treasury take the following three actions:

- expeditiously conduct a comprehensive risk assessment of HAMP Tier 2, using the standards for internal control in the federal government as a guide;
- develop activity-level performance measures and benchmarks related to the HAMP Tier 2 program; and
- consolidate the state performance reports and financial reports, including administrative expenses, into a single Hardest Hit Fund report to provide policymakers and the public with the overall status of the program as well as the relative status and performance of the states' efforts.

Agency Comments and Our Evaluation

We provided a draft of this report to Treasury and FHFA for review and comment. FHFA provided the draft report to Fannie Mae and Freddie Mac. We received written comments from Treasury's Assistant Secretary for Financial Stability that are reprinted in appendix III. We also received technical comments from Treasury, FHFA, and Fannie Mae that we incorporated as appropriate. In its written comments, Treasury did not state whether it agreed or disagreed with our recommendations but noted that it would respond in detail in its 60-day response letter to Congress.³⁷ However, Treasury stated that it took exception to our finding that it did not conduct appropriate risk assessments prior to the implementation of HAMP Tier 2. Specifically, Treasury noted that at the outset of the development of HAMP Tier 2, it performed a baseline assessment of the potential programmatic, technical, fraud, and other risks involved and listed several activities it undertook during this assessment. In the draft report, we acknowledged that Treasury identified various risks while designing the program—such as the redefault risk associated with modifications that would result in DTIs of up to 55 percent—and described the actions Treasury cited as mitigating those risks. We also described many of the activities Treasury outlined in its comment letter related to the design and implementation of the program.

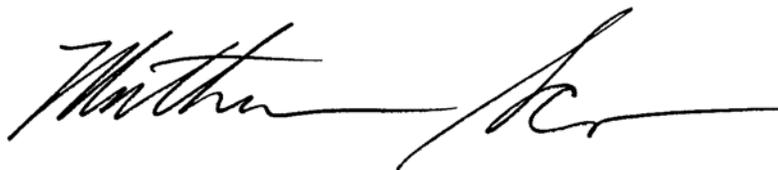
However, during our review Treasury was unable to provide documentation of any risk assessments that had been performed during the development of HAMP Tier 2. After receiving a draft of this report, Treasury prepared a summary table that outlined examples of risks it had identified and actions it had taken to mitigate them. We used this information to incorporate additional examples into the report. However, neither this summary nor Treasury's description of its analysis indicated that it had conducted a comprehensive analysis of these risks, including an assessment of their significance and likelihood of occurrence, as outlined in our standards for internal control. Without this type of detailed information, determining whether the mitigating actions outlined by Treasury are sufficient or comprehensive is difficult. In its comment letter, Treasury stated that a more formal assessment might be more appropriate for programs that were fully operational and had established

³⁷By statute, agency heads must submit a written statement of the actions taken by the agency on our recommendations to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Oversight and Government Reform not later than 60 days after the date of the report that includes the recommendations. 31 U.S.C. § 720.

processes that were reasonably mature. As we have previously reported and reiterate in this report, agencies must identify the risks that could impede the success of new programs, determine appropriate methods of mitigating these risks, and develop appropriate controls before the programs' implementation dates. As a result, our position remains that Treasury must complete a comprehensive risk assessment that analyzes the significance and likelihood of occurrence of the risks it has identified in order to provide reasonable assurance that appropriate and meaningful steps have been taken to mitigate risks associated with HAMP Tier 2. We have clarified our recommendation to reference federal standards for internal control as guidance regarding key aspects of a comprehensive risk assessment.

We are sending copies of this report to interested congressional committees and members of the Financial Stability Oversight Board, Special Inspector General for TARP, Treasury, FHFA, the federal banking regulators, and others. We also will make this report available at no charge on the GAO 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. Key contributors to this report are listed in appendix IV.



Mathew J. Scire
Director
Financial Markets and
Community Investment

List of Addressees

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

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

The Honorable Kent Conrad
Chairman
The Honorable Jeff Sessions
Ranking Member
Committee on the Budget
United States Senate

The Honorable Max Baucus
Chairman
The Honorable Orrin G. Hatch
Ranking Member
Committee on Finance
United States Senate

The Honorable Hal Rogers
Chairman
The Honorable Norm Dicks
Ranking Member
Committee on Appropriations
House of Representatives

The Honorable Paul Ryan
Chairman
The Honorable Chris Van Hollen
Ranking Member
Committee on the Budget
House of Representatives

The Honorable Spencer Bachus
Chairman
The Honorable Barney Frank
Ranking Member
Committee on Financial Services
House of Representatives

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

Appendix I: Objectives, Scope, and Methodology

In response to a mandate in the Emergency Economic Stabilization Act of 2008, this report examines (1) steps the Department of the Treasury has taken to design and implement recent changes to the Making Home Affordable (MHA) programs and (2) Treasury's monitoring and oversight of state housing finance agencies' (HFA) implementation of the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund).

To examine Treasury's implementation of recent changes to MHA programs, we reviewed internal documentation related to the decision-making process. We also obtained and analyzed Treasury's Home Affordable Modification Program (HAMP) data in its system of record, Investor Reporting/2 (IR/2), through March 2012, to identify patterns in program participation, and we determined that these data were sufficiently reliable for the purposes used in the report. We also reviewed MHA documentation issued by Treasury, including the supplemental directives related to the recent changes related to HAMP Tier 2 as well as the Principal Reduction Alternative and Second Lien Modification Program incentives; the MHA handbook for servicers; and monthly performance reports. We reviewed and analyzed MHA program and expense information in the quarterly reports to Congress issued by the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). We also spoke with officials at Treasury to understand the challenges faced in implementing these programs and the steps taken by Treasury to assess the capacity needed for and risks of these programs, as well as steps taken to measure the programs' success. Further, we spoke with management staff from five large MHA servicers about the challenges and potential impact of implementing these program changes. These five servicers were Bank of America; CitiMortgage; JP Morgan Chase Bank; Ocwen Loan Servicing; and Wells Fargo Bank. We identified them as large MHA servicers based on the amount of Troubled Asset Relief Program (TARP) funds they were allocated for loan modification programs. These five servicers collectively represented about 68 percent of the TARP funds allocated to participating servicers as of March 31, 2012. We also spoke with an organization representing homeowners and community advocates about the potential impact of implementing these program changes. Finally, we reviewed (1) the Standards for Internal Control in the Federal Government to determine the key elements needed to ensure program stability and adequate

program management;¹ (2) Treasury's strategic plan, monthly reports, and quarterly servicer assessments to determine the goals, strategies, and performance measures for the MHA program; and (3) leading practices for program management under the Government Performance and Results Act of 1993 (GPRA) and the requirements of the GPRA Modernization Act of 2010.²

To examine Treasury's oversight and monitoring of the states' implementation of the Hardest Hit Fund, we reviewed Treasury's funding announcements for the Hardest Hit Fund as well as program participation agreements between the states and Treasury and subsequent amendments to those agreements; quarterly performance reports submitted by the states; analytical tools developed by Treasury to track program spending for borrower assistance and administrative costs; and examples of compliance reviews completed by Treasury and the states' responses. We also spoke with officials at Treasury to understand the challenges faced in implementing these programs and the steps taken by Treasury to assess the capacity needed for and risks of these programs, as well as steps taken to measure the programs' success. Further, we spoke with management staff from four states that received allocations through the Hardest Hit Fund—California, Florida, Nevada, and Ohio—and the District of Columbia. To select states to interview, we considered the size of the state's allocation, the number of Hardest Hit Fund programs administered by the state, the percentage of the allocation that had been drawn as of December 2011, the borrower approval rate, and the geographic location. We also spoke with mortgage industry participants and observers, including servicers and associations representing housing counselors and legal services attorneys.

We conducted this performance audit from February 2012 through July 2012 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.

¹GAO/AIMD-00-21.3.1.

²Pub. L. No. 103-62, 107 Stat. 285 (1993) and Pub. L. No. 111-352, 124 Stat. 3866 (2011).

Appendix II: Treasury's Actions in Response to GAO's Recommendations for TARP-Funded Housing Programs Last Reported as Open or Partially Implemented in September 2011

Troubled Asset Relief Program: Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable: [GAO-09-837](#), July 23, 2009

Recommendation	Actions taken	Status
<p>As part of its efforts to continue improving the transparency and accountability of HAMP, the Secretary of the Treasury should place a high priority on fully staffing vacant positions in the Homeownership Preservation Office (HPO)—including filling the position of Chief Homeownership Preservation Officer with a permanent placement—and evaluate HPO's staffing levels and competencies to determine whether they are sufficient and appropriate to effectively fulfill its HAMP governance responsibilities.</p>	<p>Treasury hired a permanent Chief Homeownership Preservation Officer on November 9, 2009. Based upon input from HPO senior staff, the Chief Homeownership Preservation Officer subsequently reduced the staffing levels for HPO. In June 2012, Treasury officials stated that a comprehensive staffing assessment was ongoing for all of the Office of Financial Stability, including HPO.</p>	<p>Partially Implemented</p>

Troubled Asset Relief Program: Further Actions Needed to Fully and Equitably Implement Foreclosure Mitigation Programs: [GAO-10-634](#), June 24, 2010

Recommendation	Actions taken	Status
<p>As part of its efforts to continue improving the transparency and accountability of HAMP, the Secretary of the Treasury should expeditiously implement a prudent design for remaining HAMP-funded programs.</p>	<p>Our March 2011 report identified areas in which Treasury had made changes to the original design and requirements of the more newly announced HAMP-funded programs (i.e., Second Lien Modification (2MP), Home Affordable Foreclosure Alternatives (HAFA), and Principal Reduction Alternative (PRA) programs) and made recommendations to continue improving the transparency and accountability of Making Home Affordable (MHA) related to these newer programs. Those recommendations remain open.</p>	<p>Open</p>
<p>As part of its efforts to continue improving the transparency and accountability of HAMP, the Secretary of the Treasury should expeditiously finalize and implement benchmarks for performance measures under the first-lien modification program, as well as develop measures and benchmarks for the recently announced HAMP-funded homeowner assistance programs.</p>	<p>Starting with the MHA program performance report through April 2011, Treasury has publicly reported on the performance of the top 10 participating servicers in three categories—identifying and contacting homeowners, homeowner evaluation and assistance, and program management, reporting, and governance. Treasury has established benchmarks for each of these three categories that consist of both quantitative and qualitative (incorporating the results of its compliance reviews) criteria. However, the performance metrics are based on the HAMP first-lien modification program and do not contain measures or benchmarks for the more recently announced TARP-funded homeowner assistance programs.</p>	<p>Partially Implemented</p>

**Appendix II: Treasury's Actions in Response to
GAO's Recommendations for TARP-Funded
Housing Programs Last Reported as Open or
Partially Implemented in September 2011**

Recommendation	Actions taken	Status
<p>As part of its efforts to continue improving the transparency and accountability of HAMP, the Secretary of the Treasury should expeditiously report activity under the principal reduction program, including the extent to which servicers determined that principal reduction was beneficial to investors but did not offer it, to ensure transparency in the implementation of this program feature across servicers.</p>	<p>Starting with its monthly MHA performance report for activity through May 2011, Treasury began reporting summary data on the PRA program. Specifically, Treasury provides information on PRA trial modification activity (started, cumulative, and permanent), as well as the median principal amounts reduced for active permanent modifications. In addition, beginning with its MHA performance report for activity through October 2011 and quarterly thereafter, Treasury reported more detailed data on the characteristics of loans that received PRA modifications. In June 2012, Treasury officials stated that they had been working with servicers to improve the quality of the data provided on PRA and were undertaking additional research to look at the effectiveness. However, no data are reported on the extent to which servicers determined that principal reduction was beneficial to the investor but was not offered.</p>	<p>Partially Implemented</p>
<p>As part of its efforts to continue improving the transparency and accountability of HAMP, the Secretary of the Treasury should expeditiously and more clearly inform borrowers that the HOPE Hotline may also be used if they are having difficulty with their HAMP application or servicer or feel that they have been incorrectly denied HAMP; monitor the effectiveness of the HOPE Hotline as an escalation process for handling borrower concerns about potentially incorrect HAMP denials; and develop an improved escalation mechanism if the HOPE Hotline is not sufficiently effective.</p>	<p>According to Treasury, it has promoted the HOPE Hotline through a number of channels to the public as a resource for borrowers with questions and problems about their HAMP application, trial period plan or permanent modification. For example, the hotline number is published on Treasury's MHA website, featured in media campaigns, and used in talking points for borrower/counselor events and media interviews. Treasury's MHA program guidelines require that servicers include in their notices to borrowers regarding the status of requests for a HAMP loan modification the telephone number for the HOPE Hotline, with an explanation that the borrower can seek assistance at no charge from HUD-approved housing counselors and can request assistance in understanding the Borrower Notice by asking for MHA Help. In MHA program guidance issued on November 3, 2010, Treasury standardized the process required for handling certain borrower inquiries and disputes related to the MHA Program. The guidance also outlines the servicer's obligations for tracking borrower inquiries and disputes and conducting reviews in a timely fashion, whether received directly from a borrower or indirectly from the HOPE Hotline, through MHA Help, or the HAMP Solution Center. However, Treasury has not yet indicated how it will monitor the effectiveness of the HOPE Hotline as an escalation process for handling borrower complaints about potentially incorrect HAMP denials.</p>	<p>Partially Implemented</p>

**Appendix II: Treasury's Actions in Response to
GAO's Recommendations for TARP-Funded
Housing Programs Last Reported as Open or
Partially Implemented in September 2011**

Troubled Asset Relief Program: Treasury Continues to Face Implementation Challenges and Data Weaknesses in Its Making Home Affordable Program: [GAO-11-288](#), March 17, 2011

Recommendation	Actions taken	Status
<p>As part of its efforts to continue improving the transparency and accountability of MHA, the Secretary of the Treasury should require servicers to advise borrowers to notify their second-lien servicers once a first lien has been modified under HAMP to reduce the risk that borrowers with modified first liens are not captured in the Lender Processing Services (LPS) matching database and, therefore, are not offered second-lien modifications.</p>	<p>In Supplemental Directive 11-10 issued on September 29, 2011, Treasury announced that servicers must inform each borrower who receives a HAMP permanent modification of the borrower's potential eligibility for a second-lien modification under 2MP. Treasury updated the Home Affordable Modification Agreement Cover Letter form to include model clauses that could be used to notify borrowers, including a link to the MHA website to determine whether the second-lien servicer was participating in 2MP and a statement encouraging the borrower to contact the second-lien servicer if the servicer did not contact the borrower within 60 days.</p>	<p>Closed— Implemented</p>
<p>As part of its efforts to continue improving the transparency and accountability of MHA, the Secretary of the Treasury should ensure that servicers demonstrate that they have the operational capacity and infrastructure in place to successfully implement the requirements of the 2MP, HAFA, and PRA programs.</p>	<p>Treasury stated that Freddie Mac's MHA-Compliance unit, the compliance agent for the Making Home Affordable program, uses information received from Fannie Mae, in its capacity as the MHA program administrator, regarding servicer readiness for various program elements as part of the compliance review scheduling and planning process. Treasury noted that during the normal course of a servicer review, part of the review is focused on the evaluation of new programs such as HAFA, 2MP, and PRA as they are implemented by a servicer. According to Treasury, the specifics of these evaluations are designed to ensure adherence with the program guidelines, as well as with the servicer's ability to meet those guidelines. Treasury stated that in instances in which a servicer had implementation challenges and was unable to meet implementation timelines or specific elements of the program, these matters would be raised to OFS management and tracked to resolution by MHA-Compliance to ensure that implementation occurred as soon as practicable.</p>	<p>Open</p>
<p>As part of its efforts to continue improving the transparency and accountability of MHA, the Secretary of the Treasury should consider methods for better capturing outcomes for borrowers who are denied or canceled or have redefaulted from HAMP, including more accurately reflecting what actions are completed or pending and allowing for the reporting of multiple concurrent outcomes, in order to determine whether borrowers are receiving effective assistance outside of HAMP and whether additional actions may be needed to assist them.</p>	<p>Treasury stated that it had revised the survey it conducted of the 10 largest MHA servicers regarding the disposition of borrowers who had been denied HAMP modifications or were cancelled from trials to ask about dispositions of borrowers who were "in process" and "completed" to clarify their status. Treasury stated that it was important to note that survey data were generally collected for at least 3 months prior to publication to ensure the integrity of the data. Therefore, the changes made to the survey are not currently reflected in the data contained in the monthly MHA program performance reports. Treasury stated that it anticipated that it would be able to begin reporting using the revised survey data in fall 2011. However, Treasury stated that it did not intend to revise its survey to collect data on borrowers that were being considered for multiple outcomes. Treasury stated that while borrowers could be under evaluation for an alternative modification while in foreclosure, the greatest impact would be the final determination (e.g., whether the borrower received an alternative modification or was in the foreclosure path).</p>	<p>Open</p>

Appendix III: Comments from the Department of the Treasury



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

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

Dear Mr. Scirè:

The Department of the Treasury (Treasury) welcomes the opportunity to comment on your draft report on the Troubled Asset Relief Program titled "Further Actions Needed to Enhance Assessments and Transparency of Housing Programs" (Draft Report).

The Draft Report provides constructive insight on Treasury's foreclosure mitigation efforts, and we appreciate GAO's acknowledgement of the leading role Treasury's Making Home Affordable Program (MHA) has played in helping to repair the housing market, including by actively engaging with other federal agencies and nonfederal stakeholders.¹

To date, nearly 1.2 million homeowner assistance actions have been granted through MHA. In particular, MHA's first lien modification program, the Home Affordable Modification Program (HAMP), has helped more than one million families permanently modify their mortgage loans. The standards created by HAMP for sustainable modifications, as well as standards for consumer protection, have transformed the mortgage-servicing industry and helped trigger nearly three million proprietary modifications since the program's inception in March 2009. As a result of utilizing the standards HAMP has put into place, mortgage modifications across the industry have become more affordable and sustainable for homeowners. In addition, homeowners in HAMP continue to demonstrate a high likelihood of long-term success in the program.

Because the housing market remains fragile, Treasury recently extended the deadline for the MHA Program and expanded program eligibility for HAMP (known as HAMP Tier 2) to reach a broader pool of distressed homeowners in need of assistance. These enhancements, along with additional expanded opportunities made available by the Obama Administration, are designed to help the housing market recover faster from an unprecedented crisis.

¹ U.S. GOV'T ACCOUNTABILITY OFFICE, PUB. GAO-12-296, FORECLOSURE MITIGATION: AGENCIES COULD IMPROVE EFFECTIVENESS OF FEDERAL EFFORTS WITH ADDITIONAL DATA COLLECTION AND ANALYSIS (2012), available at <http://www.gao.gov/products/GAO-12-296>.

HAMP Tier 2 Risk Assessments

Treasury takes exception to GAO's finding that we did not conduct appropriate risk assessments prior to the implementation of HAMP Tier 2. Rather, in line with GAO's concerns about the need for federal agencies to identify risks that could impede the success of new programs and determine the appropriate course of action to mitigate these risks, Treasury engaged in significant assessment of potential risks, which shaped the development of the HAMP Tier 2 policy and guidelines as well as its oversight of servicer program implementation. For your reference, we are summarizing below our efforts in this regard.

At the outset of the development of HAMP Tier 2, Treasury performed a baseline assessment of the potential programmatic, technical, fraud, and other risks involved, including reviewing prior program data and performance, evaluating similar programs, and engaging in discussions with internal and external stakeholders, including Fannie Mae and Freddie Mac, participating servicers, other federal agencies, banking regulators, advocates, and investors. Treasury ultimately modeled HAMP Tier 2 on a modification that is currently offered by servicers of GSE loans (known as the Servicing Alignment Initiative [SAI] modification), specifically because its use by GSE servicers mitigated the potential risk of introducing an entirely new type of modification. In fact, 80 percent of servicers participating in MHA also service GSE loans.

In modeling HAMP Tier 2 on the SAI modification, Treasury interviewed representatives from Fannie Mae and Freddie Mac and reviewed performance data from the initial months of SAI implementation. Treasury also conducted meetings in person and by teleconference with individual servicers and groups of large and small servicers to assess their perception of implementation risk. These meetings led to a number of changes to the original program design to mitigate operational and other risks. For example, regulators and servicers expressed concern that the broad debt-to-income (DTI) range allowable under the SAI version of HAMP Tier 2 enhanced the risk that modifications would be offered to borrowers who either had a very low DTI and did not truly meet the hardship criteria or whose DTI was so high that they were at significantly increased risk of post modification default. After assessing these concerns, Treasury decided to narrow the DTI range in the final policy guidance in order to mitigate these risks.

Following the release of HAMP Tier 2 program guidance, Treasury has managed implementation risk by working closely with servicers to identify potential conflicts as servicers operationalize their systems. This includes on-site visits to large servicers, weekly implementation calls, and use of a policy issues resolution process by which servicers identify risks that can be mitigated through modest program changes or clarifications. Since the publication of program guidance in March 2012, Treasury has received and responded to over 100 queries by servicers. Using this feedback, Treasury is preparing a supplemental directive, expected to be published shortly, which will clarify and amend provisions of the program guidance.

Treasury also has put in place processes to identify and manage operational risks including: reoccurring on-site oversight visits by the Servicer Integration Teams to the largest servicers, which consist of detailed walkthroughs regarding changes to the MHA system of record (IR/2)

reporting, data dictionaries, and data quality edits related to the implementation of HAMP Tier 2; monitoring servicer implementation of IR/2 and providing additional support as necessary; weekly governance meetings with Fannie Mae (as Treasury's Program Administrator) and Freddie Mac (as Treasury's compliance agent, known as MHA-C) to identify and troubleshoot readiness and operational risks and approve corrective action plans; and producing servicer compliance audits and assessments.

Treasury also manages a readiness assessment process for new program elements to understand how servicers are preparing to implement new guidance. Areas addressed include servicer policy and procedure development, technology upgrades, revised quality control procedures, and revisions to customer documents, call scripts, staffing, training, and external communications. Due to the importance Treasury placed on the effective implementation of HAMP Tier 2, this readiness assessment was conducted jointly by Treasury staff, Program Administrator staff, and MHA-C, and included multiple face-to-face meetings with large servicers between March and June of 2012 as well as weekly updates of performance readiness for the 20 largest servicers. In addition, I held teleconferences with Senior Executives of the six largest servicers to discuss their implementation plans. As a result, timelines for implementation were substantially accelerated from initial servicer projections. Treasury has directed MHA-C to conduct reviews of servicers soon after the HAMP Tier 2 effective date to help Treasury assess how effectively servicers are implementing the new program requirements.

These efforts summarized above reflect how Treasury assessed various risks associated with its recent changes to MHA, and designed HAMP Tier 2 policy and procedures in order to mitigate those risks. Despite these efforts, GAO suggests that Treasury should have conducted a more "formal" risk assessment prior to announcing its HAMP Tier 2 changes; that is, Treasury should have prepared a formal report that identified potential risks inherent in the program changes, identified controls designed to mitigate those potential risks, and assigned a numerical value to assess the residual risk. We believe this type of assessment might be more appropriate for programs that are fully operational and have established processes that are reasonably mature. Until this stage is reached, the Office of Financial Stability's Office of Internal Review's Risk Management, in conjunction with Treasury's Risk and Control Group team, works with the stakeholders to help develop relevant policies and procedures as well as internal controls and provides additional guidance as needed. For potential policy changes that are under consideration, we believe the process we followed, which is an iterative one including Treasury staff and a variety of constituencies, is appropriate and effective.

Servicer Readiness

As the Draft Report notes, Treasury has taken several steps to help servicers meet the program requirements for HAMP Tier 2. While not all servicers had fully implemented the HAMP Tier 2 changes by the June 1 effective date, all but one of the eighteen largest servicers were able to implement some aspects of HAMP Tier 2 as of the effective date and all but four of the largest servicers had fully implemented Tier 2 by the end of June. Furthermore, as the Draft Report notes, to help ensure that delays would not impact borrowers, we imposed several requirements on all servicers that did not fully implement HAMP Tier 2 by the effective date. These servicers must: develop a process to identify borrowers who are potentially eligible for HAMP Tier 2, halt

foreclosure referrals and foreclosure sales for those borrowers, and ensure that each borrower has a single point of contact. Additionally, servicers who are unable to fully implement HAMP Tier 2 by mid-July will be required to evaluate and offer borrowers proprietary modifications similar to HAMP Tier 2 and either automatically convert those borrowers to or reevaluate them for HAMP Tier 2 modifications when the changes are fully implemented. Treasury will conduct compliance reviews to help ensure that all servicers appropriately implement HAMP Tier 2 and adhere to the applicable interim requirements.

Fraud Mitigation Efforts

Based on our experience to date, actual incidence of homeowner fraud has been relatively low, due in part to many of the actions we have taken. Treasury shares GAO's goal to prevent fraud in our housing programs, and we have taken a number of steps to reduce the risk of fraud by homeowners in the program, including with respect to rental properties. In this regard, it is important to keep in mind the policy objectives for HAMP Tier 2. In addition to expanding the eligibility pool by creating modification opportunities for homeowners with significant non-mortgage debt or those previously denied HAMP (e.g., due to negative NPV test results, excessive forbearance, or other financial reasons), we are also expanding the eligibility pool to borrowers with property occupied by a tenant or property which the borrower intends to rent. This policy decision will provide critical relief both to homeowners and to those tenants who rent their homes, while further stabilizing communities from the blight of vacant and foreclosed properties. Foreclosures, regardless of property ownership, have a negative impact on neighborhoods and communities. As you have recently concluded, vacant properties cause home prices and property tax revenues to decline at the same time that law enforcement, fire protection, and neighborhood stabilization costs to local governments increase.² Additionally, single family homes are an important source of affordable rental housing, and foreclosure of investor-owned homes disproportionately hurts low- and moderate-income renters. Including rental properties in HAMP Tier 2 is consistent with the Administration's commitment to a balanced housing policy that also addresses the needs of renters.

We have taken a variety of actions to minimize the risk of fraud in HAMP including ones specific to HAMP Tier 2. These actions include:

- Requiring an appropriate level of documentation so that servicers can effectively evaluate homeowner eligibility;
- Clearly articulating to servicers their responsibility to carefully evaluate the documentation, resolve any apparent discrepancies, and communicate effectively with homeowners;
- Featuring prominently on the Request for Mortgage Assistance form the Special Inspector General for TARP-approved warning against borrower fraud or misrepresentation. We have also included that warning on a new Non-owner Occupant

² U.S. GOV'T ACCOUNTABILITY OFFICE, PUB. GAO-12-34, VACANT PROPERTIES: GROWING NUMBER INCREASES COMMUNITIES' COSTS AND CHALLENGES 37 (2011), available at <http://www.gao.gov/assets/590/586089.pdf>.

Certification that must be signed by tenants who may receive relocation assistance in conjunction with a short sale;

- Requiring servicers to develop processes and internal controls to identify and mitigate mortgage modification fraud;
- Including in IR/2 edits that identify and prevent the boarding of duplicate Social Security Numbers; and
- Evaluating, as part of our ongoing compliance efforts, servicers' controls and processes to identify, monitor, and report fraud, whether by homeowners or third parties.

HAMP Performance and Outcome Measures

We appreciate GAO's comments on the need to establish performance measures in order to assess program changes. However, as we have stated before, it is difficult to predict overall take-up under MHA, including HAMP Tier 2, as participation is dependent on a variety of external factors, including broader changes in the economy and the unemployment rate. Rather, we are focused on how to best reach the remaining eligible borrowers who have not yet received help, including working closely with servicers to monitor program performance through a combination of our compliance function (to assess overall servicer implementation) and program volume.

Hardest Hit Fund

The Hardest Hit Fund (HHF) is unique because it provides funding to eighteen states and the District of Columbia to develop solutions that are tailored to the needs of homeowners while addressing the distinct challenges facing local housing markets. Treasury appreciates GAO's acknowledgment that our efforts helped states increase their HHF spending on borrower assistance. Furthermore, through regular conference calls and two national summits, Treasury has helped states share best practices and solve problems collectively. This has allowed states to better confront challenges related to staffing and infrastructure, servicer participation, borrower outreach, and program implementation.

Recommendations

GAO recommends that Treasury conduct a formal risk assessment of HAMP Tier 2; develop Tier 2 performance measures and benchmarks; and consolidate the states' performance and financial reports, including administrative expenses, into a single report (for policymakers and the public). Treasury will respond in detail to these recommendations in the 60-day response letter.

Treasury remains committed to providing transparency of all TARP activities to Congress and the public, and we will continue to utilize our authority to assist struggling homeowners and prevent avoidable foreclosures. In closing, we reiterate appreciation for GAO's continued assessment and reporting on TARP as we continue to work to improve the housing program and help ensure that all eligible homeowners are well-served by the program.

Sincerely,



Timothy G. Massad
Assistant Secretary for Financial Stability

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Mathew J. Scire` (202) 512-8678 or sciremj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Harry Medina (Assistant Director), Dan Alspaugh, Don Brown, Emily Chalmers, John Karikari, Marc Molino, Jill Naamane, Andrew Stavisky, Eva Yikui Su, James Vitarello, and Henry Wray made key contributions to this report.

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