United States Government Accountability Office

Report to Congressional Committees

January 2017

TROUBLED ASSET RELIEF PROGRAM

Status of Housing Programs

GAO-17-236

GAO Highlights

Highlights of GAO-17-236, a report to congressional committees

Why GAO Did This Study

Since 2009 Treasury has obligated $37.51 billion in TARP funds to help struggling homeowners avoid foreclosure. The Emergency Economic Stabilization Act of 2008 included a provision for GAO to report at least every 60 days on TARP activities. This report provides an update on the status and condition of Treasury's TARP-funded housing programs as of October 31, 2016. To do this work, GAO reviewed Treasury documentation and prior GAO reports on TARP. We also interviewed Treasury officials. This report contains the most recently available public data in Treasury's reports at the time of our review, including obligations, disbursements, and program participation.

What GAO Recommends

GAO is making no new recommendations. Of the 29 recommendations that GAO has previously made related to the TARP-funded housing programs, 5 remain open or not fully implemented. More information on these recommendations and their status is included in this report. GAO will continue to monitor and assess the status of these recommendations considering the termination of MHA at the end of 2016, program activity, and any further actions taken by Treasury.

View GAO-17-236. For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or garciadiazd@gao.gov.

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TROUBLED ASSET RELIEF PROGRAM

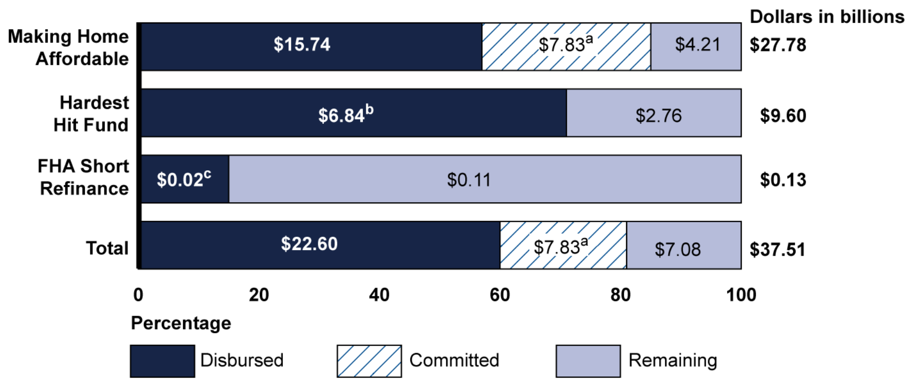
Status of Housing Programs

What GAO Found

As of October 31, 2016, the Department of the Treasury (Treasury) had disbursed $22.6 billion (60 percent) of the $37.51 billion Troubled Asset Relief Program (TARP) funds obligated to the three housing programs (see fig.).

- The Making Home Affordable (MHA) program allowed homeowners to apply for loan modifications to avoid foreclosure. Under this program, which was closed to applicants on December 31, 2016, Treasury provides incentive payments for certain loan modifications. As of October 31, 2016, Treasury had disbursed or committed for future incentive payments $23.6 billion (about 85 percent) of about $27.8 billion MHA funds.
- The Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund) provides funds to 18 states and the District of Columbia (collectively, "states," which were chosen based on unemployment rates and house price declines) to help struggling homeowners through programs designed by states. Congress extended Treasury's authority to commit TARP funds to the program to December 31, 2017. As of October 31, 2016, Treasury had disbursed $6.84 billion (about 71 percent) of the $9.6 billion program funds.
- The Federal Housing Administration (FHA) Short Refinance program allowed eligible homeowners to refinance into an FHA-insured loan. Under this program, Treasury made TARP funds available to provide coverage to lenders for a share of potential losses on these loans for borrowers who entered the program by December 31, 2016. As of October 31, 2016, Treasury had disbursed $0.02 billion (about 15 percent) of the $0.13 billion obligated to this program.

Status of Troubled Asset Relief Program Housing Program Funds as of October 2016



Source: GAO analysis of the Department of the Treasury's Monthly Report to Congress for the Troubled Asset Relief Program. | GAO-17-236

[a]According to the Department of the Treasury (Treasury), these funds have been committed to future financial incentives for existing Making Home Affordable transactions.
[b]This is the amount of funds that states and the District of Columbia have drawn from Treasury.
[c]The amount of funds disbursed under the Federal Housing Administration (FHA) Short Refinance program includes about $10.6 million in administrative expenses and approximately $10 million of reserve funds as of September 30, 2016. Treasury will be reimbursed for unused reserve amounts.

Contents

Abbreviations

2MP	Second Lien Modification Program
EESA	Emergency Economic Stabilization Act of 2008
FHA	Federal Housing Administration
HAFA	Home Affordable Foreclosure Alternatives
HAMP	Home Affordable Modification Program
Hardest Hit Fund	Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets
MHA	Making Home Affordable
PRA	Principal Reduction Alternative
RD	Rural Development
RHS	Rural Housing Service
TARP	Troubled Asset Relief Program
Treasury	Department of the Treasury

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

January 9, 2017

Congressional Committees

Under the authority granted to it by the Emergency Economic Stabilization Act of 2008 (EESA), the Department of the Treasury (Treasury) had obligated $37.51 billion in Troubled Asset Relief Program (TARP) funds for housing programs intended to help prevent avoidable foreclosures and preserve homeownership, as of October 31, 2016.[1] These TARP-funded housing programs are: Making Home Affordable (MHA), Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund), and Department of Housing and Urban Development's Federal Housing Administration (FHA) Short Refinance program.[2]

EESA included a provision that GAO report at least every 60 days on TARP activities and performance.[3] We have continued to provide updates on TARP programs.[4] This report provides an update on the status and condition of Treasury's TARP-funded housing programs as of October 31, 2016.

To conduct this work, we reviewed documentation from Treasury, including publicly available Monthly Reports to Congress for TARP, Agency Financial Reports for TARP, Making Home Affordable quarterly Program Performance Reports, and Hardest Hit Fund quarterly Performance Summary reports. This report contains the most recently available public data in Treasury's reports at the time of our review,

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

[2]Appendixes I, II, and III contain additional information on each program.

[3]The GAO Mandates Revision Act of 2016 revised GAO's reporting requirement under EESA from at least once every 60 days to annually. See Pub. L. No. 114-301, § 3(a), 130 Stat. 1514 (amending 12 U.S.C. § 5226(a)(3)).

[4]See, for example, our recent reports on TARP programs: GAO, *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2016 and 2015 Financial Statements*, GAO-17-125R (Washington, D.C.: Nov. 10, 2016); *Troubled Asset Relief Program: Status of Prior GAO Recommendations*, GAO-16-831 (Washington, D.C.: Sept. 6, 2016), and *Troubled Asset Relief Program: Treasury Should Estimate Future Expenditures for the Making Home Affordable Program*, GAO-16-351 (Washington, D.C.: Mar. 8, 2016).

including obligations, disbursements, and program participation. Generally, we used data that were current as of October 31, 2016 to describe program expenditures and activities. However, in some cases, the most recently available data were as of September 30, 2016.[5] We also interviewed and obtained information from Treasury officials and reviewed prior GAO reports on TARP, including audits of TARP financial statements for fiscal years 2009 through 2016. As part of the financial statement audits, we tested the internal controls over financial reporting of Treasury's Office of Financial Stability, an office created to implement TARP. We have used Treasury's participation data in prior reports in which we concluded the data were sufficiently reliable for our purposes of describing program status and participation.[6] We determined that the data used in this report were sufficiently reliable to assess the status and condition of TARP-funded housing programs.

We conducted this performance audit from September 2016 to January 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Status of TARP Housing Programs

In total, Treasury had disbursed $22.6 billion (about 60 percent) of the $37.51 billion in TARP funds obligated to the three housing programs as of October 31, 2016 (see fig. 1).[7] According to Treasury, the programs have provided assistance to millions of homeowners, including nearly 2.7 million homeowner assistance actions under MHA through October

[5]For example, program activity data for the Principal Reduction Alternative program under MHA and the Hardest Hit Fund are reported in Treasury's quarterly reports. At the time of our review, the latest available quarterly data were as of September 30, 2016.

[6]See, for example, GAO, *Troubled Asset Relief Program: Status of Housing Programs*, GAO-16-279R (Washington, D.C.: Jan. 8, 2016) and *Troubled Asset Relief Program: Treasury Could More Consistently Analyze Potential Benefits and Costs of Housing Program Changes*, GAO-15-670 (Washington, D.C.: July 6, 2015).

[7]Appendixes I, II, and III provide additional information on the funding, expenditures, and activity levels of the three TARP-funded housing programs.

2016.[8] Congress established December 31, 2016, as the termination date for the MHA program, with an exemption for Home Affordable Modification Program (HAMP) loan modification applications made before that date.[9] Additionally, Treasury and FHA established the same date as the deadline for eligible homeowners to apply to the FHA Short Refinance program. Congress also extended Treasury's authority to commit TARP funds to the Hardest Hit Fund program to December 31, 2017.[10]

- **MHA.** The MHA program, which, among other things, provides loan modifications to help eligible borrowers avoid foreclosure, terminated on December 31, 2016, except with respect to certain loan modification applications made before that date.[11] As figure 1 shows, Treasury had disbursed $15.74 billion (about 57 percent) of the $27.78 billion in TARP funds obligated to the MHA program as of October 31, 2016. Treasury also had committed another $7.83 billion for the payment of future financial incentives with respect to existing MHA transactions as of the same date, leaving $4.21 billion (about 15 percent) for future expenditures. According to Treasury officials, Treasury plans to update its estimate of the lifetime cost for MHA based on November 2016 data. Treasury stated that once servicers have submitted data on all final transactions, Treasury plans to calculate the maximum potential expenditures under MHA and deobligate any estimated excess funds at that time. As a result, the agency does not expect to deobligate any additional excess funds from MHA prior to December 2017, when servicers report data on all final transactions. In our March 2016 report, we recommended that Treasury deobligate funds that its review shows will likely not be expended, so that Congress could use those funds for other

[8]In this report, we are using "assistance to homeowners" to describe the assistance provided to homeowners through the three TARP housing programs. Also, homeowners can receive multiple assistance actions under the MHA program.

[9]See Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Div. O, tit. VII, § 709(b), 129 Stat. 2242, 3030 (2015).

[10]§ 709(a), 129 Stat. at 3030.

[11]The original deadline for acceptance into MHA programs was December 31, 2012, but Treasury extended the deadline three times. In December 2015, Congress mandated that the MHA programs be terminated on December 31, 2016, with an exemption for HAMP loan modification applications made before that date. See § 709(b), 129 Stat. at 3030.

priorities.[12] See appendix I for additional information on the status and condition of the MHA program.

- **Hardest Hit Fund.** The Hardest Hit Fund provides funds to 18 states and the District of Columbia (each referred to as a "state")—hit hardest by unemployment and house price declines—that allowed them to design programs tailored to the needs of struggling homeowners in their states. In December 2015, Congress extended Treasury's authority to commit TARP funds under EESA to December 31, 2017, for current Hardest Hit Fund program participants and authorized Treasury to obligate up to $2 billion of additional TARP funds.[13] As shown in figure 1, Treasury had disbursed $6.84 billion (about 71 percent) of the $9.6 billion program funds to 18 states and the District of Columbia as of October 31, 2016. States have until December 31, 2021, to disburse their funds.[14] See appendix II for additional information on the status and condition of the Hardest Hit Fund.
- **FHA Short Refinance.** The FHA Short Refinance program allowed eligible homeowners to refinance into FHA-insured mortgage loans through December 31, 2016. Under this program, Treasury has made TARP funds available to provide coverage to lenders for a share of potential losses on these loans.[15] As of October 31, 2016, Treasury had disbursed $0.02 billion of the $0.13 billion obligated to this program (see fig. 1).[16] According to Treasury, the agency will

[12]GAO-16-351. Treasury agreed with our recommendation and indicated that it has updated its cost estimates for MHA and subsequently deobligated $2 billion of MHA funds on February 25, 2016.

[13]See § 709(a), 129 Stat. at 3030. Treasury announced in February 2016 that it would allocate an additional $2 billion to the Hardest Hit Fund, and by June 2016, Treasury had obligated the funds to the states.

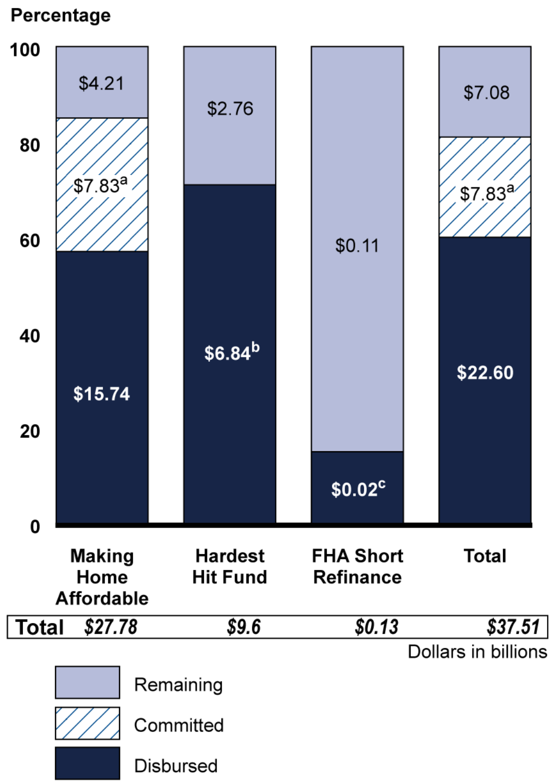
[14]Participating states submit requests to Treasury to draw their funds under the Hardest Hit Fund.

[15]Treasury established a letter of credit facility with TARP funds to pay claims associated with this program. Treasury will draw on the letter of credit to pay its share of claims through December 31, 2022.

[16]As of September 30, 2016, the disbursed amount includes about $10.6 million in administrative expenses to establish and maintain the letter of credit and another approximately $10 million of reserve funds. As of October 31, 2016, Treasury had paid $207,381 in claims under the program, according to Treasury.

determine the maximum potential expenditures associated with the program and deobligate excess funds by June 2017. See appendix III for additional information about the status and condition of the FHA Short Refinance program.

Figure 1: Percentage and Amount of Troubled Asset Relief Program Housing Funds Disbursed, Committed, and Remaining as of October 2016



Source: GAO analysis of the Department of the Treasury's Monthly Report to Congress for the Troubled Asset Relief Program. | GAO-17-236

[a]According to the Department of the Treasury (Treasury), these funds have been committed to future financial incentives for existing Making Home Affordable transactions.

[b]This is the amount of funds that states and the District of Columbia have drawn from Treasury.

[c]This amount of funds disbursed under the Federal Housing Administration (FHA) Short Refinance program includes about $10.6 million in administrative expenses and approximately $10 million of reserve funds as of September 30, 2016. The reserve funds are on deposit with Citibank, N.A. to provide loss coverage for the program. Treasury will be reimbursed for all unused amounts from this Citibank account.

As of December 2016, 5 of the 29 recommendations GAO has made to Treasury related to the TARP-funded housing programs remained open.[17] Specifically, Treasury has taken some actions to address our recommendations that it (1) deobligate MHA funds that its review showed would likely not be expended, (2) conduct periodic evaluations using analytical methods, such as econometric modeling, to help explain differences among MHA servicers in redefault rates, and (3) report the extent to which servicers offered principal reduction and determined that principal reduction was beneficial to investors, but did not offer it.[18] For example, Treasury had updated its cost estimates for MHA and subsequently deobligated $2 billion of MHA funds on February 25, 2016.[19] However, as of December 2016, Treasury has taken no action on our recommendations that it (1) assess the extent to which servicers have established internal control programs that effectively monitor compliance with fair lending laws applicable to MHA programs and (2) develop and implement policies and procedures to better ensure that changes to TARP-funded housing programs are based on evaluations that comprehensively and consistently met the key elements of benefit-cost analysis. In response to the first open recommendation, Treasury officials stated that they planned to continue efforts to promote fair lending policies. However, they noted that the federal agencies with supervisory authority over fair lending laws remain in the best position to monitor servicer compliance with such laws and that they did not plan to implement this recommendation. In response to the second open recommendation, Treasury agreed that it is important to assess the benefits and costs of proposed program improvements, and that it would continue to do so. Treasury also noted that it did not anticipate making significant policy changes to the MHA programs given the application deadline of December 30, 2016.

Although the deadline for MHA and FHA Short Refinance program applicants was in December 2016, elements of the two programs remain in effect after the application deadline. For example, in the case of a

[17]For a full description of the five open recommendations, see GAO-16-831.

[18]For more information on principal reduction and other MHA program features, see appendix I.

[19]For additional information on Treasury's actions to address our recommendations, see GAO-16-831.

HAMP loan modification, participating borrowers can receive program incentive payments for up to 6 years if the borrower does not redefault and remains current on the modified loan.[20] Additionally, it will be important for Treasury to update its cost estimates as additional information becomes available and take timely action to deobligate likely excess funds, so that Congress could use those funds for other priorities. As such, we will continue to monitor and assess the status of these recommendations considering the termination of MHA at the end of 2016, program activity, and actions taken by Treasury.

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

Agency Comments

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

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

If you or your staff members have any questions about this report, please contact me at (202) 512-8678 or garciadiazd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.

Daniel Garcia-Diaz
Director, Financial Markets and Community Investment

List of Congressional Committees

Chairman
Committee on Appropriations
United States Senate

Vice Chairman
Committee on Appropriations
United States Senate

Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate

Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

Chairman
Committee on the Budget
United States Senate

Ranking Member
Committee on the Budget
United States Senate

Chairman
Committee on Finance
United States Senate

Ranking Member
Committee on Finance
United States Senate

Chairman
Committee on Appropriations
House of Representatives

Ranking Member
Committee on Appropriations
House of Representatives

Chairman
Committee on the Budget
House of Representatives

Ranking Member
Committee on the Budget
House of Representatives

Chairman
Committee on Financial Services
House of Representatives

Ranking Member
Committee on Financial Services
House of Representatives

Chairman
Committee on Ways and Means
House of Representatives

Ranking Member
Committee on Ways and Means
House of Representatives

Appendix I: Making Home Affordable

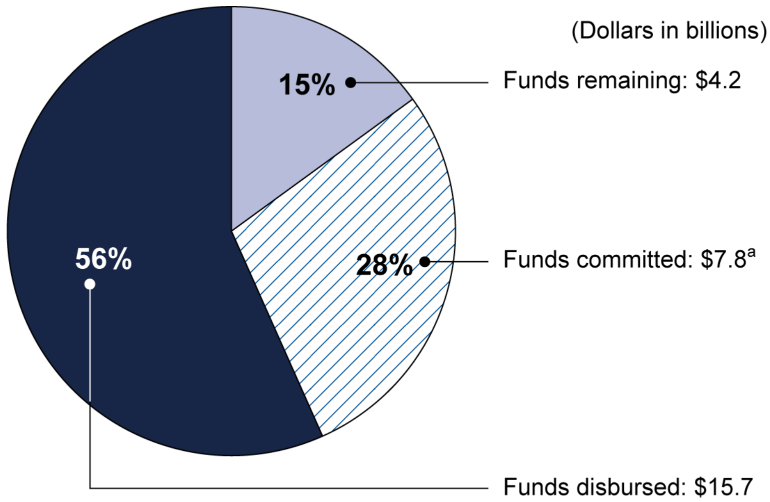
The Department of the Treasury (Treasury) announced Making Home Affordable (MHA) in February 2009. The program was intended to help stabilize the housing market and assist homeowners facing foreclosure. MHA includes several programs that are intended to encourage the modification of eligible mortgages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

As of October 31, 2016, Treasury had disbursed $15.7 billion (about 56 percent) of the $27.8 billion in Troubled Asset Relief Program (TARP) funds that had been obligated to MHA programs (see fig. 2).[1] Additionally, Treasury had committed $7.8 billion to future financial incentives for existing MHA transactions while $4.2 billion remained available for future MHA expenditures. MHA terminated on December 31, 2016, except with respect to certain loan modification applications made before that date.[2] According to Treasury officials, Treasury plans to update its estimate of the lifetime cost for MHA based on November 2016 data. Treasury stated that once servicers have submitted data on all final transactions, Treasury plans to calculate the maximum potential expenditures under MHA and deobligate any estimated excess funds at that time. As a result, the agency does not expect to deobligate any additional excess funds from MHA prior to December 2017, when servicers report data on all final transactions.

[1]Another MHA program, the Home Affordable Unemployment Program, does not use TARP funds. This program requires participating servicers to grant qualified unemployed borrowers a forbearance period for a minimum of 12 months. During this period, mortgage payments are temporarily reduced or suspended while borrowers seek employment. As of September 2016, 46,251 forbearance plans had been started.

[2]The original deadline for acceptance into MHA programs was December 31, 2012, but Treasury extended the deadline three times. In December 2015, Congress mandated that the MHA programs be terminated on December 31, 2016, with an exemption for Home Affordable Modification Program loan modification applications made before that date. See Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Div. O, tit. VII, § 709(b), 129 Stat. 2242, 3030 (2015).

Figure 2: Making Home Affordable Funds Disbursed, Committed, and Remaining as of October 2016



Source: GAO analysis of the Department of the Treasury's Monthly Report to Congress for the Troubled Asset Relief Program. | GAO-17-236

[a]According to the Department of the Treasury, these funds have been committed to future financial incentives for existing Making Home Affordable transactions.

Treasury reported that nearly 2.7 million homeowner assistance actions had taken place under MHA programs through October 2016.[3] These included permanent first- and second-lien mortgage modifications, completed short sales and deeds-in-lieu of foreclosure, and unemployment forbearance plans.[4] Treasury's estimated lifetime cost for MHA was $25.09 billion as of September 30, 2016.

The **Home Affordable Modification Program (HAMP)**, MHA's largest program, was intended to help eligible borrowers stay in their homes and avoid foreclosures by reducing monthly mortgage payments to affordable

[3]A homeowner can receive assistance from more than one MHA program.

[4]In a short sale, a homeowner sells a house rather than allowing the property to go into foreclosure. Proceeds from short sales are generally less than the mortgage amount, so the homeowner must have the lender's permission for the sale. Under a deed-in-lieu of foreclosure, the homeowner voluntarily conveys all ownership interest in the home to the lender as an alternative to foreclosure proceedings.

levels. HAMP provides financial incentives for servicers, mortgage holders/investors, and borrowers for modifications to mortgages originated prior to January 1, 2009.[5]

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

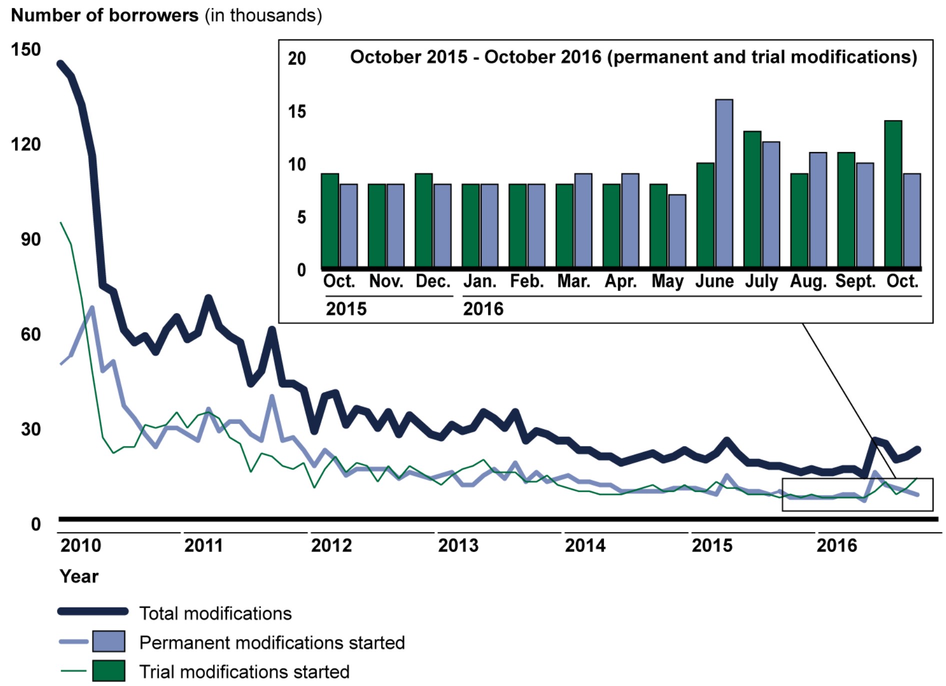
- HAMP Tier 1, announced in March 2009, is generally available to qualified borrowers who occupy their properties as their primary residence and whose first-lien mortgage payments are more than 31 percent of their monthly gross income. The percentage is calculated using the debt-to-income (DTI) ratio.[6]
- HAMP Tier 2, announced in January 2012, is available to borrowers on their primary residence or borrowers who own a rental property (those with fewer than four units), and borrowers' monthly mortgage payments prior to modification may be equivalent to a DTI ratio of less than 31 percent.
- Streamline HAMP, announced in July 2015, is designed to help borrowers who meet HAMP eligibility criteria and, among others, those who have not completed an application by the time their loan is 90 days delinquent. Servicers were required to have a Streamline HAMP policy in place by January 1, 2016, and to proactively identify borrowers who qualify. When servicers identify borrowers who are eligible for a modification under Streamline HAMP, they must offer trial modifications within 15 calendar days.

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

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

Through October 2016, about 1.66 million permanent modifications had been started under HAMP. Overall, HAMP participation (measured by trial and permanent modifications started each month) declined in 2011 after its initial peak in 2010 and held relatively steady until a further decrease in 2014 (see fig. 3). Since then, HAMP participation had remained relatively stable but temporarily increased in June 2016 (when Treasury began reporting Streamline HAMP activity). The total number of new permanent modifications ranged from approximately 8,000 to 16,000 per month from October 2015 through October 2016 (the most recent month for which data were available).

Figure 3: Monthly Combined Home Affordable Modification Program (HAMP) Tier 1, Tier 2, and Streamline HAMP Activity Levels through October 2016



Source: GAO analysis of the Department of the Treasury's Monthly Reports to Congress for the Troubled Asset Relief Program. | GAO-17-236

Note: HAMP was expanded to include Tier 2 and Streamline HAMP effective June 2012 and January 2016, respectively. The Department of the Treasury began reporting HAMP Tier 2 and Streamline HAMP activities in November 2012 and June 2016, respectively.

From January through October 2016, approximately 21,000 borrowers had entered into a Streamline HAMP permanent modification. This number represents about 22 percent of all permanent HAMP modifications (21,061 modifications out of 97,499) started during that period. The number of Streamline HAMP modifications declined from June to October, which was consistent with the trend in the overall HAMP modifications in that period as shown in figure 3. According to Treasury, overall HAMP activity was expected to remain relatively steady from August through December 2016.

In October 2010, MHA's **Principal Reduction Alternative (PRA)** took effect to give servicers more flexibility in offering relief to borrowers whose homes were worth significantly less than their mortgage loan balance. Under PRA, Treasury provides mortgage holders/investors with incentive payments in the form of a percentage of each dollar in principal reduction. As of September 30, 2016, a total of 283,240 permanent HAMP modifications had included principal reduction.

MHA's **Second Lien Modification Program (2MP)** is designed to work in tandem with HAMP modifications to provide a comprehensive solution to help borrowers afford their mortgage payments. A participating servicer of a second lien for which the first lien receives a HAMP Tier 1 or Tier 2 modification must offer to modify the borrower's second lien and accept a lump sum payment from Treasury and either (1) fully extinguish the second lien or (2) partially extinguish the second lien and modify the remaining portion. As of October 31, 2016, a total of 162,122 modifications had been started under 2MP.

Under MHA's **Home Affordable Foreclosure Alternatives (HAFA)** program, servicers offer foreclosure alternatives (short sales and deeds-in-lieu of foreclosure). Borrowers must have met the basic eligibility requirements for HAMP but failed to qualify for a modification, defaulted on a modification by missing three or more consecutive payments, or requested a short sale or deed-in-lieu of foreclosure. As of October 31, 2016, a total of 447,845 HAFA transactions had been completed.

Treasury's **Federal Housing Administration (FHA)-HAMP and Rural Development (RD)-HAMP** provide incentives to borrowers and servicers for mortgages insured by FHA or guaranteed by the Department of Agriculture's Rural Housing Service (RHS), respectively, for modifications similar to those offered through HAMP. If a modified FHA-insured or

RHS-guaranteed mortgage loan meets Treasury's eligibility criteria, the borrower and servicer can receive TARP-funded incentive payments.[7] As of October 31, 2016, a total of 128,570 FHA- and RD-HAMP permanent modifications had been started.

[7]The incentive payments for FHA-HAMP and RD-HAMP modifications are structured like HAMP incentive payments.

Appendix II: Hardest Hit Fund

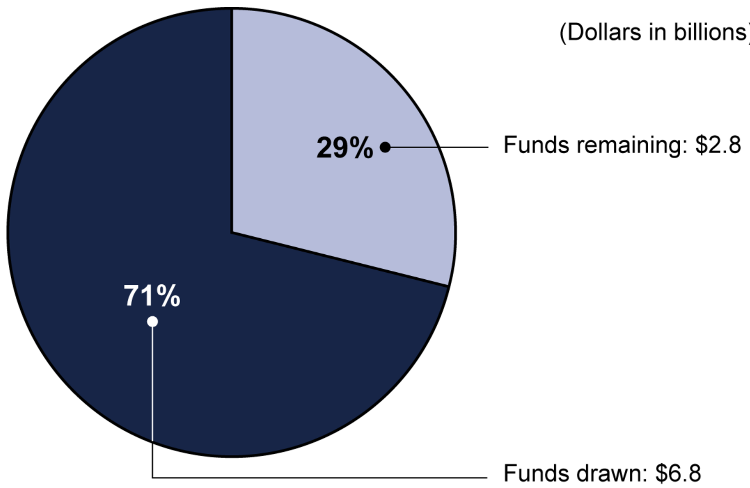
The Department of the Treasury (Treasury) established the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund) in February 2010 to help stabilize the housing market and assist homeowners facing foreclosure in the states hardest hit by the housing crisis. States selected for funding had unemployment rates at or above the national average or had housing price declines of 20 percent or more that left some borrowers owing more on their mortgages than their homes were worth. State housing finance agencies, which are state-chartered authorities established to help meet affordable housing needs, were allocated funds to help unemployed homeowners and others affected by house price declines.

As of December 2016, the Hardest Hit Fund remained active. Treasury had obligated a total of $9.6 billion to help borrowers in 18 states and the District of Columbia (each referred to as a "state") as of October 31, 2016. As of the same date, states had drawn approximately $6.8 billion (about 71 percent) of the funds (see fig. 4). As of September 30, 2016, the states had assisted 280,866 homeowners. Treasury had allocated all of the original $7.6 billion Hardest Hit Fund program funds among the states by September 2010. In December 2015, Congress extended Treasury's authority to commit Troubled Asset Relief Program (TARP) funds to the Hardest Hit Fund to December 31, 2017, for current program participants and authorized Treasury to obligate up to $2 billion of additional TARP funds to the Hardest Hit Fund.[1] Treasury announced in February 2016 that it would allocate an additional $2 billion, and by June 2016, Treasury had obligated the funds to the states. States have until December 31, 2021, to disburse their funds.[2]

[1]See Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Div. O, tit. VII, § 709(a), 129 Stat. 2242, 3030 (2015).

[2]Participating states submit requests to Treasury to draw their funds under the Hardest Hit Fund.

Figure 4: Hardest Hit Fund Program Funds Drawn and Remaining as of October 2016



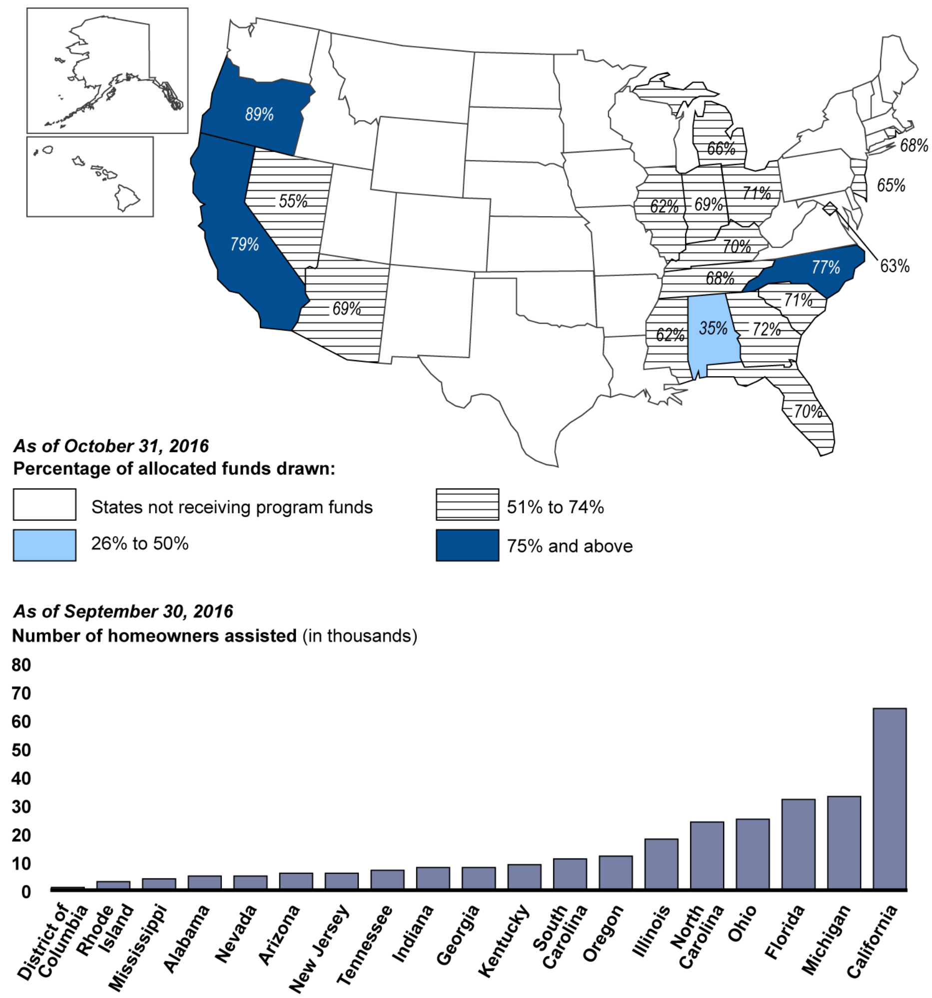
Source: GAO analysis of the Department of the Treasury's Monthly Report to Congress for the Troubled Asset Relief Program. | GAO-17-236

States operated a total of 80 different programs under the Hardest Hit Fund, as reported by Treasury in October 2016. Each state can have multiple programs. The type of assistance provided has varied by state, but all the states have used some of the program funds to help unemployed homeowners make mortgage payments. Some states have principal reduction programs to help make mortgage payments more affordable, reduce or eliminate borrowers' second liens, facilitate short sales, and provide transition assistance to borrowers leaving their homes.

As of October 31, 2016, California, North Carolina, and Oregon had each drawn more than 75 percent of their allocated funds (see fig. 5). Alabama had drawn approximately 35 percent. In February 2016, Treasury announced drawdown thresholds for states receiving funds from the additional $2 billion Hardest Hit Fund allocation. States that do not meet the thresholds will have their funds reallocated to other states that meet the thresholds. For example, a state that receives additional funds must use at least 70 percent of the original funds by the end of 2016 or the state must forfeit half of any additional funds.[3] Treasury officials stated that states have until December 31, 2021, to spend their full allocation of funds.

[3]Data on states' drawdowns of Hardest Hit Fund program funds for December 2016 were not yet available at the time of our review. Treasury reports on the participating states' use of Hardest Hit Fund program funds in its Monthly Report to Congress on TARP. The report for a given month is usually published in the following month. For example, the November 2016 report was published on December 9, 2016.

Figure 5: Hardest Hit Fund: Percentage of Funds Drawn by States andNumber of Homeowners Assisted



Sources: GAO analysis of the Department of the Treasury's Monthly Report to Congress for the Troubled Asset Relief Program and quarterly Hardest Hit Fund Performance Summary. | GAO-17-236

In two recent reports, the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) expressed concerns with respect to states' use of Hardest Hit Fund program funds and recommended that Treasury take steps to address such concerns.[4] Treasury officials told us in October 2016 that the agency is reviewing the SIGTARP recommendations and has met with officials of states' housing finance agencies to evaluate potential actions to improve the Hardest Hit Fund program. In a letter to Congress in October 2016, Treasury stated that it has processes to monitor states' use of Hardest Hit Fund program funds. For example, Treasury requires states to provide an annual independent verification of the effectiveness of internal controls related to the use of program funds. Treasury also conducted 85 on-site compliance reviews across the states from 2011 through September 2016. We will continue monitoring Treasury's implementation of the Hardest Hit Fund and its oversight of state programs.

[4]Office of the Special Inspector General for the Troubled Asset Relief Program, *Waste and Abuse in the Hardest Hit Fund in Nevada*, SIGTARP-16-004 (Washington, D.C.: Sept. 9, 2016) and *Treasury's HHF Blight Elimination Program Lacks Important Federal Protections Against Fraud, Waste, and Abuse*, SIGTARP-16-003 (Washington, D.C.: June 16, 2016).

Appendix III: FHA Short Refinance

The Department of the Treasury (Treasury) and the Department of Housing and Urban Development established the Federal Housing Administration (FHA) Short Refinance program in September 2010 to help stabilize the housing market and assist homeowners at risk of foreclosure. Specifically, this program enables underwater borrowers (those with properties that are worth less than the principal remaining on their mortgages) whose loans are current and not FHA-insured to refinance into an FHA-insured mortgage. Treasury has obligated Troubled Asset Relief Program (TARP) funds in case the agency must pay claims for losses on these loans.

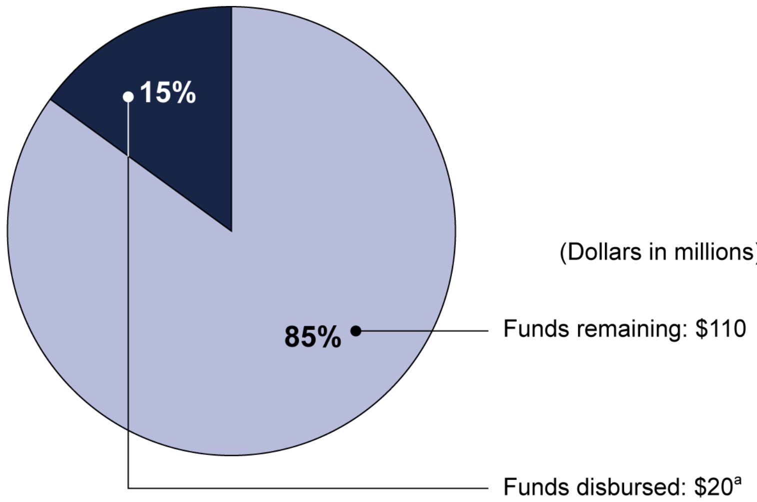
The FHA Short Refinance program allowed homeowners to refinance into FHA-insured mortgage loans through December 2016. In the event of a default on the refinanced loan, Treasury pays up to a certain percentage of the claim after FHA has paid its share. Treasury established a letter of credit facility with TARP funds to pay claims associated with this program.[1] Treasury will draw on the letter of credit to pay its share of claims through December 31, 2022.

As of October 31, 2016, Treasury had disbursed $20 million (about 15 percent) of the $130 million in funds obligated to support the FHA Short Refinance program (see fig. 6).[2] As of October 31, 2016, Treasury had paid $207,381 in claims under the program and provided loss coverage to 4,165 refinanced loans totaling almost $613 million that could require a Treasury contribution, according to Treasury. As of September 30, 2016, Treasury estimated that the lifetime costs of the program would be $20 million. Treasury officials said the agency will determine the maximum potential expenditures associated with the program and deobligate any excess funds by June 2017.

[1]As of September 30, 2016, Treasury had disbursed about $10.6 million in administrative expenses to establish and maintain the letter of credit facility and another approximately $10 million of reserve funds.

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

Figure 6: Federal Housing Administration Short Refinance Funds Disbursed and Remaining as of October 2016



Source: GAO analysis of the Department of the Treasury's Monthly Report to Congress for the Troubled Asset Relief Program. | GAO-17-236

[a]This includes about $10.6 million in administrative expenses and approximately $10 million of reserve funds, as of September 30, 2016. The reserve funds are on deposit with Citibank, N.A. to provide loss coverage for the program. Treasury will be reimbursed for unused reserve amounts from this Citibank account.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Daniel Garcia-Diaz, (202) 512-8678 or garciadiazd@gao.gov.

Staff Acknowledgments

In addition to the individual named above, Harry Medina (Assistant Director), Anna Chung (Analyst-in-Charge), Bethany Benitez, Lynda Downing, Farrah Graham, John Karikari, Dragan Matic, Marc Molino, Tovah Rom, and Karen Tremba made major contributions to this report.

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