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FORECLOSURE PREVENTION: IS THE HOME AFFORDABLE MODIFICATION PROGRAM PRESERVING HOMEOWNERSHIP?

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

MARCH 25, 2010

Serial No. 111–98

Printed for the use of the Committee on Oversight and Government Reform

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CONTENTS

	Page
Hearing held on March 25, 2010	1
Statement of:	
Allison, Herbert M., Jr., Assistant Secretary for Financial Stability, Department of Treasury	179
Barofsky, Neil M., Special Inspector General, Troubled Asset Relief Program; Gene L. Dodaro, Acting Comptroller General, Government Accountability Office; John Taylor, president and CEO, National Community Reinvestment Coalition; and Mark A. Calabria, Director of Financial Regulation Studies, CATO Institute	14
Barofsky, Neil M.	14
Calabria, Mark A.	100
Dodaro, Gene L.	74
Taylor, John	108
Letters, statements, etc., submitted for the record by:	
Allison, Herbert M., Jr., Assistant Secretary for Financial Stability, Department of Treasury, prepared statement of	181
Barofsky, Neil M., Special Inspector General, Troubled Asset Relief Program, SIGTARP report entitled, "Factors Affecting Implementation of the Home Affordable Modification Program,"	17
Calabria, Mark A., Director of Financial Regulation Studies, CATO Institute, prepared statement of	102
Dodaro, Gene L., Acting Comptroller General, Government Accountability Office, prepared statement of	76
Issa, Hon. Darrell E., a Representative in Congress from the State of California, prepared statement of	9
Taylor, John, president and CEO, National Community Reinvestment Coalition, prepared statement of	110
Towns, Hon. Edolphus, a Representative in Congress from the State of New York, prepared statement of	4
Watson, Hon. Diane E., a Representative in Congress from the State of California, prepared statement of	214

FORECLOSURE PREVENTION: IS THE HOME AFFORDABLE MODIFICATION PROGRAM PRESERVING HOMEOWNERSHIP?

THURSDAY, MARCH 25, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 10:08 a.m. in room 2154, Rayburn House Office Building, Hon. Edolphus Towns (chairman of the committee) presiding.

Present: Representatives Towns, Cummings, Kucinich, Clay, Watson, Lynch, Quigley, Kaptur, Norton, Davis, Van Hollen, Speier, Chu, Issa, Turner, McHenry, Bilbray, Jordan, Chaffetz, and Leutkemeyer.

Staff present: John Arlington, chief counsel/investigations; Beverly Britton Fraser and David Rotman, counsels; Brian Quinn, investigative counsel; Aaron Ellias and Peter Fise, staff assistants; Linda Good, deputy chief clerk; Katherine Graham, investigator; Adam Hodge, deputy press secretary; Carla Hultberg, chief clerk; Marc Johnson, assistant clerk; Jason Powell, counsel and special policy advisor; Jenny Rosenberg, director of communications, Christopher Sanders, professional staff member; Leneal Scott, IT specialist; Ron Stroman, staff director; Gerri Willis, special assistant; Lawrence Brady, minority staff director; John Cuaderes, minority deputy staff director; Rob Borden, minority general counsel; Frederick Hill, minority director of communications; Adam Fromm, minority chief clerk and Member liaison; Kurt Bardella, minority press secretary; Stephanie Genco, minority press secretary and communication liaison; Seamus Kraft and Benjamin Cole, minority deputy press secretaries; Christopher Hixon, minority senior counsel; Hudson Hollister, minority counsel; and Brien Beattie, minority professional staff member.

Chairman TOWNS. The committee will come to order.

Good morning. Thank you for being here.

There are some small signs that the Nation as a whole is beginning to emerge from the worst economic crisis since the Great Depression, but it is way too early to declare victory. Unemployment is still sky high and the home foreclosure crisis is growing unabated. For the homeowner who is underwater, the economic crisis certainly is not over. When you are behind in your mortgage payments, when the bank starts calling you each and every day, when you lie awake at night wondering how are you going to ex-

plain to your children that you must move, you can start to feel like you really are drowning.

Too many people know this feeling. Last year 2.8 million households received a notice of foreclosure. Almost 4 million homeowners are late on their mortgage payments by 90 days or more as this discussion is moving forward. And the problem is predicted to get worse. As many as 2.4 million people could lose their homes by foreclosure by the end of this year.

To its great credit, the Obama administration recognized early on that an important part of the Nation's economic recovery is keeping as many people as possible in their homes. This makes sense from both an economic standpoint and a public policy standpoint. The Home Affordable Modification Program [HAMP], is a central piece of Treasury's effort to carry out that objective, but a year after the creation of HAMP, only 170,000 households have received permanent mortgage modifications. This appears to be extremely low.

We continue to hear numerous reports of borrowers who want to participate in HAMP but just don't know where to begin. If they do begin, they often encounter unresponsive lenders, repeated incidents of lost paperwork, phone calls not being returned, and a variety of other administrative frustrations.

To make matters worse, there is evidence that some vulnerable homeowners, desperate to obtain help, are falling victims to foreclosure rescue scams. Instead of obtaining housing assistance for free through a legitimate housing counselor, these homeowners are being fleeced by scam artists posing as professionals.

In addition, a new survey by the National Community Reinvestment Coalition provides evidence that minorities, particular African Americans, may be less likely to receive a mortgage modification under HAMP and are more likely to be foreclosed on. This is just not acceptable.

Moreover, this problem is compounded by the fact that HAMP still does not have a clear process by which a homeowner can appeal a denial of his or her application.

These problems are reflected in the program's results as reported by Treasury and SIGTARP. The Mortgage Bankers Association says that HAMP and other Government programs have made significant strides in stabilizing the housing financing systems and have assisted many people who otherwise would have lost their homes, but clearly we need to do a whole lot better.

There can be legitimate debate over the numerical goals of the HAMP program, but the central issue we need to understand is why fewer than 200,000 homeowners have obtained so-called permanent modifications under the HAMP program and what we can do to increase the number.

We cannot afford a lot of time to study the problem. We need to have a sense of urgency. For those homeowners who are already behind in their mortgage payments, the wolf is at the door already. Losing your house is a traumatic event for families and it is a destabilizing event for our society. I think we have an obligation to extend a helping hand to responsible homeowners to help them get over the rough spots.

Today I would like to hear ideas as to how we can best make the mortgage modification program work. On this point I note that yes-

terday Bank of America announced that it was instituting a principle forgiveness solution for homeowners who are severely underwater. Bank of America should be congratulated for leading the way with this innovative proposal. We will be looking for ways to expand this approach and to include other banks.

Again I want to thank our witnesses for appearing today, and I look forward to hearing your testimony.

[The prepared statement of Hon. Edolphus Towns follows:]

Opening Statement of
Chairman Edolphus Towns

House Committee on Oversight and Government Reform

March 25, 2010

"Foreclosure Prevention: Is the Home Affordable Modification Program Preserving Homeownership?"

Good morning and thank you all for being here.

There are some small signs that the nation as a whole is beginning to emerge from the worst economic crisis since the great depression. But it is way too early to declare victory yet. Unemployment is still sky high and the home foreclosure crisis is growing unabated.

For the homeowner who is underwater, the economic crisis certainly isn't over. When you are behind in your mortgage payments, when the bank starts calling every day, when you lie awake at night wondering how you are going to explain to your kids that you have to move – you can start to feel like you really are drowning.

And too many people know what that feels like. Last year, 2.8 million households received a notice of foreclosure. Almost 4 million homeowners are late on their mortgage payments by 90 days or more.

And the problem is predicted to get worse. As many as 2.4 million people could lose their homes by foreclosure by the end of this year.

To its great credit, the Obama Administration recognized early on that an important part of the nation's economic recovery is keeping as many people as possible in their homes. This makes sense from both an economic standpoint and a public policy standpoint.

The Home Affordable Modification Program – known as "HAMP" – is a central piece of Treasury's effort to carry out that objective. But a year after the creation of HAMP, only 170,000 households have received permanent mortgage modifications.

We continue to hear numerous reports of borrowers who want to participate in HAMP, but just don't know where to begin. If they do begin, they often encounter unresponsive lenders, repeated incidents of lost paperwork, and a variety of other administrative frustrations.

To make matters worse, there is evidence that some vulnerable homeowners, desperate to obtain help, are falling victim to foreclosure rescue scams. Instead of obtaining housing assistance ***for free*** through a legitimate housing counselor, these homeowners are ***being fleeced*** by scam artists posing as professionals.

In addition, a new survey by the National Community Reinvestment Coalition provides evidence that minorities, particularly African Americans, may be less likely to receive a mortgage modification under HAMP, and are more likely to be foreclosed on. This is just not acceptable.

Moreover, this problem is compounded by the fact that HAMP still does not have a clear process by which a homeowner can appeal a denial of his or her application.

These problems are reflected in the program's results, as reported by Treasury and the SIGTARP.

The Mortgage Bankers Association says that HAMP and other government programs have made significant strides in stabilizing the housing financing system and have assisted many people who otherwise would have lost their homes. But clearly we need to do a lot better.

There can be legitimate debate over the numerical goals for the HAMP program. But the central issue we need to understand is why fewer than 200,000 homeowners have obtained so-called "permanent" modifications under the HAMP program and what we can do to increase that number.

We can't afford a lot of time to study the problem; we need to have a sense of urgency. For those homeowners who are already behind in their mortgage payments, the wolf is at the door.

Losing your house is a traumatic event for families and it is a destabilizing event for our society. I think we have an obligation to extend a helping hand to responsible homeowners to help them get over the rough spots. And today I would like to hear ideas as to how we can best make the mortgage modification program work.

Again, I want to thank our witnesses for appearing today, and I look forward to their testimony.

# # #

Chairman TOWNS. I will now yield to the ranking member from California, Congressman Darrell Issa, for his opening statement.

Mr. ISSA. Thank you, Mr. Chairman.

This hearing is critical and timely. As you said, Mr. Chairman, and I join you, Bank of America making a decision to reduce the principle down to the current value of the home is both in the homeowner's self-interest and their self-interest. As it was stated in the example this morning, a $250,000 home, reduced to its current value of perhaps $200,000, and the mortgage reduced to that allows the homeowner over 5 years to permanently shed that no-longer value, but ultimately to remain in a home that would otherwise be sold to someone else for $200,000 or less.

This is a win/win if the homeowner can, in fact, make the ongoing payments at a reasonable rate that is available on the market. It also allows people who were gimmicked or taken advantage of during the earlier time that find themselves in resetting loans, teaser loans, all the other examples we have heard, if they fit in this 49,000-person initial pilot program, as Bank of America is calling it, they will be converted to a conventional loan, one that has a long-term ability for the homeowner to plan and to pay.

Additionally, I might note that this plan from Bank of America, although not without pressure from other places, came without the assistance of the program we are speaking of today. It came perhaps out of frustration for the failures covered by the SIGTARP in its independent audits of HAMP.

Today, as we look at HAMP, we look at a promise of the President, a commitment by the President, a commitment broadly by the Congress in both parties that is not being kept.

Mr. Chairman, I would ask unanimous consent that the poster which was actually put up by the Special IG be up for the entire hearing, because it is, first of all, factual, and, second of all, I am sure that all Members will be referring to it.

Chairman TOWNS. Without objection.

Mr. ISSA. The projection of providing relief, not application, not promise, not hope, but relief for 3 to 4 million homeowners has neared a 96 percent failure. In 1 year's time, as the chairman said, approximately 170,000 homeowners have qualified for permanent loan modifications. Many of those have already re-defaulted.

But that is not the story that is most concerning to most of us at the dias, and particularly to this Member. What is concerning is the 1.3 million people who have applied and held out hope that they were going to get a modification. Today 1.1 remain. Doing my arithmetic, 170,000 were put into permanent modification, 30,000 were basically told that they probably were never good candidates, and after months of waiting find themselves without a loan and without hope.

But beyond that, people have waited 3, 5, 6, now as long as 9 months with an open end to get an answer. That has simply caused the volume to swell of people who are making payments in hopes that it will lead to a solution when, in fact, it appears as though a great many of them should be looking for more affordable alternate housing, should be planning for that, and should be given the opportunity to make those plans with certainty.

Mr. Chairman, both you and I have had home loans over the years, and we would be outraged if our application with our income and other information were not accepted within days of our contacting a loan officer. More importantly, we would be outraged if we were not answered within days or weeks as to whether or not at least preliminarily we qualify. Most of us have had pre-qualifications from banks and other lending institutions. Banks and lending institutions, without Government assistance or interference, normally can do this in a short period of time.

Clearly, this program has done just the opposite. It has created huge periods of uncertainty, perhaps well intended. We need to make a change.

If I could roll this video very quickly of the President so we are all reminded of the promise and what the charge is for all of us under the HAMP program.

[Videotape presentation.]

Mr. ISSA. Ladies and gentlemen, it is the opinion of this ranking member that this is a mandate of our President. It is a program that, whether you voted for the TARP or not, must be made to work, and must be made to work dramatically better than it currently is.

With that, Mr. Chairman, I would like to thank you for the opportunity of an opening statement and yield back.

[The prepared statement of Hon. Darrell E. Issa follows:]

EDOLPHUS TOWNS, NEW YORK
CHAIRMAN

DARRELL E. ISSA, CALIFORNIA
RANKING MINORITY MEMBER

ONE HUNDRED ELEVENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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Statement of Rep. Darrell Issa, Ranking Member

"Foreclosure Prevention: Is the Home Affordable Modification Program Preserving Homeownership?"

March 25, 2010

Thank you, Mr. Chairman, for holding this hearing about the failure of the Obama administration's signature effort to mitigate home foreclosures and stabilize the U.S. housing market, which has now seen new U.S. home sales drop to a record low.

The evidence is clear: HAMP has failed. One year ago, the Administration told 4 million American homeowners that the Treasury Department would help them keep their homes. As of last month, the program had underperformed the Administration's projections by almost 96%. According to Treasury's own numbers, less than one-third of all temporary modifications have been successfully converted into permanent status.

Remarkably, the Administration has consistently asserted that HAMP is "on track to meet the president's goals." Yet at the rate HAMP is working, the President's goals should be met about the time his grandchildren are purchasing their first home.

One of today's witnesses, the independent Special Inspector General for TARP, Neil Barofsky, has done a commendable job monitoring the waste evident in the Administration's mortgage modification programs, and other programs that have spent nearly $1 trillion dollars of taxpayer money on frenzied experiments in government intervention.

Moreover, Mr. Barofsky's report – released this week -- further substantiates the staff report Ranking Member Jordan and I released last month, entitled "Treasury Department's Mortgage Modification Programs: A Failure Prolonging the Economic Crisis."

The SIGTARP report reveals that the Administration's experiments, rather than helping homeowners, are harming them. Millions of homeowners are now at substantial risk of "re-defaults" because the President's economic team continues to press deeply flawed programs.

Treasury's monthly HAMP reports are forever changing metrics, rearranging tables, and altering graphics. Meanwhile, Treasury has extended an unlimited line of credit to Fannie Mae and Freddie Mac and paid millions of dollars to Freddie Mac for HAMP work. Additionally, Freddie Mac and Fannie Mae had devoted hundreds of employees and nearly $57 million in outside "no-bid" contracts to the program, reflecting the systemic collusion between the Administration and the two worst players in the housing crisis.

Mr. Chairman, this hearing provides us an opportunity for truly bipartisan oversight. Ultimately, our commitment is to represent the American people – not any program, or policy, or political party. When government fails to meet its objectives in serving the people, we should work diligently to correct it. When government goes beyond a failure and actually does harm to the American people – as is the case with the HAMP program – we have the responsibility to expose it for what it is.

Only then, Mr. Chairman, can we secure a long-term economic recovery built on sound economic principles that recognize – among other things – the need for a readjustment in the housing market that, although painful in the short term, is preferable to the results we are now experiencing from the HAMP failure.

Billions of taxpayer dollars have already been wasted on HAMP, and together we can stop the hemorrhaging and deliver a stern reproof to this Administration – or any Administration – that cares more about manufacturing a phony success than about implementing policies that actually work for the American people.

Thank you.

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Chairman TOWNS. I would like to thank the gentleman, ranking member, for his statement.

I would like to yield 3 minutes to the gentleman from Baltimore, Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Mr. Chairman, I am very glad that you called this hearing and I am looking forward to hearing from today's witnesses, and not only because it is an issue, the issue of foreclosure is an issue that affects every one of our districts, but also because we have an impressive group of witnesses before us, each of whom could occupy a hearing unto themselves.

I particularly want to thank John Taylor, President and CEO of the National Community Reinvestment Coalition. NCRC is not only bringing dedicated and passionate people together to ensure that public policy functions for the public, but also boasts an extremely talented group of policy professionals who provide this Congress with invaluable assistance.

I was privileged to briefly address NCRC's annual conference earlier this month, and, as always, I came away inspired by their dedication to a cause greater than themselves.

President Obama arrived at the White House last January facing an economic climate unlike that inherited by almost any other President before him. As a response, his administration has aggressively worked to not only stabilize the financial markets, but also to ensure that recovery is not limited to Wall Street and reaches all of our communities.

The Home Affordable Modification Program was designed to make mortgage payments reasonable for homeowners who were caught in the economic downturn; however, a confluence of factors has rendered the program far less effective than we or President Obama would have imagined or hoped.

Unemployment, a punctured home price bubble, and restricted access to credit only exacerbated certain flaws in the HAMP process. Today's hearing will reveal hard truths about the design and the execution of HAMP. For that reason, this hearing is critical, Mr. Chairman, and is a critical component in our role of ensuring that Government operations function with the highest level of effectiveness and efficiency. We must set aside our preconceived notions about these policies, good or bad, and conduct an honest evaluation of whether this program is accomplishing as much as is absolutely required to get our constituents through this difficult storm.

I have often said, Mr. Chairman, that we are the greatest country in the world. This is the greatest country in the world, and we will get through this storm. The question is not whether we will get through the storm; the question is: who will be living in your house after the storm is over? Who will have your job after the storm is over? Will you still have your health care and your health and will your children be able to have gone to college after the storm is over? That is the question.

So I thank you again, Mr. Chairman, and I look forward to hearing from our witnesses.

With that, I yield back.

Chairman TOWNS. I thank the gentleman for his statement.

I now yield 3 minutes to the gentleman from Ohio, Mr. Jordan, who is the ranking member of the subcommittee.

Mr. JORDAN. Thank you, Mr. Chairman, for holding today's hearing. As you know, the Domestic Policy Subcommittee has held three hearings on the foreclosure problem, and I appreciate the full committee's attention to this important issue.

Despite the commitment of $75 billion of taxpayer money, the American people continue to suffer from the rising tide of foreclosures, which hit an all-time high last month. The ranking member and I have continued to point out the failure of Treasury Department's technocratic tinkering to alleviate this problem and the administration's efforts to disguise the failure of their programs from the public. Despite this unprecedented commitment of taxpayer resources, a recurring theme in this administration, the problem of foreclosure has not been solved, and in many ways it is worse than ever.

The ranking member and I have pointed out Treasury's efforts to move the goal posts in an attempt to avoid accountability for its failure by redefining success. First, Treasury told us that their goal was 3 to 4 million mortgage modifications—in fact, we just heard the President say that himself—that would "help keep Americans in their homes" in a way that is "sustainable over the long term."

Then, last month, a Treasury official told the committee that the administration's goal was actually mere offers of temporary mortgage modifications. An offer of temporary modification doesn't provide anybody sustainable help and is actually hurting many homeowners by giving them false hope and encouraging them to devote hard-earned resources to mortgages that will ultimately end up defaulting anyway.

As I have argued before, Mr. Chairman, delaying foreclosure does not help the many Americans who are fighting to keep their jobs or find new ones. Delayed foreclosures only serve to prolong their economic hardship, drain them of much-needed resources, and defraud them of opportunities to find more-affordable housing options.

The Obama administration is once again failing to live up to its promises of transparency and accountability. In light of this issue, I was especially interested to read the recent audit of HAMP released by the independent Special Inspector General for TARP, which confirmed many of our previous findings about the Treasury Department's actions.

If the Bush administration and the Democratic Congress did anything right in the bailouts of 2008, it was establishing the Office of the SIGTARP and putting Mr. Barofsky in place as an independent watchdog over these programs. I applaud his efforts and his staff's efforts for once again courageously exposing the waste of taxpayer resources and the lack of transparency in the Treasury Department.

As the SIGTARP explains in his audit, the foreclosure problem facing the country today is reflective of the larger economic and employment problems facing the American people. Without a job, it is almost impossible for any American to afford any mortgage payment. The American people deserve jobs and an economic recov-

ery, which this administration continues to deny them through anti-growth, big Government, interventionist economic policies.

The only viable long-term solution to keep more Americans in their homes and in their jobs, for that matter, is a broad-based economic recovery built on the foundation of free markets, fiscal responsibility, and limited Government that has made our Nation strong and prosperous for more than 200 years.

Thank you again, Mr. Chairman, for calling this hearing. I look forward to hearing from today's witnesses.

Chairman TOWNS. I yield to the gentleman.

Mr. ISSA. Thank you, Mr. Chairman. As we previously discussed, I have a letter here respectfully requesting that this committee do as it has done in the past and thoroughly investigate a form of voter intimidation, the attacks and threats against Members of Congress that have been occurring since the vote on the health care debate.

Chairman TOWNS. First of all, let me thank the gentleman for his interest in that. Of course, I must say I have an interest in it too, because I think that threats coming from any place is something that we need to make certain that we do everything we can to prevent, and this committee actually is the committee that really would have the jurisdiction over that.

So I am not sure in terms of how we would frame it, but I am interested in it and I will ask staff to look into it and see, in terms of what we would do, because it is such a broad area. But here, again, I want you to know that I am interested in it and we will talk further as to how we might be able to pursue it.

Thank you for your interest.

Mr. ISSA. Thank you, again, for your bipartisan support, Mr. Chairman.

Chairman TOWNS. We will now turn to our first panel of witnesses.

It is a longstanding policy that all witnesses are sworn in, so please stand and raise your right hands.

[Witnesses sworn.]

Chairman TOWNS. Let the record reflect that all witnesses answered in the affirmative.

You may be seated.

Let me just say before we get started and before I introduce our witnesses, this is a very serious situation. People are losing their life's earnings in their homes. They have paid on it. They have put their money in. Now all of the sudden they are being asked to leave because of the fact that they are having difficult making payments.

We have here an example of the problems that people are encountering. Where are those boxes of keys? Where are they? I just want to show them to let you know how serious this matter is and how many lives are being affected by it. I have this whole big thing of keys here that I just want to show you, but we will move back and do that a little later. It is coming in now. These are keys of people in many instances that lived in their house. Now the house is being foreclosed, and these keys have been collected. This is a disgrace. We are a better country than this. We can do better than this.

So we are having this hearing today to see what we can do to turn this around. This is just too much to take. The families are being destroyed, children are being moved from place to place because of the fact the mortgage is not being paid, and a lot of them, if they could get modifications, they would be able to work it out. They just need a little support, need a little help, or we would be where the gentleman from Maryland indicated they will be out of the house and somebody else will be in it, but the houses will be filled. That is the sad part. People who have given so much of their lives and then now are being thrown out.

Thank you very much. I just wanted to show that.

The Honorable Neil Barofsky is here today as the Special Inspector General for the Troubled Asset Relief Program. As the principal overseer of the TARP, Mr. Barofsky is responsible for conducting audits and investigations related to the hundreds of billions of dollars flowing through Treasury to rescue our troubled economy. Included in those dollars is the funding of HAMP. Today, Mr. Barofsky will present findings and recommendations based on his audit of HAMP.

We welcome you, Mr. Barofsky.

The Honorable Gene Dodaro is the Acting Comptroller General of the United States and the head of the Government Accountability Office. GAO has conducted an ongoing review of HAMP. Today Mr. Dodaro will present an update on the activities of HAMP to date, as well as the preliminary findings of GAO's current evaluation of loan servicers' implementation of that program.

Welcome, Mr. Dodaro.

We have also with us Mr. John Taylor. Mr. Taylor is the president and CEO of the National Community Reinvestment Coalition. Today, Mr. Taylor will present the findings of NCRC's investigation of foreclosure rescue scams, as well as the result of a survey of distressed borrowers seeking assistance from HAMP.

Welcome, Mr. Taylor, for being here.

And, of course, we also have with us Mr. Calabria, who is the director of final regulation studies at the Cato Institute.

We are delighted to have all of you here. Why don't we start with you, Mr. Barofsky, and then we will just come right down the line.

STATEMENTS OF NEIL M. BAROFSKY, SPECIAL INSPECTOR GENERAL, TROUBLED ASSET RELIEF PROGRAM; GENE L. DODARO, ACTING COMPTROLLER GENERAL, GOVERNMENT ACCOUNTABILITY OFFICE; JOHN TAYLOR, PRESIDENT AND CEO, NATIONAL COMMUNITY REINVESTMENT COALITION; AND MARK A. CALABRIA, DIRECTOR OF FINANCIAL REGULATION STUDIES, CATO INSTITUTE

STATEMENT OF NEIL BAROFSKY

Mr. BAROFSKY. Thank you, Chairman Towns, Ranking Member Issa, members of the committee. It is a privilege to appear once again before you to testify and to present our most recent audit on the HAMP program.

I would like to thank this committee for its support of our office and the leadership and tenacity that you have shown in bringing transparency and accountability to the HAMP program.

The program was announced more than a year ago, and, as Treasury has acknowledged, the results have been disappointing, with fewer than 200,000 mortgages being permanently modified. In order to assess the success of a program, however, one must start, with any Government program, with what it set out to do. What were its goals? Who was it meant to help?

Unfortunately, with respect to the HAMP program, even this preliminary step has been a challenge. When the program was first announced, Treasury described it as a program designed to help 3 to 4 million homeowners by modifying their mortgages to a sustainable level so they could stay in their homes. If this was the goal, absent some unexpected or unanticipated change in circumstances, it will not be met. As a Treasury official acknowledged to us, it is estimated that half of that amount will occur, 1½ to 2 million permanent modifications.

Now, Treasury has consistently told us throughout this audit, and it is borne out by statements that Treasury made back last year in March, that its goal wasn't for permanent modifications 3 to 4 million, it was to make 3 to 4 million offers for temporary or trial modifications, and it may well be that the program is on pace to meet that goal. However, as we detail in our audit report, we believe that this goal is essentially meaningless.

This program's success will be defined and must be defined as it was justified to the American people: how many people will receive permanent modifications and get to stay in their homes as a result of this program? And it is unclear at this point what that number may be.

One thing that is certain: it will be extremely difficult or impossible, until Treasury puts out its number of what its estimate is and what its goal is for permanent modifications for it to be able to honestly and accurately assess the success of the program and, far more importantly for today's purposes, to make the necessary changes so they can meet those goals.

We believe that it is unacceptable that 1 year into this program Treasury has still failed to identify what its goal is for the number of permanent modifications to actually help people stay in their homes.

There have been some successes. Treasury has signed up more than 110 servicers, getting 90 percent coverage, and has built an infrastructure for this program. But, as we detail in this audit, the disappointing number is a result of some mistakes, been plagued by certain errors. Servicers have complained to us about the constant changes in program guidance from Treasury, documentation requirements, even to the net present value test, which is the computer model that Treasury prepared that was intended so that the servicers could know whether or not a mortgage is appropriate for it to be modified or not. These types of changes have contributed the problems with the program.

Similarly, we have noted problems with the result of Treasury pushing and at times pressuring servicers to do verbal trial modifications; that is, putting mortgages temporarily into the program based only on the word, the verbal statements of a borrower, without getting verified documentation of income. This problem has led to—we have found it to be essentially counter-productive. It has led

to a huge backlog of trial modifications. Importantly, it has diverted scarce resources that could otherwise be devoted to permanently converting modifications, and perhaps worst of all it may have actually harmed the people this program was intended to help, borrowers who were put into hopeless modifications with no chance to succeed.

We have also learned about dangers about re-default, and that is when borrowers who get permanent modifications but are unable to continue because either the payments that they have are still unaffordable or because they are too hopelessly underwater to be able to continue or decide not to continue to make payments.

We recommended to Treasury to reassess the vulnerability to re-default, lest billions of taxpayer dollars be lost supporting mortgage modifications that will be doomed to failure. Regrettably, Treasury has not adopted this recommendation.

On a final note, Mr. Chairman, to address your point about mortgage modification fraud, it is a significant and widespread problem. SIGTARP alone, we have two dozen criminal investigations ongoing into these frauds.

I am pleased to announce that we have had a recent success. Last summer we worked with the FTC to shut down one of these frauds, and this week I am very pleased to announce that two of the principals of that fraud, Glen Risofsky and Michael Trapp, SIGTARP agents working with our partners at IRS secured criminal charges that were filed against them in California that will hold them accountable for the more than $1 million fraud that they executed.

Chairman Towns, Ranking Member Issa, members of the committee, thank you for hearing my testimony today. I do look forward to answering any questions that you may have. Thank you.

[The SIGTARP report entitled, "Factors Affecting Implementation of the Home Affordable Modification Program," follows:]

FACTORS AFFECTING IMPLEMENTATION OF THE HOME AFFORDABLE MODIFICATION PROGRAM

SIGTARP-10-005
MARCH 25, 2010

SIGTARP

Office of the Special Inspector General for the Troubled Asset Relief Program

Summary of Report: SIGTARP-10-005

Why SIGTARP Did This Study

In response to millions of families potentially facing foreclosure in the next several years, on February 18, 2009, the President announced the Making Home Affordable ("MHA") program to assist struggling homeowners. As part of this effort, on March 4, 2009, the U.S. Department of the Treasury ("Treasury") announced the $75 billion Home Affordable Modification Program ("HAMP") to assist homeowners by lowering their monthly payments through mortgage modifications. Of the $75 billion allocated for HAMP, $50 billion comes from the Troubled Asset Relief Program ("TARP") to modify privately-owned mortgages. More than a year after announcement of the program, disappointing results have raised questions about program effectiveness.

This report addresses (1) HAMP's status and whether the program has met participation goals thus far and (2) what challenges have confronted and continue to confront Treasury in implementing the program. To complete our audit, SIGTARP reviewed HAMP policies, procedures, and marketing materials of Treasury, Fannie Mae, Freddie Mac, and a sample of five servicers performing modifications and interviewed officials at those organizations. This audit focuses only on Treasury's performance, and not that of the servicers. Our work was performed in accordance with generally accepted government auditing standards.

What SIGTARP Recommends

SIGTARP recommends that Treasury (a) prominently disclose its goals for how many homeowners will actually be helped through permanent modifications and track performance against those goals; (b) set goals for other performance metrics and report performance against those goals; (c) undertake a sustained public service announcement campaign as soon as possible both to reach additional borrowers that could potentially be helped by the program and to arm the public with complete, accurate information about the program; (d) reconsider its decision to allow servicers to substitute alternative forms of income verification, and (e) re-examine the program's structure to ensure that the program is adequately minimizing the risk of re-default.

In commenting on a draft of this report, Treasury stated that it concurred with SIGTARP's first three recommendations and non-concurred with the last two recommendations. A fuller discussion of Treasury's response is contained in the *Management Comments and Audit Response* section of this report.

March 25, 2010

Factors Affecting Implementation of the Home Affordable Modification Program

What SIGTARP Found

When HAMP was launched in the first few months of 2009, Treasury justified the program by stating that it would "help up to 3 to 4 million at-risk homeowners avoid foreclosure," and that it would do so "by reducing monthly payments to sustainable levels." Notwithstanding this laudable aspiration that the program would *actually help* 3 to 4 million homeowners avoid foreclosure, Treasury has stated its 3 to 4 million homeowner goal is not tied to how many homeowners actually receive sustainable relief and avoid foreclosure, but rather that 3 to 4 million homeowners will receive *offers* for a trial modification. Measuring trial modification offers, or even actual trial modifications, for that matter, is simply not particularly meaningful. The goal that should be developed and tracked is how many people are helped to avoid foreclosure and stay in their homes through permanent modifications. Transparency and accountability demand that Treasury establish goals that are meaningful, and that it report its progress in meeting such meaningful goals on a monthly basis. Continuing to frame HAMP's success around the number of "offers" extended is simply not sufficient.

A year into the program, although more than a million trial modifications have been initiated, the number of permanent modifications thus far, 168,708, has been, even according to Treasury, "disappointing." One Treasury official's current estimate for how many permanent modifications will result from HAMP — 1.5 to 2 million over the course of the four-year program — may be only a small fraction of the total number of foreclosures that will occur during that period. It is the current projected estimate of permanent modifications (and not Treasury's still repeated 3 to 4 million figure) that should inform the debate on whether HAMP is worth the resources being expended or whether the program needs to be re-vamped to actually help more borrowers.

There are several reasons that have been identified for the disappointing results: (a) program rules had not been fully developed by the time the program began, and Treasury has had to revise guidelines repeatedly, causing confusion and delay; (b) Treasury's decision to permit servicers to start trial modifications before receiving supporting documentation has been counterproductive, creating a large backlog of trial modifications, of which many will never become permanent; and (c) Treasury's marketing efforts thus far have been limited, with an inexplicable absence of its own television public service announcements a year into the program.

Looking forward, even if HAMP results in the estimated 1.5 to 2 million permanent modifications, the program will not be a long-term success if large amounts of borrowers simply re-default and end up facing foreclosure anyway. Several aspects of HAMP's design make it particularly vulnerable to re-defaults. First, a borrower's non-mortgage debts (which could prevent a homeowner from staying current on even modified mortgage payments) are neither factored into the modified payment calculation nor will they exclude borrowers from participating in HAMP. Second, borrowers may be unable to meet the increasing monthly payments if their income has not increased commensurate with the interest rate adjustments that begin once the five-year modification period is concluded. Third, even if borrowers receive a HAMP permanent modification on their first lien, for the estimated 50 percent of at-risk borrowers, the total monthly mortgage payments might still be unaffordable if the second lien is not also modified or extinguished; only recently has Treasury been able to sign up servicers to Treasury's second lien program. Finally, given the prevalence of negative equity in mortgages eligible for modification, re-defaults resulting from negative equity, including strategic defaults, may be a factor as borrowers decide that it makes more economic sense for them to walk away from their mortgages notwithstanding the lower payments.

Table of Contents

Introduction	1
The Number of Permanent Modifications Entered Into During HAMP's First Year Has Been Below Expectations	8
Several Issues Relating to HAMP Implementation Have Posed Challenges to HAMP Participation, in Particular to Converting Trial Modifications into Permanent Modifications	18
Conclusions and Recommendations	29
Management Comments and Audit Response	35
Appendices	
A. Scope and Methodology	36
B. HAMP Stakeholders	39
C. Net Present Value Test Guidance	42
D. Acronyms	46
E. Audit Team Members	47
F. Treasury's Comments	48

FACTORS AFFECTING IMPLEMENTATION OF THE HOME AFFORDABLE MODIFICATION PROGRAM

SIGTARP REPORT 10-005 **MARCH 25, 2010**

Introduction

Home foreclosures can have a devastating impact not only on the families losing their homes, but also on the communities affected and on mortgage lenders. Families can potentially face economic challenges and homelessness after losing what is typically their most important asset and investment; communities suffer from the downward drag on property values that vacant, foreclosed-upon houses represent; and mortgage lenders and investors not only lose their receipt of monthly house payments but are often left with the difficult choice of selling the home at fire sale prices or incurring substantial maintenance expenses. Unfortunately, these negative effects have been widely felt during the current financial crisis, with foreclosures in many areas of the country reaching historic proportions. More than two million homeowners received foreclosure filings in 2008; nearly 2.8 million homeowners received foreclosure filings in 2009, and millions more are expected in 2010, with some estimates predicting that the number will eclipse the already staggering 2009 number.

With the foreclosure crisis as background, Congress made foreclosure mitigation an express part of the Emergency Economic Stabilization Act of 2008 ("EESA"), the statute that created the Troubled Asset Relief Program ("TARP"). Among other things, preserving homeownership is an explicit purpose of EESA, and "the need to help families keep their homes and to stabilize communities" is one of the considerations that the Secretary of the Treasury must take into consideration in exercising his authorities under EESA.

In February 2009, the United States Department of the Treasury ("Treasury") announced several home preservation initiatives under the broad Making Home Affordable ("MHA") program, including the Home Affordable Modification Program ("HAMP"). HAMP is a $75 billion program that includes $50 billion from TARP for the modification of privately-owned mortgage loans. More than a year has now passed since HAMP was announced, and this audit examines the program's status and limited successes thus far. This report is a review of the actions Treasury has taken to implement HAMP and is not an audit of servicers. The information garnered from our conversations with servicing officials was used as supplemental information to further inform our assessment of HAMP's status and challenges.

Objectives

The objectives of this audit are to determine the status of HAMP and what challenges have been faced in HAMP's implementation. Specifically, we will answer the following questions:

What is the status of HAMP, and has the program met its goals for participation thus far?

What challenges have confronted and continue to confront Treasury in implementing the program?

SIGTARP will issue separate reports on HAMP's internal controls and on servicers' compliance with Treasury's net present value test, and will soon announce additional audit work on HAMP's compliance program.

For a discussion of the audit scope and methodology and a summary of prior coverage, see Appendix A. For a description of HAMP stakeholders' roles and responsibilities, see Appendix B. For a description of how the HAMP net present value test model has changed over the course of the program, see Appendix C. For definitions of acronyms used in this report, see Appendix D. For a list of audit team members, see Appendix E. For management comments, see Appendix F.

Background

HAMP is designed to encourage loan servicers to modify eligible mortgages so that the monthly payments of homeowners who are currently in default or are in imminent risk of default will be reduced to affordable levels. Loan servicers are not required to participate in the program, but HAMP encourages servicers to make such modifications by sharing some of the costs associated with the modification and by making incentive payments based upon successful modifications. Once servicers sign a Servicer Participation Agreement, servicers are required to offer HAMP modifications to all eligible borrowers.

Treasury signed fiscal agent agreements with the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") to act as Administrative Agent and Compliance Agent, respectively, for HAMP. In addition, Fannie Mae and Freddie Mac are required to modify eligible mortgages that they own or guarantee. The Administration estimated, at the time HAMP was announced in February 2009, that the cost to Fannie Mae and Freddie Mac of modifications of loans they own or guarantee could be up to $25 billion.

Actual execution of the program lies in large part with participating mortgage servicers whose employees are responsible for the offering and processing of modifications. As of the end of January 2010, 110 servicers signed agreements to participate in the privately-owned mortgage portion of HAMP with servicer success and performance varying. Other entities have additional roles and responsibilities for implementing HAMP. See Appendix B for the key HAMP stakeholders and descriptions of their roles and responsibilities.

This background section briefly describes (a) HAMP's eligibility requirements, (b) the basic structure of how the terms of modifications are determined, (c) the incentive payment structure, and (d) other programs that facilitate or operate in lieu of HAMP modifications.

HAMP Eligibility

One financial eligibility requirement under HAMP is that a borrower must either be in default of his or her loan — 60 or more days late on their mortgage payments — or be at risk of imminent default. Risk of imminent default is defined as a borrower who is current on his or her mortgage payments, or is less than 60 days delinquent but faces the possibility of future default because of a change in financial circumstances, such as through an interest rate reset, unemployment, or some other reason that has made it difficult for the homeowner to continue meeting his or her monthly payments at the existing level. In addition to meeting these criteria, a borrower's mortgage must meet other eligibility criteria to receive a HAMP modification on his first lien.[1] Table 1 lists the additional eligibility criteria. Mortgages that have been securitized[2] may require modifications to be approved by investors and, as discussed briefly below, a separate program has been initiated to deal with second liens. Although not an eligibility criterion, any foreclosure action will be suspended during a trial period or during consideration for foreclosure alternatives. Foreclosure may resume if a modification effort fails.

Table 1—Additional Criteria Used to Determine if a Mortgage is Eligible for a HAMP Modification

Origination Date	Mortgage must have originated on or before January 1, 2009.
Qualification Terms	The home must be owner occupied and a single family 1-4 unit property with a maximum unpaid principal balance of: • 1 unit – $729,750 • 2 unit – $934,200 • 3 unit - $1,129,250 • 4 unit - $1,403,400 The home must be the borrower's primary residence. The home may not be investor-owned. The home may not be vacant or condemned. Borrowers in bankruptcy are not automatically eliminated from consideration. Borrowers in active litigation regarding the mortgage may qualify without waiving their legal rights.

Source: Home Affordable Modification Program Guidelines, March 4, 2009.

If a mortgage meets these eligibility criteria, the servicer will undertake a "net present value test" to determine whether it will modify the mortgage, seek a foreclosure alternative, or pursue

[1] A lien is a form of security interest granted over an item of property to secure the payment of a debt or performance of some other obligation. The first lien takes priority over all other encumbrances over the same property.

[2] Securitization is a process where financial assets are packaged together into securities that are sold to investors. A mortgage pooling and servicing agreement describes how pooled loans will be serviced and dictates how proceeds and losses will be distributed among bondholders. Some agreements limit or prevent servicers from making modifications to mortgages. For a more detailed description of securitization, see SIGTARP's April 21, 2009 Quarterly Report to Congress, with the discussion beginning on page 92.

foreclosure. Several loan characteristics are input into Treasury's net present value model, with a resulting positive or negative numeric value. These inputs include the location of the home, the value of the mortgage, the homeowner's credit score, the homeowner's front-end debt-to-income ratio, and the loan's delinquency status. Participating servicers are required to offer a HAMP modification to a borrower qualifying for a modification based on the other program criteria if the model generates a positive value, which indicates that it is economically advantageous to modify the loan; *i.e.*, the modification will cause less loss to the owner of the mortgage than proceeding with foreclosure.[3]

Modification Terms

Treasury made the decision, based on certain industry standards, that an affordable mortgage would have a mortgage debt-to-income ratio of 31 percent, meaning that the total monthly mortgage payment will be no more than 31 percent of the homeowner's monthly gross income. If a borrower meets the eligibility criteria and the net present value model yields a positive value, the servicer follows HAMP's "waterfall" (shown in table 2) in order to design a modification that will result in a debt-to-income ratio of 31 percent. Servicers apply the modification steps in the stated order until the borrower's debt-to-income ratio is reduced as closely as possible to 31 percent without going below.[4]

Table 2—HAMP's Waterfall Steps

Step One	Capitalize all outstanding interest, escrow advances, and third-party fees. Late fees are to be waived for a borrower who satisfied conditions for a trial modification.
Step Two	Reduce the mortgage interest rate in increments of 0.125 percent with a floor of two percent. If the loan is a fixed rate or adjustable-rate mortgage, the current interest rate is used as starting point. If the mortgage is a resetting adjustable-rate mortgage, the starting point will be the reset interest rate.
Step Three	The term of the mortgage can be extended to 480 months from the modification effective date. If the pooling and servicing agreement does not allow an extension, the mortgage may be re-amortized based upon 480 months with a balloon payment due at maturity. Negative amortization is prohibited after the effective date of the modification.
Step Four	Provide non-interest bearing and non-amortizing principal forbearance.

[3] Loans that are owned or guaranteed by the government sponsored enterprises, on the other hand, are modified if the net present value model results are equal to or greater than a negative $5,000.

[4] Servicers are not precluded under HAMP from agreeing to a modification that reduces the borrower's monthly mortgage payment ratio below 31 percent as long as the modification otherwise complies with the HAMP requirements. Similarly, and where permitted by the applicable servicing agreement or contract, servicers are not precluded from agreeing to a modification where the interest rate does not step up after five years, or where additional principal forbearance is substituted for extending the term as needed to achieve the target monthly mortgage payment ratio of 31 percent.

	This forbearance amount will result in a balloon payment fully due upon maturity of the loan, upon payoff of the interest bearing portion of loan, or the transfer of the property to another party. Principal forgiveness is not required under HAMP; however, servicers may forgive principal to achieve the debt-to-income ratio goal of 31 percent on a standalone basis or before any of the previous steps. If principal is forgiven before step one through three, no subsequent step in the waterfall may be skipped. If the interest rate is not reduced after principal forgiveness, the existing rate will be fixed and treated as the modified interest rate.

Source: Treasury, Supplemental Directive 09-01, April 6, 2009.

After April 15, 2010, borrowers who fully qualify for a modification and submit the required documentation enter a trial period. Before then, trial modifications could be made without documentation. The trial period lasts 90 days[5] and includes three modified mortgage payments, but can last longer if necessary to comply with investor contractual obligations. If the borrower is current at the end of the trial period and all documents have been received by the servicer, the borrower will be offered a permanent modification.

Incentive Payments

To encourage participation in the program, Treasury pays incentives using TARP funds. First, Treasury shares some of the economic cost of the modification. If a servicer makes modifications to get a homeowner down to a 38 percent mortgage debt-to-income ratio, Treasury will provide 50 percent of the costs of modification to get the loan from 38 percent to the target 31 percent debt-to-income ratio. Such payments are made once the modification becomes permanent and lasts for up to five years or until the loan is paid off, whichever is earlier.

Second, Treasury makes incentive payments for successful modifications. These incentives are targeted toward the three main participants in the mortgage modification process — the homeowners who stay current on their mortgages after a modification, the mortgage servicers who establish successful modifications, and the investors who own the mortgage loans. Table 3 describes incentive payments made for successful HAMP modifications.

[5] On August 26, 2009, Treasury announced a temporary waiver to allow an extension of up to two months for all trial periods so borrowers could submit all required documentation. A second two-month extension occurred on November 18, 2009, and then a third for one month with the conversion campaign detailed in Supplemental Directive 09-10 on December 23, 2009. This waiver was later amended to provide for an extension through December 31, 2009.

Table 3—HAMP Incentive Payments

Servicer Incentive Payments and Pay for Success Fees	Servicers will receive an up-front incentive payment of $1,000 for each permanent modification. They will also receive pay for success payments — as long as the borrower stays in the program — of up to $1,000 each year for up to three years.
Borrower Pay-for-Performance Success Payments	Borrowers are eligible to receive a pay-for-performance success payment that goes straight towards reducing the principal balance on the mortgage loan as long as the borrower is current on his or her monthly payments. Borrowers can receive up to $1,000 of success payments each year for up to five years.
Current Borrower One-Time Bonus Incentive	One-time bonus incentive payments of $1,500 to investors and $500 to servicers will be provided for modifications made while a borrower is still current on mortgage payments, but in danger of imminent default. The servicer will be required to maintain records and documentation evidencing that the trial period payment arrangements were agreed to while the borrower was less than 30 days delinquent.
Investor Incentives	This compensation equals one-half of the dollar difference between the borrower's monthly payment at 31 percent and the lesser of (i) what the borrower's monthly payment would be at a 38 percent; or (ii) the borrower's pre-modification monthly payment. This incentive lasts up to five years.

Note: No funds have been allocated for the borrower pay-for-performance success incentive as the required 12 months have not yet transpired since the first trial period started.

Source: Treasury, Home Affordable Modification Program Guidelines, March 4, 2009.

Complementary Programs

HAMP's first lien program, described above, is just one of the programs under the broader MHA efforts designed to assist struggling homeowners. Some of the other programs are designed to work in conjunction with HAMP; others are intended to provide alternative forms of relief to homeowners. These other programs are as follows:

- The Home Affordable Refinance Program is intended to provide access to low-cost refinancing for homeowners suffering from falling home prices and whose mortgages are owned or backed by Fannie Mae or Freddie Mac. Treasury does not administer the Home Affordable Refinance Program; the government-sponsored enterprises ("GSE") administer the Home Affordable Refinance Program themselves, under the supervision of their regulator and conservator, the Federal Housing Finance Agency.

- The Second Lien Modification Program includes homeowner relief for those facing default or foreclosure with second mortgages. The program is intended to work within the framework of HAMP to offer a more complete relief package for homeowners with second liens. A homeowner cannot qualify for the Second Lien Modification Program unless his or her first loan has been modified under HAMP.

- The Home Price Decline Protection Incentives are intended to encourage additional investor participation and HAMP modifications in areas with recent price declines by

providing additional payments to investors in areas that have suffered a decline in home prices.

- The Home Affordable Foreclosure Alternatives are intended to enable servicers and borrowers to pursue short sales and deeds-in-lieu of foreclosure for HAMP-eligible borrowers in cases where the borrower is unable or unwilling to modify his or her mortgage.

For more detailed descriptions of these programs, see SIGTARP's July 2009 Quarterly Report to Congress, pages 114-116; October 2009 Quarterly Report to Congress, page 97; and January 2010 Quarterly Report to Congress, page 98.

The Number of Permanent Modifications Entered Into During HAMP's First Year Has Been Below Expectations

This section addresses what Treasury's participation goals for HAMP are and examines whether those goals have been met during the program's first year. The next section will examine the challenges that have confronted and continue to confront Treasury in implementing HAMP.

Treasury states that its goal for HAMP is that the program will *offer* trial modifications to 3 to 4 million borrowers at risk from its inception through its expiration at the end of 2012. This section first examines how Treasury has articulated its goals for HAMP and notes that Treasury's initial statements about the program indicated that HAMP was originally intended to result in 3 to 4 million permanent modifications — a level that simply will not be met absent an unanticipated and dramatic increase in participation. Irrespective of how the goal is defined, although Treasury has made progress in developing the administrative backbone of the program and in getting the program started rapidly — meeting targets for servicer participation and a goal for early trial modifications — the rate of permanent modifications thus far has been slow. From HAMP's inception through February 2010, only 168,708 mortgages have been permanently modified.[6]

Treasury's HAMP Participation Goal

In its discussions with SIGTARP during the course of this audit, Treasury has insisted that its participation goal for HAMP is — and has been from the program's inception — that 3 to 4 million borrowers will be *offered* trial mortgage modifications over the four years of the program. In other words, Treasury's stated goal is not tied to how many borrowers are actually helped by entering permanent modifications, but rather how many had the opportunity to enter trial modifications by receiving offers.

What the anticipated benefits of a program are and how a program's success or failure is defined are important to provide a reference point for discussions about whether a program is worth the resources devoted to it and whether the program is functioning as it should. An examination of how Treasury has articulated its HAMP participation goal over time demonstrates that Treasury has been less than consistent about how it has justified the program's costs or defined what success in the program would mean. Many of Treasury's prior statements about the program

[6] Treasury reports 1,499 of the 170,207 permanent modifications started have been cancelled, resulting in 168,708 active permanent modifications as of February 2010.

have strongly suggested that HAMP would result in 3 to 4 million permanent modifications, not merely offers for trial modifications. For example:

- When the outlines of MHA and HAMP were developed in early 2009 by a working group of officials from Treasury, the Department of Housing and Urban Development ("HUD") and the White House, they advocated that the refinance and modification programs should "have a scale that can have a real impact on turning the housing problems around in this country."

- When HAMP was announced in February 2009, the Administration announced that the program's goal was to "enable as many as 3 to 4 million homeowners to modify the terms of their mortgage to avoid foreclosure."

- In a summary sheet describing HAMP guidelines released on March 4, 2009, Treasury stated that HAMP "will help up to 3 to 4 million at-risk homeowners avoid foreclosure by reducing monthly mortgage payments."

- In its first supplemental directive concerning program guidelines, dated April 6, 2009, Treasury described HAMP as a "national modification program aimed at helping 3 to 4 million at-risk homeowners — both those who are in default and those who are at imminent risk of default — by reducing monthly payments to sustainable levels."

- Treasury's Web site still states that HAMP was created as "a $75 billion loan modification program to help up to 4 million families avoid foreclosure."

In sum, Treasury has repeatedly given the distinct impression that HAMP will help 3 to 4 million homeowners actually avoid foreclosure by reducing their monthly mortgage payments to a level that they can afford over the long term; those positive results can only occur with permanent modifications. Although Treasury has, at times, noted that the goal was tied to offers and not actual modifications,[7] in its discussions with SIGTARP in connection with this audit, Treasury has conceded that its use of language in describing HAMP's participation goals has been "confusing" and that it has not been "crisp" in defining its goals. Although SIGTARP is skeptical, as discussed below, about whether Treasury's goal of giving *offers* for trial modifications is a meaningful one, for purposes of this discussion at least, SIGTARP accepts Treasury's assertion that its goal has always been offers and not permanent modifications.

[7] In a March 4, 2009 MHA program description, Treasury stated that they were "creating a comprehensive stability initiative to offer reduced monthly payments for up to 3 to 4 million at-risk homeowners..." In testimony on July 24, 2009, before the House Financial Services Committee, Treasury Secretary Geithner stated that "3 to 4 million homeowners will be offered trial loan modifications under the Administration's program." In testimony before the Congressional Oversight Panel on September 10, 2009, Treasury Secretary Geithner stated that HAMP was "designed to allow 3 to 4 million families the chance to stay in their homes." The MHA Monthly Program Report, for October 2009 and each month thereafter, has stated that HAMP has a "goal of offering 3 to 4 million homeowners lower mortgage payments through a modification over three years."

In any event, during the course of this audit, a Treasury official estimated that under HAMP a total of approximately 3 million trial modifications will be initiated and between 1.5 and 2 million of those will become permanent modifications.

Status of Participation in HAMP

Treasury has made substantial progress during the year since the announcement of HAMP in attaining servicer participation. HAMP goals were developed based on a projection that servicer participation would be 90 percent as measured by coverage of all privately-owned mortgages. In its first publicly available monthly HAMP status report, which covered activity through July 2009, Treasury reported that 38 servicers had signed agreements to modify mortgages, with those servicers covering approximately 85 percent of eligible mortgage debt outstanding. By January 2010, 110 servicers of privately-owned mortgages were participating in HAMP, with approximately 89 percent of all potentially eligible mortgage debt outstanding covered by those servicers. Servicer participation levels, therefore, are very close to projected levels.

The program's experience of attaining borrower participation, however, has been mixed. The first batch of servicers entered into agreements enabling them to start trial modifications in April 2009. Through July, Treasury reported there were 235,247 trial modifications, but Treasury recognized that much more had to be done to help homeowners. In July, Treasury and HUD took steps to accelerate this pace. On July 9, 2009, Treasury Secretary Geithner and HUD Secretary Shaun Donovan wrote the Chief Executive Officers of participating servicers calling upon them to redouble their efforts to increase staffing and improve borrower response times. On July 28, 2009, Treasury, HUD and other government officials met with senior officials from servicers participating in HAMP to discuss ways in which to accelerate the program. At that meeting, three steps were announced to improve the program's performance: (a) performance on a servicer-by-servicer basis would be publicly reported, (b) performance metrics would be developed, and (c) Freddie Mac, in its role as the program's compliance agent, would take a "second-look" at a sample population of modifications. At that time, it was also announced that the Administration had instituted a goal to reach 500,000 trial modifications by November 1, 2009.

The goal of 500,000 trial modifications was met by early October; indeed, Treasury reported a total of nearly 700,000 trial modifications by November 1, 2009. At the same time, however, Treasury had not disclosed the number of permanent modifications in its monthly Servicer Performance Report through November 1, 2009. The slow pace of conversions from trial to permanent modifications prompted Treasury and HUD, in November 2009, to undertake a "conversion drive." According to public statements by Treasury, through that point, servicers had "not done a good enough job of bringing people a permanent modification solution" and needed "to do better."[8] One Treasury official told the press that "some of the firms ought to be embarrassed, and they will be." The conversion drive included:

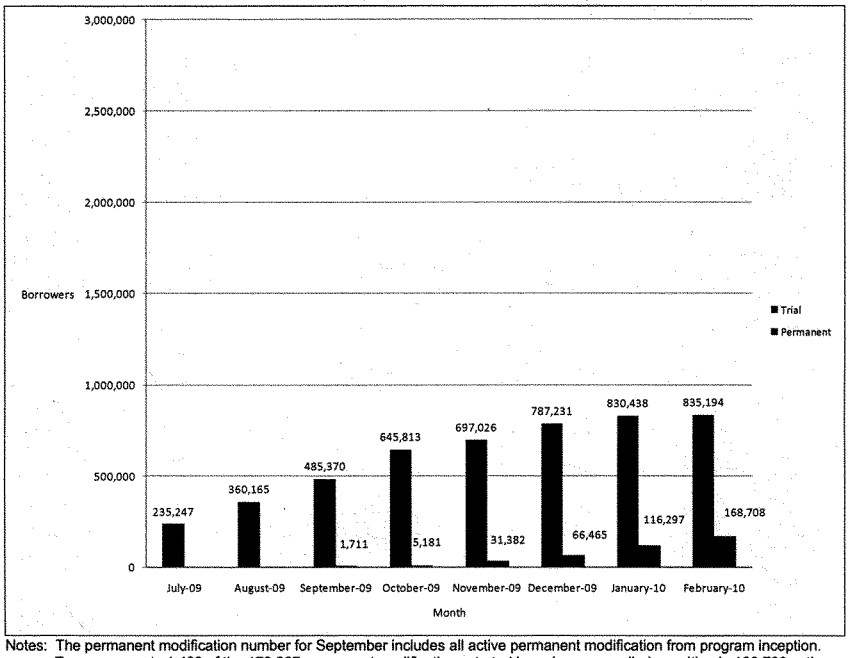
[8] For their part, servicers stated that a lack of guidance from Treasury and constantly changing program guidelines were challenges to implementing HAMP. These issues are discussed in more detail in the next section.

- public reporting of conversion rates by servicer
- regular communications with the servicers and reporting by the servicers on conversions
- the deployment of conversion "SWAT" teams to assist the largest servicers
- engagement with key state and local groups in an outreach campaign

During the conversion drive, Treasury identified approximately 375,000 of the nearly 700,000 borrowers in modifications were eligible to convert to permanent modifications by December 31, 2009. According to the Chief Homeownership Preservation Officer, of this group of borrowers, approximately one-third was simply awaiting a decision from their servicers as to whether they qualified for a permanent modification; about 37 percent had submitted some, but not all, documents necessary; and more than 20 percent had submitted no documents at all to their servicers.

Approximately 31,000 mortgages were moved into permanent modifications through November 2009; the total number of permanent modifications was approximately 66,000 through December (a monthly increase of 35,000) and 116,000 through January 2010 (a monthly increase of 50,000). In total, through February 2010, approximately 1,000,000 cumulative mortgages were actively in HAMP modifications (168,708 cumulative active permanent modifications and 835,194 cumulative active trial modifications). Figure 1 shows the number of cumulative trial and permanent modifications completed through each month from July 2009 through February 2010.

Figure 1—Growth in Active Modifications (Cumulative Data from July 2009 through February 2010)



Notes: The permanent modification number for September includes all active permanent modification from program inception. Treasury reports 1,499 of the 170,207 permanent modifications started have been cancelled, resulting in 168,708 active permanent modifications as of February 2010.

Source: Treasury, Making Home Affordable Servicer Performance Reports, July 2009 through January 2010.

The Pace of Modifications Has Not Met Expectations Thus Far

Conversions from trial modifications to permanent modifications have been slow thus far: only 15 percent or 168,708 mortgages of the total 1,094,064 trial modifications started are still in active permanent status. Monthly conversions to permanent status from October through February have been 3,000; 26,000; 35,000; 50,000; and 52,000.[9] Unfortunately, a Treasury official has indicated that even this modest pace of permanent modifications will not be sustainable and that the number of cancellations will likely increase.

[9] There were nearly 2,000 conversions to permanent modification from the beginning of the program through the end of September 2009.

Treasury faces two significant hurdles in converting the current substantial backlog of trial modifications into permanent status. The first relates to verbal modifications. On or prior to April 15, 2010, servicers are permitted to start a borrower's trial modification with stated income, or verbal financial information, which is inherently less reliable than documented information. As of December 21, 2009, Treasury reported 18 HAMP servicers, including four of the five largest HAMP servicers, had used stated income when determining initial HAMP eligibility. This documentation is required to be collected before the trial modification ends. One of the servicers SIGTARP visited expressed concern for the resulting "disproportionate time and expense" required to narrow down those homeowners who will actually transition to a final modification among those who received verbal trial modifications. Identifying and removing from the program ineligible borrowers who already started trial modifications as a result of inaccurate, verbal income information is an additional strain on a servicer's already limited resources. Although use of verbal financial information certainly helped Treasury meet its interim target of achieving 500,000 trial modifications by November 2009; because of this diversion of resources, allowing verbal modifications was arguably counterproductive to attaining permanent modifications.[10] Treasury has since recognized the limits of relying on unverified financial information before commencing trial modifications and issued a policy on January 28, 2010, ending this practice for all trial periods initiated after April 15, 2010. Although this tightening of the standards makes sense, it presumably will reduce the already declining number of trial modifications coming into the system, providing further reason to question whether the flow of trial modifications into the system is sufficient, as discussed below.

The second issue affecting conversion relates to when payments are due during the trial period. On or prior to April 15, 2010, after the borrower makes the first trial modification payment during the initial month in which the trial modification becomes effective, he or she has the full length of the trial period to satisfy further trial payment requirements. The borrower can thus make the remaining two payments (or three payments for borrowers at imminent risk of defaulting)[11] on the last day of the final trial period month. As such, a borrower's likelihood for default is concealed during the trial period and borrowers may have an incentive to delay entering into permanent modifications. About 25 percent of homeowners who received trial loan modifications and were targeted for the conversion campaign failed to keep up with their new reduced payments, and at least 93,750 borrowers have missed required payments. Accordingly, the backlog of trial modifications may be heavily populated by homeowners who are unable or unwilling to make the required trial modification payments but who have been able to forestall foreclosure (and live effectively rent free) during the term of the trial modification. Several of the servicers interviewed reported concerns about homeowners trying to game the system in this fashion. Treasury changed these payment requirements so that after April 15, 2010, a borrower must make monthly payments to be considered current.

In addition to potential problems in converting the backlog of trial modifications to permanent modifications, recent data suggests that it might prove to be difficult to bring sufficient new trial modifications into the program. Since October, new trial modifications have only averaged

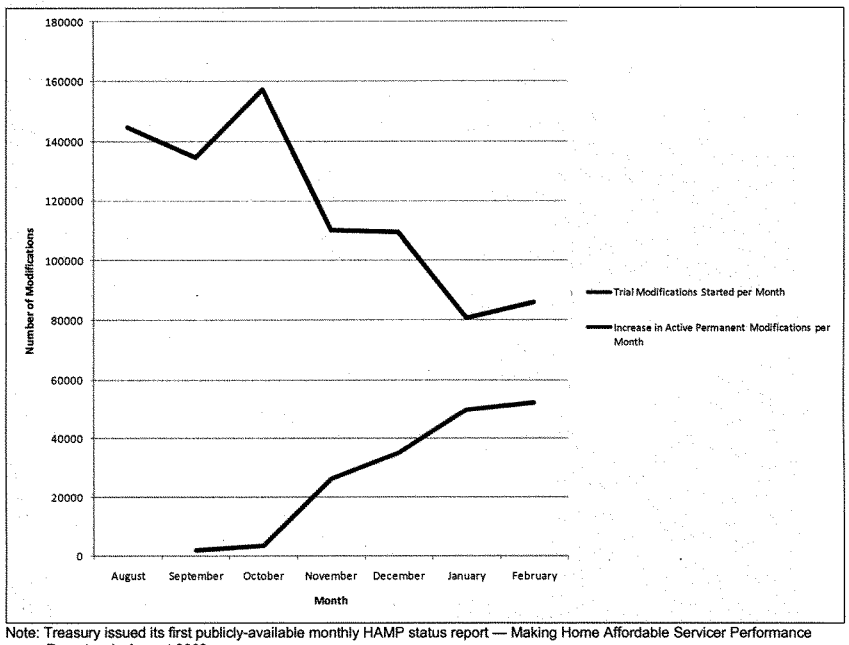
[10] In providing recommendations on HAMP program design, SIGTARP warned against such reliance on unverified information. See SIGTARP's Quarterly Report to Congress dated October 21, 2009, beginning on page 158.

[11] Non-defaulted borrowers facing a financial hardship are considered at imminent risk of defaulting. This category of borrowers has a four-month HAMP trial period.

about 96,000 per month (approximately 110,000 in November; 110,000 in December; 80,000 in January; and 85,000 in February). It is clear, however, that a certain percentage of homeowners who enter trial modifications will fall out of the program before successfully entering a permanent modification due to, for example, re-default during the trial period. A Treasury official estimated that 50 percent to 66 percent of trial modifications will become permanent,[12] and indeed, the Assistant Secretary for Financial Stability has testified before the Congressional Oversight Panel that past experience would suggest that a 50 percent conversion rate would be the minimum expected and that a 75 percent conversion rate would make it "quite a successful program."

Figure 2 shows monthly borrower participation in both trial and permanent modifications since August 2009.

Figure 2—Modifications Started Per Month (Non-Cumulative Data for August 2009 through February 2010)



Note: Treasury issued its first publicly-available monthly HAMP status report — Making Home Affordable Servicer Performance Report — in August 2009.

Source: Treasury, Making Home Affordable Servicer Performance Reports, July 2009 through February 2010.

[12] During the audit, a Treasury official estimated that there will be a total of 3 million trial modifications, of which 1.5 to 2 million will convert to permanent modification status.

Other Factors That Could Impede HAMP's Long-Term Success

Before discussing HAMP implementation issues in more detail, other factors that could impede HAMP's long-term success, irrespective of whether Treasury's articulation of its intended goals, should be noted. These issues are discussed briefly below.

- **Re-defaults** – In the modeling it conducted in connection with HAMP, Treasury used a 40 percent re-default rate. In other words, Treasury has estimated that, for every 10 mortgages that enter into HAMP modifications (trial and permanent), four of those homeowners will re-default and potentially be in danger of losing their homes to foreclosure over the five years of the modifications.[13] It is still too early to determine the impact of re-defaults on the program's success or whether Treasury's estimates are accurate, and SIGTARP will continue to monitor this critically important issue.

- **Limitations on debt-to-income eligibility ratio** – HAMP uses an affordability ratio that excludes other factors that would normally be accounted for in traditional loan underwriting, thereby potentially overestimating the true ability of the borrowers to repay, which in turn will impact their ability to make modified payments in either a trial or a permanent modification. HAMP servicers use a monthly "front-end" debt-to-income eligibility ratio of 31 percent, consistent with a Federal Housing Administration underwriting guideline. In using this front-end calculation, the only debt HAMP servicers consider is mortgage debt[14] — the borrower's other debts (*e.g.*, car payments, student loans, credit card obligations, and second liens on the home) are not factored into the front-end debt-to-income calculation. Although the Federal Housing Administration uses a 31 percent front-end debt-to-income ratio when underwriting mortgages, it also requires lenders to consider the total debt-to-income ratio when determining whether a borrower qualifies for a mortgage. Both ratios must be below a designated threshold in order for the borrower to demonstrate his or her ability to make timely mortgage payments. In contrast, although HAMP servicers are required to calculate the borrower's total debt-to-income ratio, high total ratios will not exclude borrowers from participating in HAMP. Instead, borrowers with total debt-to-income ratios greater than or equal to 55 percent must simply sign a statement that they will work with an HUD-approved counselor. As a result, many HAMP participants have their monthly mortgage debt reduced but still have a debt-to-income ratio that may be far too high for them to be able to afford to continue to make monthly mortgage payments, even at the HAMP-reduced amounts, thereby increasing their likelihood to re-default. As of December 2009, borrowers with total debt-to-income ratios greater than 50 percent represented more than half of HAMP permanent modifications. Thirty-two percent of all borrowers holding HAMP permanent modifications had total debt-to-income ratios greater than 70 percent. This problem is exacerbated, of course, by the unacceptably high unemployment rates,

[13] When a borrower re-defaults during a trial modification, he is still responsible for the difference between the original payments and the modified payments made during the trial modification period.

[14] Mortgage debt is defined as principal, interest, taxes, insurance, and homeowners'/condominium association fees for HAMP purposes. This excludes second lien mortgage debt.

which will potentially increase household debt and could have a dramatic impact on re-default rates.

- **Five-year period of permanent modifications** – HAMP's permanent modification is designed to last for five years. Treasury based the five year period on "analysis used to determine a reasonable time frame for price recovery, including review of future prices, a statistical analysis of the steepness of actual price declines, consideration of broader macroeconomic forecasts, experiences of other modification programs, and judgment." Unlike a traditional fixed-rate mortgage, if the interest rate on a HAMP modification is adjusted to below prevailing market rates, after the five-year fixed period, the rate can incrementally increase by up to one percent per year, capped at the 30-year conforming fixed rate[15] on the day the modification agreement is drafted. Borrowers, however, may be unable to meet the increasing monthly payments once the interest rate begins to increase if the borrower's income has not increased commensurate with the interest rate adjustments, a situation that led to widespread defaults for sub-prime adjustable rate mortgages during the current financial crisis. Using the HAMP average unpaid principal balance of $247,149 (as of November 2009) and average remaining term of 327 months, a borrower with a two percent modification interest rate will face a monthly payment that is 23 percent higher in the fourth year after the permanent modification period if the rate is incrementally increased by one percentage point annually. However, current projections suggest that salaries may not increase by a corresponding rate.

- **Second liens** – Treasury has estimated that up to 50 percent of mortgages at risk of delinquency and foreclosure are backed by second liens. Although borrowers may receive a HAMP permanent modification on their first lien, the total monthly mortgage payment might still be unaffordable if the second lien is not modified or extinguished. Under the second lien program, when a borrower's first lien is modified under HAMP and the servicer of the second lien is a HAMP participant,[16] that servicer must offer either to modify the borrower's second lien according to a defined protocol or to accept a lump sum payment from Treasury in exchange for full extinguishment of the second lien. The second lien program follows a standard waterfall similar to HAMP's first lien program. Servicers can begin immediately to modify or extinguish loans under the second lien program, once they sign Servicer Participation Agreements to participate in the program. The second lien program has not been fully implemented, although it was announced in April 2009 and designed to work in tandem with HAMP. Participation to date has been extremely limited, but with the recent signing of Bank of America, Wells Fargo, and JPMorgan Chase, it is improving.

- **Negative equity and strategic defaults** – Negative equity results when more is owed on a property than the property is worth. HAMP does not require servicers to address

[15] This rate represents the fixed interest rate on a 30-year loan that has a principal balance less than the maximum principal amount of mortgage which Fannie Mae and Freddie Mac can purchase, sell, and securitize. For example, a mortgage that was modified on January 7, 2010, would be capped at 5.09 percent.

[16] A servicer must execute a Servicer Participation Agreement or amend and restate an existing Servicer Participation Agreement previously executed for HAMP to participate in the HAMP Second Lien Modification Program.

negative equity,[17] which an industry expert has called the "most important predictor of default." It is estimated that homeowners who have negative equity (currently constituting about 25 percent of all borrowers nationwide) represent almost half of all foreclosures. During the course of our audit work, SIGTARP was not able to obtain documentation to support the different estimates as to the weighted average of the combined mortgage loan amounts[18] compared to the home's value for all borrowers in HAMP trial modifications, but the numbers all indicate that the average HAMP mortgage is underwater. For example, Fannie Mae reported to SIGTARP that the ratio was 247 percent through November 2009, which Treasury has "corrected" to 140 percent. Treasury currently estimates that the ratio is 114 percent.

- The primary method of quickly addressing negative equity is through principal reductions. However, Treasury Secretary Geithner testified during the December 10, 2009 Congressional Oversight Panel hearing that Treasury made a "conscious choice . . . not to start [HAMP] with principal reductions." He stated it was determined that principal reductions were "more expensive for taxpayers," "harder to justify," and had a higher "risk of unfairness." Principal reduction is a long-term means of making payments affordable, but can pose moral hazard.[19] In this context, borrowers who are current on their mortgages may consciously choose to stop paying their mortgage if they are aware that delinquent borrowers receive incentives and financial assistance under HAMP.

- The practice of a borrower choosing to default on the mortgage, even when he or she can afford the payments, is called strategic default. Strategic default usually occurs when the home's value is substantially lower than the mortgage value. Although relatively common in commercial real estate, it has been widely reported that homeowners may be increasingly more likely to strategically default on their homes. Given the amount of negative equity in the mortgages under trial modifications, strategic default may become a factor in HAMP re-defaults, as borrowers decide that it makes more economic sense for them to walk away from their mortgages, and rent at a lower cost, rather than continue to make higher payments that may never result in them obtaining equity in their mortgage.

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[17] HAMP allows principal reduction, but it is not typically implemented in practice. Servicers forgave principal on less than two percent of HAMP trial loans. Before HAMP, 10 percent of servicer-sponsored modifications forgave principal. Rather than forgiving principal, HAMP primarily reduces monthly payments through interest rate reductions, amortization term extensions, and principal forbearance. On February 19, 2010, however, the Administration announced a new initiative to help the housing markets that have experienced 20 percent or more average home price decreases. The program allocates $1.5 billion of TARP funds for a limited number of states' housing finance agencies to address housing priorities in the local markets. The state agencies will submit proposals to Treasury for approval before Treasury funds the programs. The proposals may include measures for unemployed homeowners, assistance to borrowers owing more than their home is now worth, help to address challenges arising from second mortgages, or other programs encouraging sustainable and affordable homeownership. Until the states submit proposals, it is unclear whether any or all of the programs will include the items discussed above.

[18] Combined loan-to-value ratio compares the value of all outstanding mortgages on the home to the home's value.

[19] Moral hazard occurs when someone insulated against a risk (such as in the context of a government bailout program) may behave differently than if they bore the full risk.

Several Issues Relating to HAMP Implementation Have Posed Challenges to HAMP Participation, in Particular to Converting Trial Modifications into Permanent Modifications

This section describes how Treasury has implemented HAMP and some of the program challenges that have been encountered.

When HAMP was announced in February 2009, Treasury committed to implement the program rapidly, with Treasury Secretary Geithner stating that HAMP would work at an "extraordinarily rapid pace for a program." As promised, the program was rolled out quickly, with initial program guidelines released in March 2009 and the first agreements with servicers being executed in April. In July, Treasury also placed pressure on servicers to move more quickly and instituted a goal of 500,000 trial modifications by November. Although that goal was met, by November it became clear that the pace of conversions from trial modifications to permanent modifications was slower than expected, and Treasury's Assistant Secretary for Financial Stability stated that the department was "disappointed in the permanent modification results thus far." Treasury has blamed servicers for this disappointing result; servicers have blamed Treasury's implementation; and both have blamed homeowners for failing to comply with documentation requirements.

Steps Treasury Took to Implement HAMP

Treasury attempted to get HAMP running rapidly. President Obama announced the Homeowner Affordability and Stability Plan, of which HAMP was a major component, on February 18, 2009. Fourteen days later, the Administration and Treasury released what they called "detailed requirements" that they indicated would equip servicers with the information necessary to begin modifying mortgages. Fifteen days after that, Treasury launched the Making Home Affordable Web site, an online resource intended to educate borrowers about HAMP. On April 6, 2009, Treasury issued its first supplemental directive containing additional guidance to servicers for implementation of HAMP for privately-owned mortgages. One week later, on April 13, 2009,

the first six servicers signed servicer participation agreements, making them eligible to modify loans under HAMP.[20]

In July, Treasury took a series of steps to accelerate the pace of HAMP participation.

- On July 9, 2009, Treasury Secretary Geithner and HUD Secretary Donovan wrote the Chief Executive Officers of participating servicers calling upon them to redouble their efforts to increase staffing, improve borrower response times and streamline the application process.

- On July 28, 2009, Treasury, HUD and other government officials met with senior officials from servicers participating in HAMP to discuss ways in which to accelerate the program and bring relief to homeowners faster. At that meeting, steps were announced to improve the program's performance, including reporting on performance on a servicer-by-servicer basis, the development of performance metrics, and that Freddie Mac, in its role as the program's compliance agent, would take a "second-look" at a sample of modifications.

- The Administration announced a goal to reach 500,000 trial modifications by November 1, 2009.

The goal of 500,000 trial modifications was met by early October. By then, however, it was becoming clear that the rate of conversion from trial modifications to permanent modifications was very slow. Through the end of October, there were more than 650,000 active trial modifications, but Treasury had not disclosed the number of permanent modifications in its monthly Servicer Performance Report through November 1, 2009.

The slow pace of conversions from trial modifications to permanent modifications prompted Treasury and HUD to undertake a "conversion drive" in November 2009. According to public statements by Treasury, servicers had, up to that point, "not done a good enough job of bringing people a permanent modification solution" and needed "to do better."[21] The conversion drive included similar measures as in the earlier drive to increase trial modifications, including putting pressure on the servicers by making results public. The initial announcement included:

- publicly reporting conversion rates by servicer
- regular communications with the servicers and reporting by the servicers on conversions
- the deployment of conversion "SWAT" teams to assist the largest servicers
- engagement with key state and local groups in an outreach campaign

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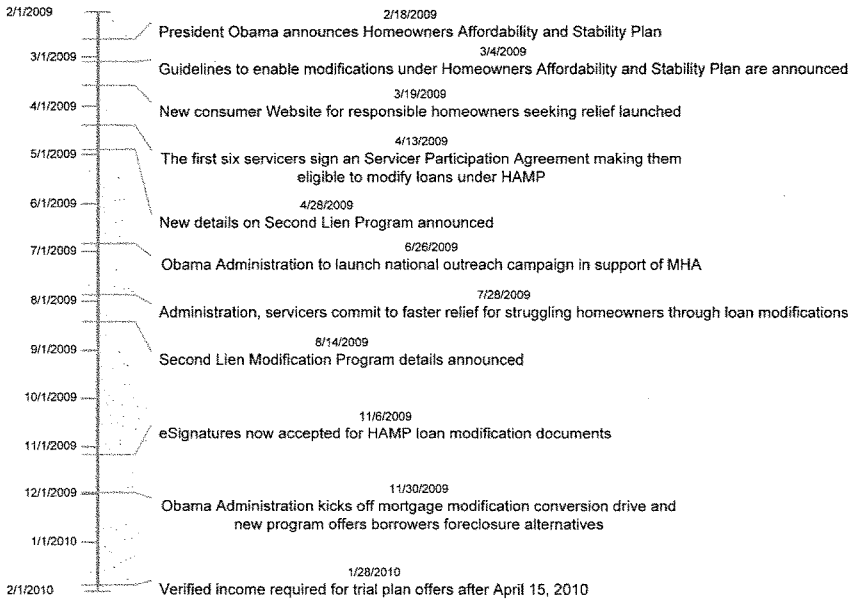
[20] Beginning in April and May of 2009, Treasury attempted to expand homeowner relief and increase modification affordability programs that were complementary to HAMP or that provided alternative relief, announcing the Second Lien Modification Program, foreclosure alternatives such as deed-in-lieu and short sale, and the Home Price Decline Protection Incentive. It took Treasury another three months until it announced program details, however, and another five months after that until the first servicer signed a contract to participate in the Second Lien Modification Program in late January 2010.

[21] For their part, servicers stated that a lack of guidance from Treasury and constantly changing program guidelines were challenges to implementing HAMP.

On January 28, 2010, Treasury announced that it would require servicers to obtain verifiable income documentation prior to trial modification, beginning with borrowers entering trial modifications after April 15, 2010.

Figure 3 is a timeline of several key HAMP implementation milestones from the announcement of the program through February 2010.

Figure 3—Key HAMP Implementation Milestones (February 18, 2009 through February 2010)



Source: SIGTARP analysis of Treasury Press Releases and Supplemental Directives.

Difficulties Encountered in Implementing HAMP

Although the reasons for the disappointing results thus far are many, discussions with Treasury, the GSEs, and the servicers, and an analysis of performance data have identified several specific issues concerning HAMP implementation that have posed particular challenges.

Changing Documentation Requirements

Receiving required documentation from borrowers has been a significant challenge in moving trial modifications into permanent status. Treasury has identified this as a significant challenge, and servicers have reported difficulties in obtaining borrowers' income documentation. These views have been borne out by the data. Of the 375,000 trial modifications targeted for conversion in November, a majority had incomplete documentation and 20 percent had supplied no documentation at all.

Treasury has changed the standards for what documents are required and whether trial modifications can be entered into before such documentation is provided since the program was rolled out. Table 4 tracks the changes in what documents have been required for borrowers to verify income.

Table 4—Changes in HAMP Income Documentation Requirements

Date	Change Description	Documentation Requirements and Changes
3/4/2009	Treasury's initial program guidelines stated that a servicer may accept either documented or verbal income from the borrower to determine whether a borrower is eligible for a trial modification.	• Signed Form 4506-T • Two most recent paystubs for wage earners, and other third party document of reasonable reliability for self-employed • Representation that the borrower does not have sufficient liquid assets to make monthly payments • Obtaining most recent tax return on file
4/6/2009	Supplemental Directive 09-01 provided additional detail as to what kinds of documentation would be deemed sufficient before conversion to a permanent modification.	If borrower is employed: • A signed copy of most recently filed federal tax return • A signed Form 4506-T • Copies of two most recent paystubs indicating year-to-date earnings • A letter from a reliable third party for all bonuses, commissions, fees, housing allowances, tips and overtime. If self-employed: • A signed copy of most recently filed federal tax return • A signed Form 4506-T • Most recent quarterly year-to-date profit/loss statement • Other third party reliable documentation voluntarily provided If borrower uses alimony or child support: • Photocopy of divorce decree or other legal written assignment providing for payment of alimony, and documentation of payment. Servicers must determine that income will continue for three years. If borrower uses benefit income (such as social security):

		• Documentation showing amount of benefit, frequency and duration (must continue for three years). • Must obtain copies of signed federal tax returns, W-2 forms or copies of two most recent bank statements. If borrower receives public assistance or unemployment: • Documentation showing amount, frequency and duration. Servicers must determine the income will continue for nine months. If borrower uses Rental income: • Signed Federal income tax returns including Schedule E, supplemental income and loss. This income will be counted at 75 percent.
7/6/2009	Treasury's Supplemental Directive 09-03 announced that the servicer should begin trial modification period reporting once the servicer receives the borrower's first trial period payment regardless of whether the servicer has received an executed copy of the trial period plan.	Same documentation requirements as Supplemental Directive 09-01, but *borrower may be put into trial period without the executed copy of the trial period plan.*
10/8/2009	Treasury's Supplemental Directive 09-07 represents an ongoing effort to improve process efficiency by updating the borrower underwriting requirements by permitting "alternative" forms of income verification before conversion to a permanent modification and introducing revised model documentation for the program.	Servicers can still put a borrower into a trial period with stated income, but the income documentation collection now includes: • Signed Form 4506-T • Those in imminent default may, in accordance with investor guidelines, be required to provide the most recent signed copy of their federal income taxes. All other borrowers may, but are not required to submit. • Copies of two most recent paystubs with year-to-date earnings If self-employed: • The most recent quarterly or year-to-date profit and loss statement If borrower earns "other" income: • Reliable third party documentation describing nature of income If borrower uses alimony, separation maintenance, or child support income: • Copy of divorce decree, or other legal written assignment providing for payment of alimony or child support and duration of payment. • Evidence of receipt of payment, such as bank statements with amount of payment If borrower receives public assistance or unemployment: • Evidence of amount, frequency and duration of the benefits, which must continue for nine months. If borrower uses rental income: • Signed Federal income tax returns including Schedule E, supplemental income and loss. This income will be counted at 75 percent. If borrower uses benefit income (such as social security): • Evidence of amount and frequency of benefit • Evidence of receipt of payment All passive and non-wage income (including rental, part-time employment, bonus/tip, investment and benefit income) does not have to be documented if borrower declares the income and it constitutes less than 20 percent of total income.
1/28/2010	Treasury's Supplemental Directive 10-01 requires full verification of borrower eligibility after April 15, 2010, including documented verification of income, prior to offering a trial period plan.	A servicer may only evaluate a borrower for HAMP after it receives: Request for Modification and Affidavit Form, Form 4506-T or 4506T-EZ and evidence of income, including: • Copies of two recent paystubs which do not have to be consecutive. • The most recent quarterly or year-to-date profit and loss

		statement for self employed • Reliable third party documentation describing nature of income for all bonuses, commissions, fees, housing allowances, tips and overtime. If borrower earns benefit income (such as social security): • Evidence of amount and frequency of benefit • Receipt of payment, such as bank statements showing deposit amounts. If borrower receives unemployment: • Evidence of amount, frequency and duration of the benefits, which must continue for nine months. If borrower uses Rental income: • Signed Federal income tax returns which include Schedule E, supplemental income and loss. This income will be counted at 75 percent. If borrower uses alimony, separation maintenance, and child support income: • Copy of divorce decree, or other legal written assignment providing for payment of alimony or child support and duration of payment. • Evidence of receipt of payment, such as bank statements with amount of payment All passive and non-wage income (including rental, part-time employment, bonus/tip, investment and benefit income) does not have to be documented if borrower declares income and it constitutes less than 20 percent of total income. Non-borrower income voluntarily provided may be included if the servicer decides the income can be relied upon to continue. The directive permits servicers to substitute their "business judgment" in determining the forms of verification necessary to convert a trial modification to permanent status.

Source: SIGTARP analysis of Treasury program guidelines.

All five of the servicers interviewed in connection with this audit have identified problems of one sort or another that they have experienced due to repeated changes in program guidelines. One servicer in particular noted that it changed from offering only fully documented trial modifications to verbal modifications after Treasury threatened to make examples of servicers with low trial modification numbers.[22] Servicers have reported, among other things, that:

- repeated changes to program guidelines have made it difficult for servicers' operators to keep up with program rules;
- verbal modifications have allowed borrowers to obtain trial modifications due to misrepresentations, and identifying borrowers who have misrepresented their eligibility is difficult and resource intensive; and
- borrowers might be gaming the system by withholding required documents, (and thereby avoiding to have to make payments until the end of the trial period and still avoid foreclosure), and that some borrowers might be withholding documents to avoid disclosing misrepresentations on their original loan applications.

[22] Other servicers have noted issues relating to Treasury's drive in July 2009 to increase the rate of trial modifications. One servicer found the meeting on July 28, 2009, as not helpful and just a forum for Treasury to tout publicly its goal of 500,000 modifications. Another complained that several servicers were made examples of for the sake of providing a certain public perspective about Treasury's oversight of the program.

On balance, although Treasury's attempt to increase HAMP participation in July was certainly a laudable goal, Treasury's decision to permit trial modifications without documentation appears to have been made in error, and the diversion of resources it has created appears to have slowed the conversions to permanent modifications. Apparently recognizing this error Treasury has changed the rule requiring full documentation in advance of trial modifications initiated after April 15, 2010.

Repeated Changes and Clarifications in Net Present Value Models

Repeated changes in the net present value test methodology have also caused confusion and delay in implementing HAMP. As described above, after determining that a loan meets basic eligibility requirements, a servicer will undertake a net present value test to determine whether it is economically advantageous to the investor for the loan to be modified rather than allowing the loan to continue to foreclosure. Several loan characteristics are input to Treasury's net present value model, with a resulting positive or negative numeric value. These inputs include but are not limited to the location of the home, value of mortgage, homeowner's credit score, front-end debt-to-income ratio, and delinquency status. The HAMP program provides a net present value model on the www.hmpadmin.com portal that is available for servicers to use to evaluate loans for modification. According to Treasury, the portal net present value model is automatically updated to reflect data and program changes and requires no servicer support.

Since HAMP's initial roll-out, Treasury has issued changes or clarified model policies for the net present value methodology several times. Indeed, since the model parameters were first released on March 4, 2009, Treasury has issued changes or clarifications to the model nine times: April 6, 2009; June 11, 2009; July 9, 2009; July 31, 2009; August 7, 2009; September 11, 2009; November 3, 2009; November 10, 2009; and January 28, 2010. Thus far, according to Treasury, there have been three different formal versions of the model.[23] Appendix C contains a chart describing these changes and clarifications in the net present value methodology.

All five of the servicers interviewed in connection with this audit identified significant issues with the net present value modeling and in particular with the multiple changes over time in the model.[24] Issues identified included: problems in accessing the model at all, particularly early in the process; problems in getting documentation concerning the model; errors in the model; insufficient time to incorporate changes into the model for servicers not using Treasury's online version of the model; a lack of guidance and confusion with respect to retroactive application of changes to the model; and inconsistencies between the model code and the written guidance. One servicer opined that the problems and changes to the net present value test effectively doubled the effort needed to administer the test. Another stated that Treasury's failure to provide guidance on net present value issues resulted in delays in initiating trial modifications and negative public scrutiny due to such delays.

[23] In commenting on a draft of this report, Fannie Mae stated there have been four model versions.

[24] Large servicers — those with a book exceeding $40 billion — may customize the base model to use modeled default rates that reflect their own portfolio experience.

Guidance on Other HAMP Implementation Issues

All five HAMP servicers visited by SIGTARP during this audit mentioned that they did not have clear guidance from Treasury on identifying and determining eligibility for borrowers at imminent risk of defaulting on their privately-owned mortgages. Treasury's frequently asked questions regarding HAMP, published on its administrative Web site for servicers (updated on January 8, 2010) stated that "no additional guidance is being provided at this time with respect to determining whether a non-GSE [or privately-owned] loan is in imminent default under HAMP." Treasury has advised servicers that they may, but are not required to use GSE guidance[25] on borrowers at risk of imminent default on their privately-owned mortgages for HAMP. However, without consistent and clear standards, it is possible that servicers will apply inconsistent criteria for modifying mortgages of borrowers at imminent risk of default on privately-owned mortgages or may even exclude borrowers who would otherwise qualify if the guidance were available.

Indeed, it has been widely reported that servicers have told borrowers that they must be delinquent to be eligible for HAMP, which is simply untrue, the whole concept of imminent default presumes that the borrower is current on his payments. Similarly, only two of the five servicers visited by SIGTARP reported that they had integrated Hope for Homeowners as an option for borrowers.[26] HAMP requires servicers to consider borrowers for the Hope for Homeowners refinance program as they offer modification solutions to borrowers. One of the servicers stated that Treasury promised additional details on how to integrate Hope for Homeowners but the information was still forthcoming. Without providing guidance on how to integrate Hope for Homeowners, borrowers may encounter inconsistent experiences based on their servicer and, in some cases, may not be offered a program that would assist them.

Servicer Capacity and Training Issues

Traditionally, the primary role of a servicer is to collect monthly mortgage payments and to foreclose on properties when such payments are missed. In HAMP, in addition to collecting monthly mortgage payments, servicers now must train personnel to follow the program guidelines in determining a borrower's eligibility, execute the program's modification waterfall, run the latest version of the net present value model, and verify income. Indeed, the servicers reported rapid increases in their staffing levels. These new personnel also needed training to implement HAMP, which likely increased the lead time to offer HAMP modifications. As an example, one servicer had not completed formal training as of our September 2009 visit, with the

[25] On January 26, 2010, Freddie Mac issued updated guidance for servicers with respect to the income documentation and verification requirements for borrowers with Freddie Mac mortgages who must be evaluated for imminent default. Fannie Mae instructed its servicers on February 1, 2010, to use Freddie Mac's tool to identify imminent default borrowers with Fannie Mae mortgages. Imminent default borrowers will now be screened by the GSEs when they are current or less than 60 days delinquent to align with privately-owned mortgages under Treasury's HAMP guidelines.

[26] The Economic and Housing Recovery Act of 2008 authorized HUD to implement the Hope for Homeowners Program, which gives banks and homeowners the option to ward off foreclosure by refinancing their at risk mortgages into 30-or 40-year fixed mortgages. The program was announced October 1, 2008, and ends September 30, 2011.

servicer indicating staff was not scheduled to attend training until the month following our visit. It is important for personnel to have the proper training to reinforce consistency in the execution of those modifications. Despite the importance to the program's success, all five servicers interviewed by SIGTARP in connection with the audit reported that they had received no formal guidance from Treasury on how to train their personnel to handle HAMP modification requests.

Beyond difficulties in properly training personnel, handling the ever changing documentation requirements also challenged servicers' capacity to handle borrower inquiries and applications. One servicer reported that HAMP's quick roll-out forced it to rely on a vendor to coordinate the tracking of borrower documentation upon receipt. Officials said the handling between vendor employees and servicer employees had caused inconsistencies in storage procedures, resulting in the loss of borrower documentation, a problem that has been widely reported. Another servicer called capacity to process modifications a "key constraint."

Issues Relating to HAMP Marketing Efforts

To date, Treasury has used three primary methods to market HAMP to the public: an informational Web site, community outreach events, and a telephone hotline.

- According to Treasury, its largest outreach effort is the Making Home Affordable Web site, www.makinghomeaffordable.gov. Launched in March 2009, the Web site provides a centralized online resource for borrowers to learn about HAMP. The site includes, among other things, a tool for borrowers to help them determine whether or not they are eligible for HAMP, a loan look-up feature, which helps borrowers determine whether or not their loans are owned by GSEs, and a listing of the documentation needed to apply for a modification. Treasury also recently added video guides and other tools to assist in converting more trial modifications to permanent status.

- Treasury participates in community outreach events, with events taking place thus far in 23 U.S. cities hit hardest by foreclosures. The events provide for face-to-face interaction among borrowers, servicers and housing counselors.

- Treasury, through the help of Fannie Mae, provides a telephone resource, the Homeowner's HOPE Hotline. Fannie Mae officials approached the non-profit Homeownership Preservation Foundation to operate a 24 hours-a-day, seven days-a-week MHA informational hotline, available in English, Spanish, and other languages upon request. The Homeownership Preservation Foundation assumed this role for the Homeowner's HOPE Hotline in May 2009 and, as of the end of February, has recorded more than 800,000 calls, for which 95 percent related to HAMP.

As program administrator, Fannie Mae has provided an outreach toolkit with sample marketing materials on a Web site available to participating servicers (those which have signed a Servicer Participation Agreement). Treasury officials pointed to the toolkit as HAMP marketing guidelines and said they also provided the materials to members of Congress for provision to their constituents.

Notwithstanding these efforts, each of the five servicers we visited indicated more guidance was needed to develop HAMP marketing materials to better inform the public about HAMP. There was lack of a consistent message that resulted in confusion among some borrowers. Based on the servicer interviews, interviews of Treasury and GSE officials, and a review of program materials, SIGTARP has identified several limitations in the HAMP marketing and outreach efforts thus far.

- **Performance metrics are limited.** Although Treasury does count the use of the marketing efforts it does make — by tracking hits to its website, how many people come to its outreach events, and how many calls to its hotline — Treasury thus far has not tried to comprehensively gauge whether HAMP information is reaching its target audience (homeowners in trouble) effectively. As a result, it is impossible to gauge the effects of these efforts because Treasury has not developed a comprehensive way, through focus groups or more wide-ranging surveys beyond its outreach events, for example, to measure whether its efforts have been successful.

- **Treasury's efforts to use mass media advertising have been delayed and will not begin until at least April 2010.** It has taken Treasury more than a year to develop its own public service announcements[27] for television, the medium with arguably the best chance of reaching the broadest audience. After a series of delays, the first such broadcast media spots are not scheduled to occur until at least April, a year after modifications could begin. Putting aside whether there are homeowners who could have been helped had knowledge of HAMP been broader, the lack of basic understanding about the program has sown confusion. For example, one servicer reported that its operators repeatedly had to deal with the fact that many borrowers believed that the program was available to everyone. If Treasury were to launch its own public service announcement, it would also provide a broad opportunity to educate the public about foreclosure rescue scams. SIGTARP recognizes that Treasury's Web site and borrower outreach events present warning information regarding this type of fraud. However, SIGTARP alone has opened more than two dozen investigations into this type of fraudulent behavior, and television public service announcements could better educate the public of the dangers of these frauds.

- **Treasury is not providing oversight of servicers' marketing and outreach efforts.** Treasury does not collect any information regarding servicers' marketing efforts. It also cannot ensure the integrity of information disseminated to the public about HAMP, as officials do not conduct oversight of HAMP marketing materials and say they have no plans to do so in the future. An official at Treasury's Homeownership Preservation Office told us the office is not monitoring the marketing or methods servicers use to solicit borrowers and inform them about HAMP. Moreover, the official told us Treasury does not intend to monitor HAMP materials disseminated by servicers in the future, including content on servicers' Web sites. According to Treasury's Homeownership Preservation Office, it does not view marketing inconsistency or content variation as a

[27] Treasury stated it incorporated references to the Homeowners' HOPE Hotline and the MHA website into an existing NeighborWorks America video, which was distributed in December by the Ad Council.

problem that warrants oversight efforts. But, as of November 4, 2009, less than half of the participating servicers' Web sites contained information specific to HAMP,[28] only a little more than one third of the servicers' websites provided a link to the Making Home Affordable Web site, and only 15 provided borrowers warning information about foreclosure rescue scams.

[28] At the time of our analysis on November 4, 2009, 71 servicers had signed HAMP servicer participation agreements.

Conclusions and Recommendations

Any examination of whether a government program is being implemented successfully must have in mind, at least as an initial frame of reference, what the stated purpose of the program was and whether the agency's goals for the program are being met. Unfortunately, in the case of HAMP, even this starting point is less than straightforward.

When HAMP was launched in the first few months of 2009, Treasury justified the program by stating that the program would "help up to 3 to 4 million at-risk homeowners avoid foreclosure," and that it would do so "by reducing monthly payments to sustainable levels." Notwithstanding this laudable aspiration that the program would *actually help* 3 to 4 million homeowners avoid foreclosure, Treasury has stated that the 3 to 4 million homeowner goal is not tied to how many homeowners actually receive sustainable relief and avoid foreclosure, but rather that 3 to 4 million homeowners will receive *offers* for a trial modification. Treasury's focus on how many offers are given out for trial modifications — without setting goals for how many of those offers result in trial modifications or how many of the resulting trial modifications become permanent and thus actually attain the aspiration of helping homeowners avoid foreclosure and stay in their homes for a meaningful period of time — raises issues for how the program was justified and how Treasury is now measuring its progress.

First, defining success by how many offers are given can reasonably be perceived as essentially meaningless. As an extreme example, Treasury could reach, even exceed, its goal with only assisting few homeowners: if offers were given to four million at-risk homeowners, but only a very few accept that offer — because the homeowner is hopelessly underwater, because even the reduced payments are unaffordable, because the homeowner does not understand the terms well enough to take action, or for any other reason — few would be helped and the program would be an abject failure, despite meeting Treasury's stated goal. To be meaningful, Treasury's goal for HAMP must relate to how many people are helped to avoid foreclosure; because offers standing alone do not actually assist homeowners, it is simply not a useful measure.

Second, even if Treasury's goal were construed to measure how many trial modifications were started, that measure too would not be terribly illuminating. Experience thus far has shown that a substantial number of homeowners entering trial modifications never convert to permanent modifications, and a Treasury official informed SIGTARP that it is expected that only 50 percent to 66 percent of the estimated three million trial modifications will convert to permanent status. Although borrowers in trial modifications delay foreclosure and enjoy lowered monthly payments during the several months of the trial period, those benefits go away (and the difference between the original payment amount and the reduced trial payment amount is still owed) if the borrower fails to progress to a permanent modification. Indeed, there is an argument to be made that borrowers who enter trial modifications who do not get permanent modifications are actually harmed by the program because they end up making several additional mortgage payments (money that they could use to secure alternative, more affordable housing) and face foreclosure anyway.

Plainly, the goal that should be developed and tracked is how many permanent modifications HAMP generates that help homeowners avoid foreclosure and stay in their homes. On that front, a year into the program, although more than a million trial modifications have been initiated, the number of conversions to active permanent modifications thus far, 168,708, has been, even according to Treasury, "disappointing." Indeed, a Treasury official's estimate for how many permanent modifications will result from HAMP — 1.5 to 2 million over the course of the four-year program — is a small fraction of how many foreclosures are expected to occur during that period. Approximately 2.8 million homeowners received foreclosure filings just in 2009, and millions more are expected in 2010, with some estimates predicting that the number will eclipse the already staggering 2009 number. It is the current estimated number of permanent modifications, which would average between 500,000 and 667,000 permanent modifications in the remaining three years of the program, and not Treasury's still repeated 3 to 4 million figure, that should inform the debate on whether HAMP is worth the considerable time and resources that are being expended or whether the program needs to be revamped to actually help more at-risk borrowers. Transparency and accountability demand that Treasury establishes goals that are meaningful, and that it report its progress in meeting such meaningful goals on a monthly basis. Continuing to frame HAMP's success around the number of "offers" extended is simply not sufficient.

Turning from goals to implementation, there are several reasons for the disappointing results thus far, and the participants in the program have pointed fingers at one another: Treasury has blamed the mortgage servicers for not doing enough to move borrowers into permanent modifications; the servicers have blamed Treasury for a lack of guidance and ever-changing program rules; and both Treasury and the servicers have blamed borrowers for failing to submit required documentation in a timely manner. This audit, which focuses only on Treasury's performance, has identified several issues with Treasury's implementation of HAMP that have negatively affected HAMP's success thus far:

Repeated changes to program guidelines caused confusion and delay. Treasury attempted to rollout HAMP as fast as possible and made substantial progress in meeting its servicer participation goals in a short period of time: the program was announced in February 2009; the initial program guidelines were released in March 2009; and the first servicers signed agreements in April 2009. Program rules had not been fully developed, however, by the time the program began, and Treasury has had to revise guidelines repeatedly, often causing confusion and delay. The rules relating to what documents are required to be submitted by borrowers, for example, have been changed and/or clarified multiple times since the initial rules were released in March 2009, and the net present value test model and related guidance has been changed or clarified *nine times*, prompting one servicer to estimate that the model changes doubled the amount of time that it took to administer the test. Although Treasury's desire to launch the program as soon as possible was laudable, and some changes to a program as complex as HAMP are inevitable, taking more time at the outset to adequately plan and test HAMP procedures, in the long run, may have resulted in more permanent modifications faster, and with fewer complications, than what has occurred.

Permitting unverified verbal modifications was counterproductive. In July 2009, the Administration set a target of reaching 500,000 trial modifications by November 2009, and Treasury undertook several steps to speed up the pace of trial modifications to meet that target, including expanding outreach efforts and pressuring servicers by publicly reporting results on a servicer-by-servicer basis.

Although the trial modification target was reached as a result, it is now clear that permitting trial modifications without document verification was a mistake that, among other things, has contributed to the slow pace of converting trial modifications into permanent modifications since then, and may have arguably caused actual harm to homeowners placed into trial modifications that had no chance of becoming permanent. The resulting increase in trial modifications has created a large backlog of trial modifications that includes many borrowers who may never provide the required documentation. Servicers have reported that weeding out ineligible borrowers amongst those who entered the program through verbal information is very resource intensive, monopolizing scarce resources that could have been used to process the completed written applications of eligible borrowers. Treasury has recognized this error and has changed the rule for all trial modifications initiated after April 15, 2010.

Marketing efforts concerning HAMP have been limited. To date, Treasury has used three primary methods to market HAMP to the public: an informational Web site, community outreach events, and a telephone hotline. As program administrator, Fannie Mae also provides an outreach toolkit with sample marketing materials on a Web site available to participating servicers. Several limitations in the marketing efforts thus far have been identified:

- Servicers have indicated that more guidance was needed to develop HAMP marketing materials to better inform the public about the program, resulting thus far in a lack of a consistent message and confusion among some borrowers.

- Although Treasury does count the use of its marketing efforts — by tracking hits to its Web site, how many people come to its outreach events, and how many call its hotline — Treasury thus far has not tried to comprehensively gauge whether HAMP information is reaching its target audience (homeowners in trouble) effectively.

- Treasury does not collect any information regarding servicers' marketing efforts and thus does not know whether the servicers are attempting to provide information to the borrowers they service and cannot ensure the integrity of information disseminated to the public about HAMP.

- It has taken Treasury more than a year to develop HAMP-specific unique public service announcements for television, the medium with arguably the best chance of reaching the broadest audience. Putting aside whether there are homeowners who could have been helped had knowledge of HAMP been broader, the lack of basic understanding about the program has sown confusion. If Treasury were to launch its own public service announcements, it would also provide another opportunity to educate the public about foreclosure rescue scams. In the context of a media world in which non-profit groups are able to get television advertisements on the air within days of a natural disaster, it is

simply inexplicable that, when facing a tsunami-sized foreclosure crisis, Treasury has taken more than a year in a four-year program to simply develop — let alone broadcast — its own HAMP-specific television message to reach borrowers.

Re-defaults threaten the long-term success of the program. Even if HAMP results in the estimated 1.5 to 2 million permanent modifications, the program will not be a long-term success if large amounts of borrowers simply re-default and end up facing foreclosure anyway. Treasury estimates that 40 percent of the mortgages that enter into HAMP modifications (trial and permanent) will re-default during the program. Although, in the final analysis, it is up to the policy makers in the Administration and Congress to determine whether it is worth spending tens of billions of dollars of taxpayer funds on a program that is assumed at its outset to fail ultimately for 40 percent of the participants, several aspects of HAMP's design make it particularly vulnerable to re-defaults:

- Debt-to-income ratios: HAMP reduces mortgage payments to what is deemed to be an affordable level, 31 percent of a borrower's gross monthly income. In doing this calculation, however, the only debt HAMP servicers consider is mortgage debt — the borrower's other debts (*e.g.*, car payments, student loans, credit card obligations, and second liens on the home) are not factored into the calculation — and high total debt ratios will not exclude borrowers from participating in HAMP. Spending taxpayer resources to modify the mortgage payment of a borrower is of questionable value if the borrower will be unable to meet the mortgage payment anyway because of the burden of servicing other debts. Indeed, in certain circumstances such a borrower may be better off conserving funds by finding housing at a cost less than even the modified mortgage payment.

- Interest rate increases after modification period: Unlike a traditional fixed-rate mortgage, if the interest rate on a HAMP modification is adjusted to below prevailing market rates, after the five-year period of the program the rate can incrementally increase by up to one percent per year, capped at the 30-year conforming fixed rate on the day the modification agreement is drafted. Borrowers, however, may be unable to meet the increasing monthly payments once the interest rate begins to increase to current market rates if their income has not increased commensurate with the interest rate adjustments. Increasing interest rates, of course, were one of the early drivers of the current foreclosure crisis, particularly as interest rates on sub-prime adjustable rate mortgages reset requiring payments beyond what many borrowers could afford.

- Second liens: Treasury has estimated that up to 50 percent of mortgages at risk of delinquency and foreclosure are backed by second liens. Although borrowers may receive a HAMP permanent modification on their first lien, the total monthly mortgage payments might still be unaffordable if the second lien is not also modified or extinguished. Treasury has instituted a second lien program in which participating servicers must offer either to modify the borrower's second lien according to a defined protocol or to accept a lump sum payment from Treasury in exchange for full extinguishment of the second lien. Participation to date has been extremely limited, but

with the recent signing of Bank of America, Wells Fargo, and JPMorgan Chase, it is improving.

- Negative equity and strategic defaults: HAMP does not require servicers to address negative equity (*i.e.*, when the borrower owes more than the house is worth), which has been called by an industry expert the "most important predictor of default." It is estimated that homeowners who have negative equity (currently constituting about 25 percent of all borrowers nationwide) represent almost half of all foreclosures. In light of the amount of negative equity in the mortgages under trial modifications, resulting re-defaults, including strategic defaults, may be a factor as borrowers decide that it makes more economic sense for them to walk away from their mortgages, and rent at a lower cost, rather than continue to make payments that may never result in them obtaining equity in their home.

Recommendations

To improve the administration of HAMP, SIGTARP recommends that the Secretary of the Treasury implement the following measures:

- Treasury needs to rectify the confusion that its own statements have caused with respect to its goals and expectations for HAMP. To permit informed debate on the program's value and effectiveness thus far, Treasury must unambiguously and prominently disclose its goals and estimates (updated over time, as necessary) of how many homeowners will actually be helped through permanent modifications, and report monthly on its progress to meeting that goal.

- Beyond just measuring modifications, Treasury should develop other performance metrics to measure over time the implementation and success of HAMP. For example, Treasury could set goals and publicly report against those goals for servicer processing times, modifications as a proportion of a servicer's loans in default, modifications as a proportion of foreclosures generally, rates of how many borrowers fall out of the program prior to permanent modification, and re-default rates. Having specific goals and metrics, and comparing performance against those goals, will be essential in further refining the program and measuring its success.

- Treasury should undertake a sustained public service campaign as soon as possible both to reach additional borrowers that could potentially be helped by the program and to arm the public with complete, accurate information about the program to avoid confusion and delay, and to prevent fraud and abuse.

- Treasury should reconsider its position that allows servicers to substitute alternative forms of income verification based on the subjective determination by the servicer, such as whether such documents are "appropriate" or relying on the servicer's "good business judgment consistent with the judgment employed when modifying mortgage loans held under their own portfolio." Although we certainly understand Treasury's desire to speed

up conversions from trial modifications into permanent modifications, this provision is problematic. It will be very difficult to determine from a compliance and oversight perspective whether the rule is followed: to determine whether a borrower was admitted into a permanent modification appropriately under this provision, a compliance or oversight body will need to figure out what documents a particular servicer's own proprietary modification system would require under the circumstances and then, given that system, whether acceptance of the alternative documents constitutes good business judgment under that system. Furthermore, because servicers have both an economic and reputational incentive to convert as many trial modifications to permanent modifications as possible, this provision seriously risks being the exception that devours the rule, with servicers applying loose underwriting standards to generate higher conversion rates, which could result in waste from taxpayer-funded modifications that will eventually re-default. If Treasury believes that it is appropriate to expand the forms of income verification that it will deem acceptable, it should do so in an open and transparent manner rather than simply deferring to the servicers.

- Treasury should re-examine the program's structure to ensure that the program is adequately minimizing the risk of re-default. If HAMP ends up being a foreclosure mitigation program that merely delays foreclosures rather than preventing them, the program will be of questionable value, particularly in light of the huge investment of taxpayer funds. A program that helps borrowers permanently avoid foreclosure is preferable (and far less wasteful of tax dollars) to one that merely kicks the proverbial foreclosure can down the road. The program as currently constituted may not adequately address the risk of re-defaults stemming from non-mortgage debt, from second liens on the property, from the partial interest rate resets after the five-year modifications end, and from the fact that many of the borrowers are hopelessly underwater with little hope of ever building equity in the home.

In sum, one year into HAMP, although Treasury has done a considerable amount of work and made progress in establishing the administrative framework of the program, Treasury must promptly address the issues raised in this report; failure to do so could result in a lost opportunity to make sure that the TARP program that was specifically intended to benefit Main Street, as well as Wall Street, succeeds. Absent a thorough review of HAMP and its goals, the program risks helping few, and for the rest, merely spreading out the foreclosure crisis over the course of several years, at significant taxpayer expense and even at the expense of those borrowers who continued to struggle to make modified, but still unaffordable, mortgage payments for months more before succumbing to foreclosure anyway. While such spreading out of the pain may in some circumstances benefit the lender/investors (who may not have to immediately recognize losses that could accompany additional immediate foreclosures), it will have done little to accomplish EESA's explicit purpose to "help families keep their homes."

Management Comments and Audit Response

In its management response, which is reproduced in full in Appendix F, Treasury generally concurs with and indicates that it is working towards implementing SIGTARP's recommendations concerning the need for Treasury to (a) disclose its goals and estimates for how many homeowners will be helped through permanent modifications, (b) develop goals for other performance metrics to measure HAMP implementation and success, and (c) undertake a sustained public service campaign.

Treasury disagrees with SIGTARP's two other recommendations. First, with respect to SIGTARP's recommendation that Treasury reconsider its decision to allow servicers to substitute alternative forms of income verification, for the reasons stated in the report, SIGTARP continues to submit that verification of a requirement as central to HAMP as a borrower's income should be explicit and uniform. Accordingly, SIGTARP stands by this recommendation.

Treasury also disagrees with SIGTARP's recommendation that it should re-examine the program's structure to ensure that the program is adequately minimizing the risk of re-default. Although Treasury acknowledges that "there are alternative structures that could lower re-default rates," it asserts that the recommendation fails to acknowledge that these alternatives might limit the total number of participants in the program or could result in increasing program costs. Ultimately, if the program is plagued by high re-default rates, it will have done little to achieve the goal of assisting homeowners who would still find themselves losing their homes after an unsuccessful short-term modification. In light of the significant costs of re-default — both in terms of devoting taxpayer funds merely to delay foreclosure and in terms of potential harm to homeowners — in the final analysis, SIGTARP continues to believe that only through maximizing the number of *sustainable* permanent modifications can Treasury meet its originally stated intention to enable "homeowners to modify the terms of their mortgage to avoid foreclosure" and therefore "reduc[e] monthly payments to sustainable levels." In other words, a modification program that begins with a smaller gross number of total modifications but that results in lasting relief for a vast majority of those homeowners would be preferable to a program that starts with a higher total number of modifications upfront, but through re-defaults, ends up with fewer people being helped over the long term. As to cost, although SIGTARP does not take any position with respect to Treasury's policy determination to allocate $50 billion of taxpayer funds for HAMP, it is worth noting that a recent Congressional Budget Office report estimated that no more than $20 billion of these funds will be spent on HAMP payments. Treasury thus may well have the resources to change the program in a manner that will result in more sustainable modifications and still be below its planned allocation.

SIGTARP continues to recommend that Treasury should re-examine the program's structure to assure that it adequately minimizes the risk of re-default.

Appendix A—Scope and Methodology

We performed the audit under authority of Public Law 110-343, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended. The audit reports on the status of HAMP and specifically addresses the following objectives:

- What is the status of HAMP, and has the program met its goals for participation thus far?
- What challenges have confronted and continue to confront Treasury in implementing the program?

Our audit was completed during July 2009 to March 2010. The scope covered HAMP activities implemented between March 2009 and February 2010 with particular focus on the first-lien program.

We conducted our work at the Treasury Offices of Financial Stability and Domestic Finance in Washington D.C.; Fannie Mae's Washington, D.C. headquarters; Freddie Mac's McLean, Virginia headquarters; and five mortgage servicers. The sample of five servicers was judgmentally selected based on HAMP participation status for privately-owned mortgages, volume of SIGTARP Hotline complaints, HAMP cap allocation amount, and geographic location. Four of the servicers had signed a HAMP servicer participation agreement and one servicer had not. The unpaid principal balance of participating servicers' servicing portfolio was not available during our audit planning, and was therefore not included as a sampling criterion. Site visits to the servicers occurred from September 2009 through October 2009. We also conducted work at the Homeowner's HOPE hotline in Lock Haven, Pennsylvania, and attended borrower outreach events in Chicago, Illinois, and Woodbridge, Virginia, which were sponsored by Treasury, Fannie Mae, or Hope Now.

To assess the status and challenges confronting HAMP as well as Treasury's plans to address existing challenges, we interviewed Treasury officials from the Offices of Financial Stability and Domestic Finance and GSE officials who were involved in the policy decision-making process, including interim and permanent Chief Homeownership Preservation Officers and Fannie Mae's and Freddie Mac's Chief Executive Officers. We also discussed the status and challenges confronting HAMP with Federal Housing Finance Agency officials, as well as mortgage servicing industry experts. We interviewed servicer officials and observed the loss mitigation, collections, and HAMP operations departments at the five servicers we visited. We reviewed modification policies and procedures developed by Treasury, GSEs, and servicers, as well as reports and testimonies by Government Accountability Office, the Congressional Oversight Panel, the Office of the Comptroller for the Currency, the Office of Thrift Supervision, and industry groups. We reviewed mortgage modification complaints received through the SIGTARP Hotline. We also evaluated Treasury's weekly and monthly HAMP status reports and other HAMP data reports produced by Fannie Mae. To determine the extent that trial

modifications resulted in changes to interest rates, amortization terms, and mortgage payments, we reviewed all active trial modifications in the HAMP system of record as of November 5, 2009, for the four servicers we visited which were modifying privately-owned mortgages for HAMP at that time.

To assess the methods Treasury used to market HAMP, we analyzed and assessed the Office of Financial Stability's ("OFS") HAMP marketing and outreach strategy against the nine key practices for developing a consumer education campaign compiled by GAO.[29] We spoke with officials within the marketing teams at OFS and Fannie Mae to learn their roles and responsibilities, and we examined HAMP marketing policies, procedures, and budgets. In addition, we reviewed Fannie Mae's financial agency agreement to identify any specific marketing responsibilities the GSE was assigned as part of its role as HAMP program administrator. During visits with five servicers, we interviewed officials to determine the extent to which Treasury issued policies, procedures, and other guidance to assist them in developing their HAMP marketing materials. We also reviewed samples of the servicers' marketing materials, such as letters and pamphlets, and asked officials about the extent to which Treasury or Fannie Mae had reviewed such materials to determine the level of governance associated with ensuring the accuracy of information disseminated to the public. We reviewed Treasury's HAMP website (www.makinghomeaffordable.gov) and 71 participating servicers' Web sites to assess the amount of information provided to borrowers about HAMP as well as to identify best practices or inconsistencies among the information provided. In addition, we interviewed Homeowner's HOPE hotline officials, listened to hotline recorded calls, and obtained those officials' reviews of the operators' handling of the calls. At the borrower outreach events in Illinois and Virginia, we observed the proceedings and the processing of individual borrowers and evaluated the material presented to borrowers by the sponsors, servicers, and non-profit counselors. We also attended a Treasury-sponsored event that educated and addressed concerns of housing counselors and community officials about HAMP.

This performance audit was performed 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.

Use of Computer-Processed Data

To perform this audit, we used unaudited data provided by Treasury to report on the status of trial and official modifications. Treasury produces this information based upon data servicers report to the Investor Reporting 2 database — a transaction mortgage servicing system — which is maintained by Fannie Mae. The extent to which we captured the full universe of HAMP modifications, whether in trial period or official status, is subject to the completeness and accuracy of Investor Reporting 2.

[29] GAO-08-43, "Digital Television Transition: Increased Federal Planning and Risk Management Could Further Facilitate the DTV Transition," 11/2007, p. 26-26, 40-43.

Internal Controls

SIGTARP will release a mutually exclusive audit report addressing the adequacy of HAMP internal controls later this year. Our report will address several internal control objectives, including the state of the HAMP control environment and the extent to which conflicts of interest may exist across responsible program parties. In addition, the report will examine the reliability of program data, as we previously stated its completeness and accuracy require further review.

Prior Coverage

Congressional Oversight Panel, *"Foreclosure Crisis: Working Toward a Solution,"* March 6, 2009

Congressional Oversight Panel, *"An Assessment of Foreclosure Mitigation Efforts after Six Months,"* October 9, 2009

Congressional Oversight Panel, "*Taking Stock: What has the Troubled Asset Relief Program Achieved?,"* December 9, 2009

Government Accountability Office, Report No. 09-837, *"Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable,"* July 23, 2009

Government Accountability Office, Report No. 10-16, *"One Year Later, Actions are needed to Address Remaining Transparency and Accountability Challenges,"* October 8, 2009

Government Accountability Office, Report No. 10-301, *"Office of Financial Stability (Troubled Asset Relief Program) Fiscal Year 2009 Financial Statements,"* December 9, 2009

Appendix B—HAMP Stakeholders

Several entities work with Treasury to implement HAMP. Treasury has engaged the GSEs and Bank of New York Mellon as financial agents to carry out specific program tasks. Servicers execute the modifications. Other government housing authorities and the Homeowner Preservation Foundation also have a role in HAMP. See the following descriptions of key HAMP stakeholders' roles and responsibilities.

Treasury

Treasury's Domestic Finance and the OFS are the primary Treasury offices that developed Making Home Affordable. OFS created the Homeownership Preservation Office in November 2008, and this office serves as the Making Home Affordable Program office. The Homeownership Preservation Office is responsible solely, or in conjunction with other OFS offices, for the following program functions:

- Audit oversight
- Congressional and regulatory liaison
- Data analysis
- Establishing policies in conjunction with other Treasury departments and the GSEs
- Communicating and marketing the program (performed in conjunction with Fannie Mae), including maintaining the www.makinghomeaffordable.gov website
- Oversight of program compliance and fraud prevention (performed in conjunction with Freddie Mac)

Fannie Mae

Fannie Mae was selected to be the Program Administrator for all programs under the Homeownership Preservation Office and signed a Financial Agency Agreement with Treasury on February 18, 2009. This agreement details Fannie Mae's roles, responsibilities, and basis for compensation. As the program administrator, Fannie Mae has been tasked with assisting with creating program policies, developing a marketing plan, developing the net present value model under Treasury direction, maintaining the program system of record, preparing and producing program management reports, developing a servicer integration team to provide on-going assistance to all servicers, and integrating servicers that are new HAMP participants.

Freddie Mac

Freddie Mac was selected as the HAMP compliance agent to ensure servicers are following program guidelines, and a Freddie Mac official signed a Financial Agency Agreement with Treasury on February 18, 2009. This agreement details Freddie Mac's roles, responsibilities, and basis for compensation. Freddie Mac established a separate group of employees, named the Making Home Affordable compliance team, that are firewalled[30] from the rest of Freddie Mac's organization. The compliance team assesses all institutions that signed a HAMP servicer participation agreement on a quarterly basis, and new data is monitored on a monthly basis.

Making Home Affordable compliance has plans to conduct announced and unannounced site visits to the servicers. Making Home Affordable compliance employs loan file and management control reviews, as well as on-site and off-site procedures to review servicers' compliance. When new servicers sign a participation agreement, Freddie Mac attempts to visit them for a "readiness" review. Freddie Mac has reviewed 11 servicers as of January 2010, which represents 16 different servicing platforms.[31] Freddie Mac also publishes additional HAMP guidance to servicers for the Freddie Mac portion of GSE loans that are modified.

Bank of New York Mellon

Treasury selected Bank of New York Mellon in October 2008 to serve as its primary agent for custodial, accounting and auction management for TARP. With respect to HAMP, it is responsible for processing and distributing the program's incentive payments to the participating servicers.

Mortgage Servicers

All servicers of GSE loans are required to evaluate those mortgages under HAMP. In order to modify privately-owned mortgages and receive incentive payments, a servicer must sign a Servicer Participation Agreement. Servicers contact borrowers who may be eligible for HAMP, and borrowers may also contact their servicer if they meet general eligibility requirements. Servicers report HAMP modifications in the program's system of record, Investor Reporting 2 database, created by Fannie Mae.

Federal Housing Finance Agency

The Federal Housing Finance Agency serves as the regulator and conservator of the GSEs and has oversight of GSE loans that are eligible for HAMP. The Federal Housing Finance Agency provides feedback for policy changes to Fannie Mae and Freddie Mac in their parallel modification programs.

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[30] Firewalls, in this context, are organizational controls intended to minimize conflicts of interest for employees with certain sensitive program knowledge.

[31] Servicing platforms means each servicing entity's book of business, including legacy servicing portfolios of acquired companies (e.g., Wells Fargo would count as multiple platforms due to the inclusion of Wachovia and other acquired entities).

U.S. Department of Housing and Urban Development

The U.S. Department of Housing and Urban Development has formed a partnership with HAMP, providing free housing counselors across the United States that can assist borrowers in avoiding foreclosures. Federal Housing Authority is an agency that exists as part of the Department. Federal Housing Authority has helped keep families in their home through loss mitigation practices such as deed-in-lieu, loan modifications, pre-foreclosure sales, and forbearance, among other practices throughout the United States.

Homeownership Preservation Foundation

The Homeownership Preservation Foundation's mission is to develop innovative solutions for preserving and expanding homeownership through consumer education and counseling programs. The Foundation created the Homeowner's HOPE Hotline in 2004, and Fannie Mae, on behalf of Treasury, contracted with the Foundation for the Homeowner's HOPE Hotline to become HAMP's central telephone tool. The Making Home Affordable call center launched on June 22, 2009, and intends to increase foreclosure prevention awareness, educate homeowners about their options and guide them to an optimal solution, and drive homeowners to obtain either refinance, obtain a modification, or seek financial counseling.

Appendix C—Net Present Value Test Guidance

Changes and Clarifications in Treasury's Guidance on Its Net Present Value Model Parameters and Reporting

Date	Change Description
March 4, 2009	Treasury issues guidelines that introduce its net present value model and explain how the model should be used to evaluate borrowers requesting a HAMP modification. This net present value test is supposed to compare the net present value of cash flows expected from a modification to the net present value of cash flows expected in the absence of a modification. If the net present value of the modification scenario is greater than the net present value of no modification, the net present value result is deemed positive. If the net present value test generates a positive result, the servicer is required to offer a mortgage modification to the borrower. If the test generates a negative result, modification is optional. The following model parameters were introduced: • The program allows the servicer to choose the discount rate — the rate that determines the value of future payments compared to payments received today — to use in the net present value model, subject to a program-determined ceiling that will be sensitive to the market-determined cost of funds. • The cure rates — to cure a mortgage in default is to pay all the back payments, interest, and legal fees — and re-default rates are to be obtained from a default equation with parameters based on Fannie Mae and Freddie Mac analytics and program portfolio data, except where servicers use custom parameters. • Property value is to be determined in accordance with the guidelines. • The remaining parameters — home price forecast, valuation of the house price depreciation reserve, foreclosure timelines, foreclosure costs, and real-estate owned stigma — is to come from data sets held or produced by the Federal Housing Finance Agency. • Servicers having at least a $40 billion servicing book have an option to substitute a set of cure rates and re-default rates estimated based on the experience of their own aggregate portfolios. Additional parameters and further details of the model components for the net present value test beyond those discussed above were published separately.
April 6, 2009	The Supplemental Directive clarifies the options for borrowers with negative net present value model results and standards for retaining model documentation. It also states that Fannie Mae has developed a software application for servicers to submit loan files to the net present value calculator. Also, servicers having at least a $40 billion servicing book — dollar value of mortgages the servicer is managing — have the option to create a version of the net present value model that uses a set of cure rates and re-default rates estimated based on the experience of their own portfolios and that guidance on required inputs for custom net present value calculations will be forthcoming. Treasury requires servicers to maintain detailed documentation of the net present value model, all net present value inputs and assumptions, and the net present value results each time they run the test, regardless of whether the mortgage is modified.
June 11, 2009	Treasury issues updated guidelines that further explain the following key net present value model parameters presented previously in the March 4th guidelines.

	• Discount rate – All servicers are permitted limited discretion to adjust the discount rate by up to 250 basis points. The discount rate may be as low as Freddie Mac's Primary Mortgage Market Survey weekly rate for 30-year fixed rate conforming loans. In no case may a servicer use a higher discount rate for loans in its own portfolio than the rate used for loans it services for other investors. With respect to loans owned or guaranteed by Fannie Mae or Freddie Mac, the servicer is to apply the rate specified in Fannie Mae and Freddie Mac guidance. • Default rate – The model projects the probability of default if the loan is not modified and the probability of default if the loan is modified. As HAMP performance data becomes available, the model is to be updated to reflect actual program experience. Large servicers — those with a book exceeding $40 billion — may customize the base model to use modeled default rates that reflect their own portfolio experience. • Home prices – A servicer must use the base model's home price projection, made available by the Federal Housing Finance Agency exclusively for this program and is based on data from a broad cross-section of mortgage transactions that is to be updated quarterly. • Foreclosed or real-estate owned discount – The real-estate owned discount recognizes the deterioration in perceived value that buyers often place on a home that has been foreclosed.
July 9, 2009[a]	Fannie Mae outlines the following enhancements under development based on servicer feedback on version 1 of the net present value model. • Metropolitan statistical area level home price projection – Fannie Mae simplifies the AR2 model developed for the Treasury to use in version 2 of the net present value model and allows flexibility for other servicers to use other indices (e.g., Moody's, Case Shiller, etc.). • More granular real-estate owned discount – Fannie Mae clarifies the real-estate owned discount by using the current discount for automated valuation model values — a 75 percent discount for external broker price opinions/appraisals and a 25 percent discount for internal broker price opinions/appraisals. • Prepayment model – Fannie Mae proposes a prepayment model that considers variables such as the change in modification rate versus the market rate, mark-to-market loan-to-value, and loan status. Fannie Mae further notes that relevant modification data to calibrate the prepayment model are yet not available. • Home price decline protection payment – Fannie Mae provides final rules about home price decline protection payment for version 2 of the net present value model.
July 31, 2009	Treasury issues Supplemental Directive 09-04, which introduces the home price decline protection program, an initiative designed to encourage modification of loans in markets hardest hit by falling home prices. The Supplement Directive adds the home price decline protection incentive payment as an input to the net present value model and informed the servicers that the details are to be made available in early August 2009. Servicers that integrated the base net present value model into their systems or customize the model in accordance with program requirements are responsible for ensuring that they incorporate the required home price decline protection determination functionality into their version of the net present value model. Also, the Supplemental Directive informs the servicers that specific details regarding the use of the home price decline protection incentive payment in the net present value model is to be provided in the documentation for version 3 of the model.
August 7, 2009	Treasury issues guidance that makes significant changes from version 2 to version 3 of the net present value model: • Home price decline protection incentive – The home price decline protection incentive is to be effective beginning September 1, 2009. (Supplemental Directive 09-04 contains the detailed policy guidelines for the Home Price Decline Protection Program.)

	• Prepayment model – The guidance adjusts coefficients for the prepayment model and the refinance incentive value bounds. • Model versioning requirements –Servicers are required to use the same major model version, related supplement data, and the Freddie Mac Primary Mortgage Market Survey weekly rate for the initial model run in subsequent model results. • Test consistency requirements –Servicers are required to use borrower and loan information that was initially reported correctly to determine subsequent model results. • Term extension – Loans with current remaining terms greater than 480 months should skip the term extension step. Amortization term after modification should equal the remaining term. Re-amortize and extend the loan to a maximum 40-year term in monthly increments to reach as close to the target 31 percent debt-to-income without going under. • De-seasonalized home price index – Beginning the third quarter of 2009, the home price index is to be adjusted to remove the seasonal affects of home prices and reduce the index's impact on the home price decline protection payment. Also, Treasury's guidance clarifies the documentation required from version 2 to version 3 of the net present value model. For example • Escrow shortage – Servicers are to include any future monthly escrow shortage payments to the "Association Dues/Fees Before Modification" field. • Adjustable-rate mortgage/interest-only reset or recast – For adjustable-rate mortgage/Interest-only recast that is to happen within the next four months, front-end debt-to-income is to be calculated using principal, interest, taxes, insurance, homeowners' association, and/or condominium fees based on the greater of the "Principal and Interest Payment before Modification" input field and the fully amortizing payment. • Timing of the investor incentive and government subsidy incentive in the equations for the modification cure and default cash flows – The investor incentive payment for the trial period is to be made in period 3, and the three government subsidy payments for the trial period are to remain in period 4.
September 11, 2009	Treasury issues Supplemental Directive 09-06, which outlines data collection and reporting requirements for the net present value model. The Supplement Directive requires servicers to report loan-level data starting in October 2009 to Fannie Mae for mortgages evaluated for HAMP, including the net present value model type code and 43 other model inputs.
November 3, 2009	Treasury issues Supplemental Directive 09-08, which requires services who receive a borrower request within 30 calendar days from the date of notifying the borrower their loan has a negative net present value model result to provide the borrower with the date of the net present value calculation and with select input values. If, within 30 calendar days of receiving this information the borrower provides the servicer with evidence that any of these input values are inaccurate and those inaccuracies are material, the servicer is to conduct a new net present value evaluation.
November 30, 2009	Treasury issues Supplemental Directive 09-09, which provides guidance to servicers for the adoption and implementation of the Home Affordable Foreclosure Alternatives Program. The Home Affordable Foreclosure Alternatives Program — a part of HAMP — provides financial incentives to servicers and borrowers who utilize a short sale or a deed-in-lieu to avoid a foreclosure on an eligible mortgage. The Supplemental Directive states that the HAMP net present value model should not be used to project investor cash flows from either a short sale or deed-in-lieu and should be used only to determine borrower eligibility for a HAMP mortgage modification.
January 28, 2010	Treasury issued Supplemental Directive 10-01, which makes the following changes to the net present value model and the use of the model results: • A borrower who has been evaluated for HAMP but does not meet the minimum eligibility criteria described in Supplemental Directive 09-01 or who meets the minimum eligibility criteria but is not qualified for HAMP by virtue of a negative net present value result,

	excessive forbearance or other financial reason, may request reconsideration for HAMP at a future time if they experience a change in circumstance. • In the event a servicer elects to forbear principal in an amount resulting in a modified interest-bearing balance that would create a current mark-to-market loan-to-value ratio less than 100 percent in negative net present value situations, the servicer is to ignore the error code and the flag for excessive forbearance that is returned by the net present value model. Updates are to be made to the model in the future to eliminate this error code. • Servicers are to re-evaluate a loan using the net present value model if the borrower's documented income differs from the stated income used in the borrower's initial qualifying net present value test. With respect to trial modifications after April 15, 2010, servicers may elect to offer the borrower a permanent modification without performing an additional net present value evaluation based on the borrower's verified income documentation. If the servicer elects not to perform an additional net present value evaluation in this situation, the servicer is to enter the trial period date and values for the model results when reporting to the HAMP system of record.

Note a: Because official guidance for these changes is not posted to the HAMP servicer website, this information on the net present value model is based on a July 9, 2009, Fannie Mae presentation.

Source: SIGTARP analysis of Treasury's and Fannie Mae's data.

Appendix D—Acronyms

Acronym	Definition
EESA	Emergency Economic Stabilization Act of 2008
GSE	Government-sponsored enterprise
Fannie Mae	Federal National Mortgage Association
Freddie Mac	Federal Home Loan Mortgage Corporation
HAMP	Home Affordable Modification Program
HUD	Department of Housing and Urban Development
MHA	Making Home Affordable
OFS	Office of Financial Stability
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
TARP	Troubled Asset Relief Program
Treasury	Department of the Treasury

Appendix E—Audit Team Members

This report was prepared and the review was conducted under the direction of Kurt Hyde, Deputy Special Inspector General, Office of the Special Inspector General for the Troubled Asset Relief Program.

The staff members who conducted the audit and contributed to the report include:

Shawn Cornell

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Appendix F—Treasury's Comments

ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 22, 2010

Neil M. Barofsky
Special Inspector General
Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP)
1500 Pennsylvania Ave., NW, Suite 1064
Washington, D.C. 20220

RE: SIGTARP Draft Audit Report

Dear Mr. Barofsky:

Thank you for the opportunity to review the draft audit report titled "Factors Affecting Implementation of the Home Affordable Modification Program (HAMP)", to be released on an embargoed basis on or about March 23, 2010. The Department of the Treasury (Treasury) is working to continuously strengthen foreclosure mitigation efforts through HAMP. As explained below in the summary responses for each recommendation in the report, in general, we concur with the concerns expressed in the recommendations (a), (b) and (c), towards which Treasury has already taken and is taking significant steps, but do not concur with recommendations (d) and (e). In addition, we have commented on the characterization of the net present value (NPV) model contained in the audit report. A detailed description of the actions that Treasury has already taken or plans to take with regard to the concerns expressed in the recommendations will be provided to SIGTARP within 30 days of the issuance of the audit report.

Before we address our summary responses to the recommendations, we should note that Treasury appreciates the acknowledgement in the report that SIGTARP "accepts Treasury's assertion that its goal has always been offers and not permanent modifications." We also agree with SIGTARP's statement that "To be meaningful, Treasury's goal for HAMP must relate to how many people are helped to avoid foreclosure." But we respectfully do not concur with the conclusion that that helping homeowners actually avoid foreclosure "can only occur with permanent modifications." Our goal is to avoid preventable foreclosures among homeowners eligible for HAMP through modifications as well as alternatives to foreclosure such as short-sales and deed-in lieu, and other modification programs offered by servicers.

Through HAMP, every homeowner who is eligible for a permanent modification, who submits all required documentation and remains current during the trial period will get a permanent modification offer. Homeowners who participate in HAMP and then are denied a permanent modification because they did not meet the criteria may have alternatives other than foreclosure. The success of HAMP should be measured by how many eligible homeowners are able to avoid the pain and stigma of foreclosure by reducing their mortgage payments to affordable levels while either remaining in their homes or transitioning with dignity to more suitable housing. The number of permanent modifications is one element, but not the only element of gauging the success of HAMP programs over time.

Additionally, the approximately 170,000 permanent modifications reported in the MHA Monthly Report and identified in the audit report does not account for the approved final modifications that are awaiting acceptance by the borrower. Of the 1.1 million borrowers that have started a HAMP modification, 170,000 borrowers have entered permanent modifications, and an additional 91,000 borrowers have

received final approval from the servicers, which represents 32% of borrowers in trial periods for longer than three months and therefore eligible for a decision on a final modification.

Summary responses to SIGTARP recommendations

Recommendation (a): Treasury should unambiguously and prominently disclose its goals and estimates (updated over time, as necessary) for how many homeowners will actually be helped through permanent modifications, and report monthly on its progress to meeting those goals.

Treasury acknowledges that there has been confusion about what the references to "helping up to 3-4 million homeowners" meant and that Treasury's own statements have not always been precise. Treasury notes that the Government Accountability Office (GAO) Report in July 2009 described the goal for HAMP in the way that Treasury intended - up to 3-4 million trial modification offers - but many people have assumed this number represented a goal of permanent modifications. Treasury will try in the future to be more precise.

HAMP is the largest, most complex mortgage modification program of its kind, bringing together borrowers, servicers, lenders and investors. There was little historical precedent on how to design the program, in addition to limited data on which to base estimates of potential performance. HAMP is highly transparent with regard to program performance. We publish monthly data reports on program performance – with additional data added to the report on a regular basis. Treasury's first monthly Servicer Performance Report was released in July 2009 and contained data on program performance beginning in May 2009.

The monthly reports unambiguously and prominently state the number of permanent modifications achieved each month since November 2009. The monthly reports also report servicer-specific progress in completing permanent modifications – providing the percentage of each servicer's pool of delinquent loans that have completed a permanent modification. The report also provides information by servicer on the percent of trial modifications converted to permanent modifications. These comparative performance metrics on completion of permanent modifications by servicer provide a good measurement of progress on meeting permanent modification goals.

Recommendation (b): Treasury should set goals for other performance metrics to measure over time the implementation and success of HAMP, and report performance against those goals.

Treasury agrees that performance goals and metrics are critical to the effective administration of any program. At launch there were a number of unknowns regarding implementation of the program that made it difficult to set appropriate targets. These included the number of servicers that would participate; the rate at which they could build capacity to implement the program; and the acceptance of overall program design. In addition, during the first year of operation, targets and goals were focused on short-term implementation deliverables and milestones for the program to become fully operational against the goal of up to 3-4 million trial modification offers.

Since the inception of the program, indicators of performance have been monitored closely, and Treasury has provided extensive information about performance. To ensure accountability, Treasury's website, www.FinancialStability.gov, provides transparency for a wide range of programs, including HAMP, with all of the monthly Servicer Performance Reports and program fact sheets. We have also established two additional websites to provide information about HAMP specifically – www.hmpadmin.gov and www.MakingHomeAffordable.gov. These websites include comprehensive documentation and information about HAMP including, for example, complete lists of all servicers participating in the

program, copies of all contracts signed by servicers, the Supplemental Directives (SDs) that establish additional requirements for HAMP, hundreds of frequently asked questions, a white paper describing the Net Present Value (NPV) test methodology and all of the borrower application documents.

In July 2009, just three months after the first servicers signed agreements to participate in HAMP, Treasury began publishing the monthly Servicer Performance Reports. The first monthly report included one page of information reflecting the limited data available and reliable at that time, including trial modifications started and trial modifications offered. Each month we have significantly expanded the amount of data included in the monthly report, to maximize servicer accountability and program transparency. The latest report includes a copious amount of data through February 2010, for example: data on trial and permanent modifications by servicer, a list of participating servicers, trial and permanent modifications at the state and key metropolitan levels, a chart of the estimated population of borrowers eligible for HAMP, an overview of administration housing initiatives, characteristics of permanent modifications, average payment reduction, data on modifications by investor type, permanent modifications by waterfall steps, and predominant hardship reasons for permanent modifications.

In September 2009, we began to include modification performance by servicer in the monthly Servicer Performance Report to increase the accountability of servicers participating in the program. This included adding a "trial modification tracker" which tracks each servicer's population of delinquent loans as well as what percentage of that pool has been offered a trial modification, started a trial modification and started a permanent modification. This servicer performance metric compares the relative success of each servicer in reaching its eligible pool of borrowers, and provides a clear metric of what percentage of eligible borrowers overall are being reached through HAMP. As of 2010, the reports include servicer-by-servicer comparisons of both trial modifications and permanent modifications as a percent of the servicer's pool of loans that are sixty or more days past due.

With the lessons learned from the past several months of full capacity operations, Treasury will set specific targets for key program objectives soon and for which we will provide a further description in the detailed response letter. For example, Treasury has developed a survey of operational metrics and is collecting data from servicers on an enhanced number of performance measures, including time to answer incoming borrower calls, and time to process HAMP applications from homeowners.

Recommendation (c): Treasury should undertake a sustained public service campaign as soon as possible both to reach additional borrowers that could potentially be helped by the program and to arm the public with complete, accurate information about the program to avoid confusion and delay, and to prevent fraud and abuse.

Treasury will consider the audit report's suggestion that we "comprehensively gauge whether HAMP information is reaching its target audience (homeowners in trouble) effectively," for the implementation of the public service campaign described below. We believe the fact that more than 1.3 million homeowners have received offers for trial modifications, representing an estimated 60%of the total population of homeowners currently eligible to participate in HAMP, is a testament to the outreach efforts by Treasury and the servicers.

Treasury has taken and continues to take significant actions to supplement the efforts of servicers in terms of program outreach. Fundamentally, it is the contractual responsibility of servicers participating in HAMP to reach out to borrowers and convey information about the program to the homeowners whose loans they service.

Treasury is working with the Ad Council on a two-part public service announcement (PSA) campaign that has been underway since December 2009. For the first part of this campaign, Treasury is partnering with the U.S. Department of Housing and Urban Development (HUD) and NeighborWorks America® on a refreshed foreclosure prevention campaign. The refreshed campaign includes a new call-to-action for struggling homeowners by directing them to the Homeowner's HOPE Hotline and *MakingHomeAffordable.gov* so that they may receive free assistance with the Making Home Affordable Program from a HUD-approved housing counselor. The campaign includes both television and radio advertising that have been sent to 12,000 stations across the country, as well as web banners and outdoor advertising. The Ad Council will share regular updates about the success of the campaign with Treasury. Preliminary reports from January (the first full month of advertising) demonstrate that the advertisements have already run about 1,000, including at stations in some of the hardest-hit areas of the country, such as Detroit, Michigan; Jacksonville, Florida; and San Luis Obispo, California.

For the second phase of the campaign, Treasury and HUD are working with the Ad Council on a new multi-media campaign set to launch in late spring 2010. The new campaign will feature English and Spanish television, radio, outdoor and web advertisements, as well as fliers and other print materials. The Ad Council recently held one-on-one interviews with homeowners in Miami, Florida and Chicago, Illinois to test the various campaign approaches for effectiveness. As with the "refresh" campaign currently underway, the key message of this campaign will be that free help is available from the federal government if homeowners reach out for help.

Treasury believes that engaging in the two-part roll-out will continue to raise awareness of the program among eligible homeowners. By working with the Ad Council on these campaigns, we are able to leverage its extensive relationships to secure donated space, keeping campaign costs down but media impressions high.

Recommendation (d): Treasury should reconsider its decision to allow servicers to substitute alternative forms of income verification based on the subjective determination by the servicer, such as whether such documents are "appropriate" or relying on the servicer's "good business judgment consistent with the judgment employed when modifying mortgage loans held under their own portfolio."

The Supplemental Directives published by Treasury, specifically SD 09-01 and SD 10-01, clearly state the requirements for documentation of borrower income for HAMP modifications. However, these guidelines were never intended to be, and should not be, a comprehensive underwriting guide applicable to every unique borrower circumstance or to replace servicer judgment in making credit decisions for its portfolio. Although standards are important in the underwriting process, the application of good business judgment is also critical, and helps to ensure appropriate outcomes for all potentially eligible borrowers. Good business judgment is applied to include the non-traditional borrower (e.g., a recently re-employed person with an offer letter and only one associated pay stub). The updates to HAMP underwriting requirements described in the SD 09-07 and SD 10-01 reinforced the most important fraud protection measures – a requirement that servicers obtain tax returns/transcripts and a credit report for 100% of borrowers. Treasury is working with Fannie Mae to implement fraud detection procedures as contemplated in SD 09-07, targeting owner-occupancy and identity.

With regard to oversight and compliance, auditors are accustomed to evaluating organizations' application of business judgment. In addition, auditors apply their own good business judgment in assessing the nature and impact of identified exceptions. SD 10-01 specifically requires the servicers to appropriately document "the decision-making process when applying good business judgment … and,

where applicable, reference the servicer's associated policies and procedures". Therefore, Treasury, through the compliance agent, will be able to evaluate and conclude on the applicability of the servicer's use of judgment. The compliance agent's suite of compliance activities (specifically, on-site fieldwork and loan file reviews) is constructed to assess the adequacy of the servicer's documentation, the appropriateness of the servicer's business judgment, and the consistency with which that judgment is applied.

Recommendation (e): Treasury should re-examine the program's structure to ensure that the program is adequately minimizing the risk of re-default.

Treasury continues to examine program parameters to improve operational efficiency and effectiveness. SD 10-01 is an example of this re-examination as it takes a major step forward in minimizing re-default risk by mandating the move to fully verified trial period plans. Beginning with trial plans offered after April 15, 2010 (June 1 Trial Plan effective date), borrowers must be fully verified and determined to be eligible for a permanent modification, subject only to timely receipt of trial period payments. This will limit the fall-out from trial to permanent to only those borrowers who fail to make trial payments.

Payment affordability under HAMP is achieved primarily through interest rate reduction, term extensions and principal forbearance. All loans permanently modified include an interest rate reduction (and the median decrease is four percentage points), 40% of modifications include term extensions and 28% have principal forbearance. HAMP supports long term sustainability by fixing the initial interest rate for five years and making term extension and principal forbearance permanent. This gives the borrower the ability to recover from the hardship that caused the initial delinquency.

After five years the interest rate is gradually increased but will never exceed an interest rate cap based on the Freddie Mac survey rate on the date of the modification. That rate is currently near historic lows. The median rate cap of permanent HAMP modifications is five percent for the life of the loan. This rate is an affordable rate over the life of loan, and represents a significant reduction from the loan's original interest rate for many borrowers, particularly those who had subprime, high rate loans.

The program design for HAMP purposely focused on achieving affordability of the first mortgage payment in an effort to preserve homeownership. It also includes a second lien modification program to provide a comprehensive affordability solution for borrowers. Failure to pay back-end or consumer loan debts will not result in the borrower losing the home. A permanent HAMP modification reinstates the delinquent first mortgage and reduces mortgage debt by a median of $500 per month giving borrowers greater ability to control other credit obligations without fear of losing their homes to foreclosure.

We agree that there are alternative modification structures that could lower re-default rates, but the audit report's recommendation and discussion fail to acknowledge that these alternatives, taken alone, would likely result in fewer modifications and therefore fewer modifications completed and/or would significantly increase program cost.

Treasury has also continuously examined issues that can undermine program effectiveness, such as affordability challenges presented by second liens, unemployment and negative equity. Treasury has already announced and begun implementation of the Second Lien Modification Program (2MP), including three servicers - Bank of America, Wells Fargo and JPMorgan – that together account for more than $400 billion of second lien loans. We expect other large servicers to join soon. While the focus of the program remains affordability, Treasury continues to study ideas that will enhance, albeit modestly, program outcomes for unemployed and underwater borrowers.

Additional comment on the Net Present Value model

In addition to the summary responses above, Treasury has the following observations regarding the characterization that "repeated changes in net present value methodology have caused confusion and delay in implementing HAMP":

- All servicers have had access to the fully operational portal NPV model throughout the program.
- The major changes to the NPV model have reflected improvements in that model and program adjustments in HAMP that servicers supported. We have not introduced a material change since version 3.0 in August, 2009.
- On selected servicer concerns with "doubling the time": as noted above, a fully operational version of the NPV has been available through the portal at all times. A servicer having difficulty recoding the model into its system could and should use the portal.

Treasury shares your commitment to effective foreclosure mitigation and dedication to protecting taxpayer interests. We appreciate SIGTARP's acknowledgment in the audit report that "Treasury has made progress in developing the administrative backbone of the program and in getting the program started rapidly", and "Treasury has made substantial progress during the year since the announcement of HAMP in attaining servicer participation."

We look forward to working with you and the SIGTARP team.

Sincerely,

Herbert M. Allison, Jr.
Assistant Secretary for Financial Stability

Draft Report
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SIGTARP Hotline

If you are aware of fraud, waste, abuse, mismanagement, or misrepresentations associated with the Troubled Asset Relief Program, please contact the SIGTARP Hotline.

By Online Form: www.SIGTARP.gov *By Phone:* Call toll free: (877) SIG-2009

By Fax: (202) 622-4559

By Mail: **Hotline: Office of the Special Inspector General for the Troubled Asset Relief Program**
1801 L Street., NW, 4th Floor
Washington, D.C. 20220

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Chairman TOWNS. Thank you very much, Mr. Barofsky.
Mr. Dodaro.

STATEMENT OF GENE DODARO

Mr. DODARO. Good morning, Mr. Chairman, Ranking Member Issa, members of the committee. I am very pleased to be here today to discuss GAO's work regarding the Home Affordable Modification Program.

As has been pointed out this morning, we issued a report last July looking at the program. Right now, there is been a lot more trial modifications put in place than permanent modifications, as has been pointed out, so far. The 1.1 million trial modifications were put in place. Of those, 800,000 are still active and less than 200,000 have achieved permanent modification.

But it is also important to look at the trends. If I might direct your attention to our chart over here, the top line is the trial modifications that have been started. As you can see, they peaked around last September or October timeframe and since Thanksgiving have been declining. The line, the dotted line at the bottom, are the beginnings of the permanent modifications that were started and then converted into the 170,000 that were in place at the end of February.

Now, the challenge going forward is to take the pipeline of the trial modifications and have decisions made on them, whether they are to be converted to permanent modifications or not, but also importantly the pipeline for trial modifications has to be replenished for these first lienholder mortgages in order to make sure that the goals of the program ultimately are achieved.

In addition to the first lien program, Treasury needs to establish and move forward on the second lienholder program. There is a foreclosure alternative program that is waiting in the wings to be started, as well, and there is the hardest hit housing fund, which is directed in five States in particular. So you have other programs that have not yet been implemented that are necessary to be able to do this, as well as dealing with this first lienholder modification program.

Now, like a lot of other aspects of the troubled asset relief program, the GAO, along with the IG from SIGTARP, have been making a number of recommendations to increase the transparency and accountability of the program. Treasury has taken some steps to address our recommendations last July, but has yet to fully implement many of them.

First, we had recommended that they establish performance metrics and benchmarks, which would include the numbers targeted for permanent modifications, as well.

They also had not yet resolved compliance issues associated with remedial actions or penalties for servicers that were not complying with the program.

We also suggested they regularly update the number of people who could be helped through this program because of evolving economic and other circumstances.

We have continued our work, and we have noted preliminarily some indications of inconsistencies about how these borrowers are being treated, when borrowers are communicated with, how early

in the process of the lateness on their payment. Some are being contacted after 30 days being delinquent; others not until 60 days, so there is inconsistencies in terms of the criteria that are put forth.

There is also problems with how complaints are being dealt with. There is no set process for that yet in place.

Also, we had recommended that Treasury followup to determine whether or not the counseling requirements that were required for certain borrowers were complied with, and they have not yet done that. I think we are missing a huge opportunity here for more consumer education and financial literacy and consumer protections, but we won't know whether that is complied with or not going forward unless Treasury implements our recommendation.

We are also looking at what kind of appeal process would make sense for this program to provide due process protections for borrowers.

I just want to assure this committee that we take this issue very seriously. The TARP program has helped a number of institutions and needs to have similar help offered to households to afford them the protections going forward.

We will continue our work looking at whether or not this program is achieving its objectives, whether or not it is being managed effectively and carried out properly and prudently in the best interest of the American citizens.

I thank you for your time this morning. I would be happy to answer questions at the appropriate time.

[The prepared statement of Mr. Dodaro follows:]

United States Government Accountability Office

GAO

Testimony

Before the Committee on Oversight and Government Reform, House of Representatives

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TROUBLED ASSET RELIEF PROGRAM

Home Affordable Modification Program Continues to Face Implementation Challenges

Statement of Gene L. Dodaro
Acting Comptroller General of the United States

GAO-10-556T

March 25, 2010

GAO
Accountability Integrity Reliability
Highlights

Highlights of GAO-10-556T, a testimony to the Committee on Oversight and Government Reform, House of Representatives

TROUBLED ASSET RELIEF PROGRAM

Home Affordable Modification Program Continues to Face Implementation Challenges

Why GAO Did This Study

Mortgage loan defaults and foreclosures are key factors behind the current economic downturn. In response, Congress passed and the President signed the Emergency Economic Stabilization Act of 2008, which authorized the Department of the Treasury to establish the Troubled Asset Relief Program (TARP). Under TARP, Treasury created the Home Affordable Modification Program (HAMP) as its cornerstone effort to meet the act's goal of protecting home values and preserving homeownership. This statement focuses on (1) HAMP's program activities to date, (2) status of GAO's July 2009 recommendations to strengthen HAMP's transparency and accountability, (3) preliminary findings from GAO's current work evaluating servicers' implementation of HAMP, and (4) additional challenges HAMP faces going forward.

GAO obtained information from 10 HAMP servicers of various sizes that accounted for 71 percent of the TARP funds allocated to participating servicers. GAO reviewed their policies and procedures, interviewed management and quality assurance staff, and observed a sample of phone calls between borrowers and servicers. GAO is also reviewing samples of loan files for borrowers offered and denied HAMP trial modifications. Finally, GAO spoke with officials at Treasury and its financial agents—Fannie Mae and Freddie Mac—and is analyzing program information and data from these sources.

View GAO-10-556T or key components. For more information, contact Mathew Scire at (202) 512-8678 or scirem@gao.gov.

What GAO Found

When Treasury announced the program in March 2009, it estimated that HAMP could help 3 to 4 million borrowers. Through February 2010, including both the portion funded by TARP and the portion funded by Fannie Mae and Freddie Mac:

- about 1.1 million borrowers had begun trial modifications; of which
- about 800,000 were in active trial modifications, and
- fewer than 200,000 permanent modifications had been made.

As of early March 2010, the TARP-funded portion of the program had 113 participating servicers, and about $36.9 billion of the $50 billion in TARP funds for HAMP had been allocated to these servicers. A typical TARP-funded modification could result in a monthly mortgage payment reduction of about $520.

Treasury has taken some steps, but has not fully addressed concerns that GAO raised in its July 2009 report on HAMP's transparency and accountability. For example, Treasury has yet to finalize some key components of its internal controls over the first-lien program, including establishing metrics and benchmarks for servicers' performance. In addition, Treasury has not finalized remedial actions, or penalties, for servicers not in compliance with HAMP guidelines. According to Treasury, these remedies will be completed in April 2010. Lastly, GAO reported that Treasury's projection that 3 to 4 million borrowers could be helped by HAMP was based on several uncertain assumptions and might be overly optimistic, and GAO recommended that Treasury update this estimate, but the Department has not yet done so.

Preliminary results of GAO's ongoing work show inconsistencies in some aspects of program implementation. Although one of HAMP's goals was to ensure that mortgage modifications were standardized, Treasury has not issued specific guidelines for all program areas, allowing inconsistencies in how servicers treat borrowers. For example, the 10 servicers GAO contacted had 7 different sets of criteria for determining whether borrowers who were not yet 60 days delinquent qualified for HAMP. Also, some servicers were not systematically tracking all HAMP complaints and, in some cases, tracked only resolutions to certain types of complaints, such as written complaints addressed to the company president. GAO also found that servicers faced challenges implementing HAMP because of the number of changes to the program, some of which have required servicers to readjust their business practices, update their systems, and retrain staff.

HAMP is likely to face additional challenges going forward, including successfully converting trial modifications, addressing the needs of borrowers who have substantial negative equity, limiting redefaults for those who receive modifications, and achieving program stability. While GAO's study is not yet completed, GAO shared preliminary findings with Treasury to allow it to address these issues in a timely manner.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our work on the Home Affordable Modification Program (HAMP), which the Department of the Treasury has implemented under the Troubled Asset Relief Program (TARP). Dramatic increases in home mortgage defaults and foreclosures have been at the root of the current economic crisis. In response to the turmoil in the financial markets, the Emergency Economic Stabilization Act of 2008 (the act) authorized Treasury to establish TARP and to purchase and insure up to $700 billion in troubled assets from financial institutions through TARP.[1] Treasury's initial focus in implementing TARP was to stabilize the financial markets and increase lending to businesses and consumers, but the authorities granted to Treasury under the act were also to be used to preserve homeownership, protect home values, and maximize assistance for homeowners with respect to foreclosure mitigation efforts. On February 18, 2009, Treasury announced the framework for HAMP, a program that would use up to $50 billion of TARP funds to help at-risk homeowners avoid potential foreclosure, primarily by reducing their monthly mortgage payments.

My statement today is based on our July 23, 2009, report on HAMP and our current work evaluating Treasury's ongoing implementation of the program.[2] Specifically, this statement focuses on (1) HAMP program activities to date, (2) the status of the recommendations we made in our July 2009 report to strengthen the transparency and accountability of HAMP, (3) preliminary findings from our current work evaluating servicers' implementation of HAMP, and (4) additional challenges HAMP faces going forward. Our current work evaluates servicers' practices in informing borrowers about HAMP, the extent to which servicers have been consistently evaluating borrowers for HAMP participation, and the processes that have been put into place for borrowers to file HAMP complaints. To examine these questions, we spoke with and obtained information from 10 HAMP servicers of various sizes that collectively represented 71 percent of the TARP funds allocated to participating

[1]Pub. 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 by almost $1.3 billion, from $700 billion to $698.741 billion.

[2]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).

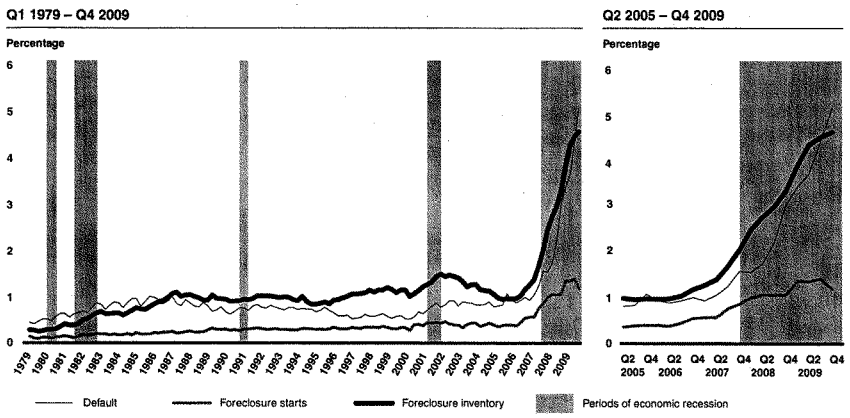
servicers and visited 6 of them. We reviewed their policies and procedures, interviewed management and quality assurance staff, and observed a sample of phone calls between borrowers and their servicers. We are also reviewing samples of loan files from each servicer for borrowers who were offered and denied HAMP trial modifications. Finally, we spoke with officials at Treasury and its financial agents—Fannie Mae and Freddie Mac—to understand how they were ensuring compliance with HAMP guidelines and their processes for resolving HAMP complaints. We are coordinating our work with other oversight entities that TARP created—the Congressional Oversight Panel (COP) and the Office of the Special Inspector General for TARP (SIGTARP).

The work on which this testimony is based was performed 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 finding 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.

Background

National default and foreclosure rates rose sharply from 2005 through 2009 to the highest level in 29 years (fig. 1). Default rates climbed from 1.09 percent to 5.09 percent, and foreclosure start rates—representing the percentage of loans that entered the foreclosure process each quarter—grew almost threefold, from 0.42 percent to 1.2 percent. Put another way, over half a million mortgages entered the foreclosure process in the fourth quarter of 2009, compared with about 174,000 in the fourth quarter of 2005. Finally, foreclosure inventory rates rose over 350 percent over the 4-year period, increasing from 0.99 percent to 4.58 percent, with most of that growth occurring after the second quarter of 2007. As a result, over 2 million loans were in the foreclosure inventory as of the end of 2009. Foreclosure starts declined in the last quarter of 2009, but the number of defaults continued to climb.

Figure 1: National Default and Foreclosure Trends, 1979 – 2009



Source: GAO analysis of MBA data, National Bureau of Economic Research.

Foreclosure is a legal process that a mortgage lender initiates against a homeowner who has missed a certain number of payments. The foreclosure process has several possible outcomes but generally means that the homeowner loses the property, typically because it is sold to repay the outstanding debt or repossessed by the lender. The foreclosure process is usually governed by state law and varies widely by state. Foreclosure processes generally fall into one of two categories—judicial foreclosures, which proceed through courts, and nonjudicial foreclosures, which do not involve court proceedings. The legal fees, foregone interest, property taxes, repayment of former homeowners' delinquent obligations, and selling expenses can make foreclosure extremely costly to lenders. Options to avoid foreclosure include forbearance plans, short sales, deeds in lieu of foreclosure, and loan modifications. With forbearance plans and loan modifications, the borrower retains ownership of the property. With short sales and deeds in lieu of foreclosure, the borrower does not.

In March 2009, Treasury issued the first HAMP guidelines for modifying first lien mortgages in an effort to help homeowners avoid foreclosure. The goal of the first-lien mortgage modification program is to reduce the

monthly payments of struggling homeowners to more affordable levels—specifically 31 percent of household income. According to Treasury, HAMP was intended to offer reduced monthly payments to up to 3 to 4 million homeowners. Under the first-lien modification program, Treasury shares the cost of reducing the borrower's monthly mortgage payments with mortgage holders/investors and provides various financial incentives to servicers, borrowers, and mortgage holders/investors for loans modified under the program for 5 years. To be eligible for a first-lien loan modification:

- the property must be owner occupied and the borrower's primary residence;
- the property must be a single-family property (1 to 4 units) with a maximum unpaid principal balance on the unmodified first-lien mortgage that is equal to or less than $729,750 for a 1-unit property;
- the loan must have been originated on or before January 1, 2009; and
- the monthly first-lien mortgage payment must be more than 31 percent of the homeowner's gross monthly income.

Borrowers have until December 31, 2012, to be accepted into the first-lien modification program. HAMP also includes other subprograms that, for example, offer incentives to modify or pay off second-lien loans of borrowers whose first mortgages were modified under HAMP and to pursue foreclosure alternatives when a HAMP modification cannot be offered.

The HAMP first-lien modification program has four main features:

1. **Cost sharing** – Mortgage holders/investors will be required to take the first loss in reducing the borrower's monthly payments to no more than 38 percent of the borrower's income. Treasury will then use TARP funds to match further reductions on a dollar-for-dollar basis, down to the target of 31 percent of the borrower's gross monthly income. The modified monthly payment is fixed for 5 years or until the loan is paid off, whichever is earlier, as long as the borrower remains in good standing with the program. After 5 years, the payment may increase by 1 percent a year to a cap of the Freddie Mac rate for 30-year fixed rate loans as of the date that the modification agreement is prepared.

2. **Standardized net present value (NPV) test** – The NPV test compares expected cash flows from a modified loan to the same loan with no modification. If the expected cash flow with a modification is greater than the expected cash flow without a modification, the loan servicer is required to modify the loan. According to Treasury, the NPV test increases mortgage holder/investor confidence and helps ensure that borrowers are treated consistently under the program by providing a transparent and externally derived objective standard for all loan servicers to follow.

3. **Standardized waterfall** – Servicers must follow a sequential modification process to reduce payments to 31 percent of gross monthly income. Servicers must first capitalize accrued interest and expenses paid to third parties. Next, interest rates must be reduced to the higher of 2 percent or a level that achieves the 31 percent debt-to-income target. If the debt-to-income ratio is still over 31 percent, servicers must then extend the amortization period of the loan up to 40 years. Finally, if the debt-to-income ratio is still over 31 percent, the servicer must forbear—defer—principal until the payment is reduced to the 31 percent target.[3] Servicers may also forgive mortgage principal at any step of the process to achieve the target monthly payment ratio of 31 percent.

4. **Incentive payment structure** – Treasury will use HAMP funds to provide both one-time and ongoing ("pay-for-success") incentives to loan servicers, mortgage holders/investors, and borrowers to increase the likelihood that the program will produce successful modifications over the long term and help cover the servicers' and investors' costs of modifying a loan.

Prior to HAMP, many servicers offered their own loan modification programs, but the vast majority of these loan modifications increased or did not change the borrower's monthly mortgage payment. Rather, the focus of these programs was on bringing delinquent loans current by adding past due interest, advances for taxes or insurance, and other fees to the loan balance. Some of these loan modifications changed the interest rate or remaining term of the loan but typically focused on reducing

[3]The principal forbearance amount is non-interest bearing and non-amortizing and cannot accrue interest under the 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.

payments to 38 rather than 31 percent of the borrower's gross monthly income. For example, FDIC's IndyMac Federal Bank loan modification program, on which HAMP is partially based, initially reduced payments to 38 percent of the borrower's gross monthly income before subsequently revising the payment target to 31 percent. Many servicers continue to offer non-HAMP loan modifications for borrowers who do not qualify for HAMP. Appendix I provides examples of non-HAMP loan modification programs and an overview of other federal foreclosure prevention programs.

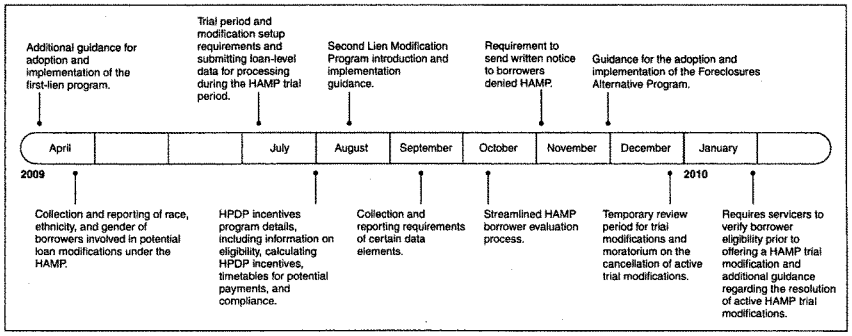
The HAMP Loan Modification Program Has Made Limited Progress to Date

Treasury first announced HAMP in February 2009 and issued the first implementation guidelines in March 2009. Since then, Treasury has issued 11 supplemental directives for the HAMP program, 8 of them for the first-lien modification program (fig. 2). The early supplemental directives tended to focus on basic implementation issues, but the later directives resulted in significant changes to the program—for example, requiring servicers to send written denial notices to borrowers, streamlining the process used by servicers for evaluating borrowers, and requiring that servicers verify borrowers' income before initiating trial modifications.

As of March 9, 2010, 113 servicers had signed HAMP Servicer Participation Agreements to modify loans not owned or guaranteed by the government sponsored enterprises (GSE) Fannie Mae and Freddie Mac.[4] Roughly $36.9 billion in TARP funds have been allocated to these servicers for modification of non-GSE loans. These servicers include national financial institutions such as Bank of America, Wells Fargo, and JP Morgan Chase and national servicing organizations such as GMAC Mortgage and Ocwen. Fannie Mae and Freddie Mac required all servicers of loans that they owned or guaranteed to participate in the GSE HAMP program.

[4]Under HAMP, Fannie Mae and Freddie Mac are expected to provide up to $25 billion in funding to encourage servicers to modify loans owned or guaranteed by the two GSEs. According to Treasury, up to $50 billion in TARP funds will be used primarily to encourage the modification of mortgages that financial institutions own and hold in their own portfolios and mortgages held in private-label securitization trusts (non-GSE loans).

Figure 2: Timeline of HAMP Program Announcements



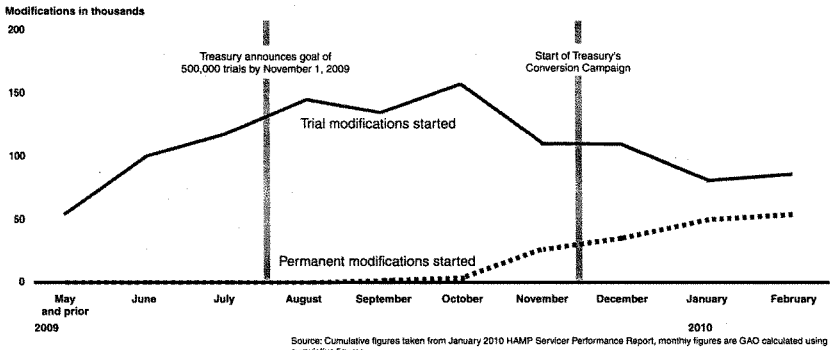
Source: Treasury.

Treasury reported that through February 2010 servicers had offered nearly 1.4 million HAMP trial modifications to borrowers of GSE and non-GSE loans, and roughly 1.1 million of these had begun HAMP trial modifications.[5] Of the trial modifications begun, about 0.8 million were in active trial modifications, fewer than 0.2 million were in active permanent modifications, and the remaining had been canceled. As shown in figure 3, the number of trial modifications started generally increased until October 2009 but then decreased. In part, the decrease in new trial modifications may be the result of a shift in focus on the part of Treasury and the servicers from starting new modifications to making existing trial modifications permanent. In July 2009, Treasury announced a goal of 500,000 trial modifications started by November 1, 2009. In November, however, Treasury announced a campaign to increase the number of conversions to permanent modifications. Although the first trial modifications started nearly a year ago, servicers are completing permanent modifications at a rate slower than Treasury expected, with 32 percent of loans that have been in trial for 3 months or more approved for

[5]Roughly 43 percent of borrowers who were either in trial or permanent modifications as of February 17, 2010, had non-GSE loans and therefore fell under the TARP-funded portion of HAMP.

conversion. Servicers we spoke with cited several challenges in making trial modifications permanent, including obtaining all the required documentation and borrowers who missed trial period payments.

Figure 3: GSE and non-GSE HAMP Trial and Permanent Modifications Made Each Month



Source: Cumulative figures taken from January 2010 HAMP Servicer Performance Report, monthly figures are GAO calculated using cumulative figures.

To date, Treasury has reported limited information on the number of borrowers who have been denied trial modifications under HAMP. The 10 HAMP servicers that we spoke with reported a wide range of denial rates. The reasons for denying trial modifications varied by servicer—for example, one servicer reported high proportions of investors prohibiting HAMP modifications and another servicer reported insufficient or excessive borrower income as the most common reasons for denial.

Additionally, Treasury has provided limited data on the performance of HAMP modifications, both trial and permanent. According to program administrators, servicers are not required to report trial period payments on a monthly basis, and these payments may not be reported until the trial modification becomes official. Thus, it is difficult to determine the number of borrowers in trial modifications who may be delinquent in their trial payments. Limited information is available on the performance of permanent modifications because few trials have become permanent. According to Treasury, through the end of February 2010, 1,473 of the

170,207 permanent modifications made had defaulted, and 26 had paid off their loans.

HAMP payments are contingent upon trial modifications becoming permanent, and given the small number of permanent modifications to date, Treasury has made relatively few incentive payments to investors, servicers, and borrowers. According to Treasury, through the end of February 2010, a total of $58 million had been disbursed to servicers and investors. Roughly 78 percent of these payments went to servicers and 22 percent to investors. As of March 1, 2010, no incentive payments had been made on borrowers' behalf because no borrowers had reached the first anniversary of their trial modification, as the program requires before making the incentive payment.

Overall, non-GSE borrowers participating in HAMP had their mortgage interest rates on their loans reduced by approximately 5.5 percentage points (from 7.5 percent to 2.0 percent on average) and for nearly half of these borrowers had seen their loan terms extended to 40 years (an increase of 13 years beyond the original remaining term of the loan). To show the payments that Treasury might make for a typical modification, we developed an example of first-lien cost-sharing and incentive payments based on median loan and borrower characteristics of non-GSE borrowers entering trial modifications through February 17, 2010. For a borrower with a loan of about $222,000 who is paying 44 percent of his gross monthly income toward monthly housing payments, a HAMP modification would reduce the monthly housing payment by $520, from $1,760 to $1,240. Excluding the Home Price Decline Protection (HPDP) incentive, over 5 years Treasury would pay an investor $9,900 for the difference in mortgage payments and other incentives.[6] A servicer would receive $4,500, and a borrower $5,000. In total, the borrower would receive $36,200 in the form of reduced payments and incentives. Appendix II elaborates on this example.

[6]The HPDP initiative provides investors with additional incentives for HAMP modifications of loans on properties located in areas where home prices have recently declined and where investors are concerned that price declines may persist. Depending on the location of the home and when the trial modification started, investors may also be eligible to receive up to $16,200 in HPDP incentives.

Further Actions Needed by Treasury to Improve HAMP's Transparency and Accountability

In our July 2009 report on HAMP, we noted that Treasury's projection that 3 to 4 million borrowers could be offered loan modifications was based on several uncertain assumptions and might be overly optimistic. Specifically, we reported that some of the key assumptions and calculations regarding the number of borrowers whose loans would be successfully modified under HAMP using TARP funds were necessarily based on limited analyses and data. According to Treasury, projections for the number of non-GSE borrowers who will participate in HAMP are updated quarterly through the revised allocation of TARP funds for HAMP servicers. Nonetheless, according to Treasury's Web site, Treasury continues to expect that HAMP will offer reduced monthly payments to up to 3 to 4 million borrowers.

We also reported that while HAMP is the cornerstone effort under TARP to meet the act's goals of preserving homeownership and protecting home values, a number of HAMP programs remained largely undefined. Since that time, additional details of the HPDP incentives, second-lien modification program, and foreclosure alternatives program have been announced, but the number of homeowners who can be helped under these programs remains unclear. In July, we noted that Treasury had not estimated the number of additional modifications that would be made as a result of HPDP incentive payments, even though the potential exists for the incentive payments to use up to $10 billion in TARP funds. To date, Treasury has not prepared any such estimate. In addition, while Treasury has attempted to improve the targeting of these incentive payments by incorporating the size of the unpaid principal balance and the loan-to-value ratio in the payment calculations, HPDP incentives continue to be available for loans that would have passed the NPV test without them. Similarly, although the second-lien and foreclosure alternatives programs were included in the March 2009 program guidelines, no funds have yet been disbursed under either of these programs to date. According to Treasury, as of March 1—over a year after the first announcement of HAMP—details of the second-lien program had not yet been finalized, and only two servicers had signed an agreement to participate in the program.

Finally, we reported in July that Treasury had not finalized a comprehensive system of internal control for HAMP. We noted that important parts of a comprehensive system of internal control include, among other things, implementing a system for determining compliance, having sufficient numbers of staffing with the right skills, and establishing

and reviewing performance measures and indicators.[7] According to Treasury, it was working with its financial agents to implement such a system and we continue to assess Treasury's efforts in this area.[8] While the Chief of the Homeownership Preservation Office (HPO)—the office within Treasury that is responsible for administering HAMP—consulted with staff and reduced staffing levels from 36 to 29 full-time positions, Treasury has not yet formally assessed whether HPO has staff with the skills needed to govern the program effectively. In addition, Treasury has not yet finalized remedies, or penalites, for servicers who are not in compliance with HAMP guidelines. According to Treasury, these remedies will be complete in April 2010 and a HAMP compliance committee has been established to review issues related to servicers' compliance with program guidelines and to enforce appropriate remedies. Furthermore, while Treasury has put in place some performance metrics for HAMP, it has not developed benchmarks, or goals, to measure these metrics against, limiting its ability to determine the success of the program. We continue to assess Treasury's efforts to establish a comprehensive system of internal control as part of our ongoing oversight of the implementation of TARP and our annual audit of TARP's financial statements. Appendix III provides more detail on the recommendations we made in July and Treasury's responses to them.

Servicers Reported Facing Challenges in Implementing HAMP, and Program Implementation Was Sometimes Inconsistent

The servicers we interviewed told us that a major challenge they faced in implementing the HAMP first-lien modification program was the number of changes to the program. Each major program change often required servicers to adjust their business practices, update their systems, and retrain their servicing staff. An example of a significant program change that servicers brought to our attention was Treasury's recent requirement that borrowers fully document their income before they can be evaluated for a trial modification. According to servicers we contacted, Treasury told servicers in July 2009 that it was a "best practice" to use stated income information to evaluate borrowers for trial modifications in order to offer modifications more quickly. As a result, some servicers that had been requiring fully documented income before offering a trial modification switched to using stated income, a change that involved altering business processes, including updating company policies and retraining employees.

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

[8]Fannie Mae and Freddie Mac are financial agents for the non-GSE portion of HAMP, with Fannie Mae as the program administrator, and Freddie Mac as the compliance agent.

However, as Treasury became concerned about the number of trial modifications that were not converting to permanent modifications due to difficulty obtaining income documentation from borrowers after the trial period began, Treasury subsequently reversed the policy. In January 2010, Treasury announced that effective June 1, 2010, servicers would be required to evaluate borrowers for trial modifications based on fully documented income. Servicers that switched to or had been using stated income will again have to alter their processes and policies to meet the new standards.

Servicers also told us that the instability of Treasury's NPV model presented another implementation challenge. Although the NPV test is a key element in evaluating borrowers for HAMP, servicers told us that they experienced problems accessing and using the NPV model on Treasury's Web portal. According to Treasury, servicers were allowed to use their own NPV models until September 1, but some servicers told us that the lack of a Treasury model made it difficult for them to begin offering trial modifications. One servicer told us that in the first few months of the program, it was otherwise ready to start making trial modifications but it was unable to effectively use Treasury's Web-based NPV model. As a result, it had to keep borrower applications on hold for several months.

In addition, although one of HAMP's goals is to create clear, consistent, and uniform guidance for loan modifications across the industry, we found inconsistencies and wide variations among the HAMP servicers that we contacted with respect to communication with borrowers about HAMP, the criteria used to evaluate borrowers for imminent default, and the tracking of HAMP complaints.

- **Communications with borrowers** – Although Treasury guidelines state that servicers must provide borrowers with information designed to help them understand the modification process and must respond to HAMP inquiries in a timely and appropriate manner, the HAMP servicers we contacted differed widely in the timeliness and content of their initial communications with borrowers about HAMP. For example, while some servicers contacted borrowers about HAMP as soon as payment was 30 days delinquent, other servicers did not inform borrowers about HAMP until payments were at least 60 days delinquent. Treasury has not developed standards to evaluate servicers' performance in communicating with borrowers or penalties for servicers that do not meet Treasury's requirements.

We reviewed the Web sites of the 20 HAMP servicers with the largest program allocations and found that 3 did not provide any information about HAMP and that 3 others had posted inaccurate information about the program. The inaccuracies included statements implying that the program had not yet started and that only loans owned by Fannie Mae or Freddie Mac were eligible for HAMP. After we notified Treasury of these issues, two of the servicers updated their Web sites to include accurate program information. However, one continued to contain inaccurate information, and three continued to have minimal information about the program, but, according to Treasury, the level of information cannot be mandated.

- **Criteria for imminent default** – According to HAMP guidelines, borrowers in danger of imminently defaulting on their mortgages may be eligible for HAMP modifications. Although Treasury's goal is to create uniform guidance for loan modifications across the industry, Treasury has not provided specific guidance on how to evaluate non-GSE borrowers for imminent default, leading to inconsistent practices among servicers. Among the 10 servicers we contacted, there were 7 different sets of criteria for determining imminent default. While some servicers do not impose any requirements beyond the basic HAMP eligibility criteria, others do. For example, four servicers aligned their imminent default criteria for their non-GSE portfolios with the imminent default criteria that the GSEs required for their loans prior to March 1, 2010. These criteria required borrowers to have cash reserves equal to less than 3 months' worth of monthly housing payments and a ratio of disposable net income to monthly housing payments (debt coverage ratio) of less than 1.20. One servicer had begun using the new GSE criteria for its non-GSE loans, which impose a maximum cash reserves limit of $25,000 and have no debt coverage ratio requirement, for its non-GSE loans.[6] In addition, four servicers implemented additional criteria for imminent default:

  - including a sliding scale for the borrower's front-end debt-to-income ratio (e.g., borrowers in the highest income category had to have a front-end debt-to-income ratio of at least 40 percent);

  - an increase in expenses or decrease in income that is more than a certain percentage of income;

[6]The new GSE imminent default criteria also requires the use of an Imminent Default Indicator™, a statistical model that predicts the likelihood of default or serious delinquency for mortgage loans that are less than 60 days delinquent. However, this indicator is not available for non-GSE loans.

- a ratio of the remaining loan balance to the current house value that is above a certain percentage; and
- a "hardship" situation lasting more than 12 months.

As a result of the differences in criteria used to assess imminent default, borrowers with the same financial situation and loan terms could be approved for a HAMP loan modification by one servicer and denied by another.

- **Tracking of HAMP complaints** – While Treasury has directed HAMP servicers to have procedures and systems in place to respond to HAMP inquiries and complaints and to ensure fair and timely resolutions, some servicers are not systematically tracking HAMP complaints or their resolutions. For example, according to Treasury a compliance review conducted by Freddie Mac in fall 2009 cited a servicer for not tracking, monitoring, or reporting HAMP-specific complaints. In the absence of an effective tracking system, the compliance agent could not determine whether the complaints had been resolved. Similarly, several of the servicers we interviewed indicated that they tracked resolutions only to certain types of complaints. For example, several servicers told us that they tracked only written HAMP complaints and that they handled these written complaints differently depending on the addressee. In one case, letters that were addressed to the president of the company were directed to an "escalation team" that tracked the resolution of the complaint, and required weekly updates to the borrower until the complaint was resolved. In comparison, complaint letters that were not addressed to a company executive were routed through a business unit without specific response time requirements.

We have shared our preliminary observations about inconsistencies in servicers' implementation of HAMP with Treasury so that these inconsistencies can be addressed in a timely manner. As we continue our work evaluating servicers' implementation of the program, we plan to develop specific recommendations for Treasury as they are needed and appropriate to ensure that HAMP borrowers are treated consistently.

HAMP Faces Additional Challenges Going Forward

While HAMP has offered some relief to over a million borrowers struggling to make their mortgage payments, the program may face several additional challenges going forward. These include problems converting trial to permanent modifications, the growing issue of negative equity, redefaults

among borrowers with modifications, and program stability and management.

- **Conversions** – Treasury has taken some steps to address the challenge of converting trial modifications to permanent modifications, but conversions may continue to be an issue. During December 2009 and January 2010, Treasury held a HAMP Conversion Campaign to help borrowers who were in HAMP trial modifications convert to permanent modifications. This effort included a temporary review period lasting through January 31, which did not allow canceling trial modifications for any reason other than failure to meet HAMP property requirements and a requirement that the eight largest servicers submit conversion action plans. Since the announcement of the Conversion Campaign, the number of new conversions each month has increased from roughly 26,000 in November to roughly 35,000 in December and nearly 50,000 in January. However, as noted above, relatively few trial modifications have been made permanent.

- **Negative Equity** – As we reported in July 2009, HAMP may not address the growing number of foreclosures among borrowers with negative equity in their homes (so-called "underwater" borrowers).[10] While HAMP's overriding policy objective is to make mortgages more affordable for struggling homeowners, factors other than affordability may influence a borrower's decision to default, including the degree to which the borrower is underwater. As we reported in July, many states with high foreclosure rates also have high proportions of mortgages with negative equity. To help address this issue, in February 2010 Treasury announced the Housing Finance Agency Innovation Fund for the Hardest-Hit Housing Markets program, which will allocate $1.5 billion in HAMP funds to five states that have suffered an average home price drop of at least 20 percent from the state's price peak, based on a seasonally adjusted home price index. However, the details of this program and the extent to which it will be able to address defaults and foreclosures among this group of borrowers still remain to be seen.

- **Redefaults** – Some borrowers who receive a permanent HAMP modification are likely to redefault on their modified mortgages. Because few permanent modifications have been made to date, the redefault rate for HAMP remains to be seen, but HAMP alone may not address the needs of all borrowers. In particular, while HAMP lowers borrowers' monthly

[10]GAO-09-837.

first-lien payments to 31 percent of their gross monthly income, some borrowers may have high amounts of other debt, such as monthly payments on second mortgages or cars. These borrowers may have difficulty making even modified payments. In our July report, we noted that while Treasury requires borrowers with high levels of total debt to agree to obtained counseling, Treasury was not tracking whether borrowers obtain this counseling. We therefore recommended that Treasury consider methods of monitoring whether or not borrowers were obtaining the required counseling. Treasury officials told us that they considered methods of monitoring compliance but concluded that the processes would be too burdensome. As a result, it remains difficult to determine whether this program feature is likely to meet its purpose of reducing redefaults among high debt-burdened borrowers. We continue to believe that Treasury should seek cost-efficient methods to assess the extent to which the counseling requirement is reducing redefaults. Furthermore, the second-lien program, which could help reduce borrowers' total debt, has yet to be fully specified and, to date, only two servicers have signed up for this program.

- **Program Stability and Management** – HAMP continues to undergo significant program changes, including the recently announced shift to upfront income verification and the implementation of the second-lien modification program, the foreclosure alternatives program, and the Hardest-Hit Housing Markets program. Treasury will be challenged to successfully implement these programs while also continuing to put in place the controls and resources needed to continue the first-lien modification program.

Given the magnitude of the investment of public funds in HAMP and the fact that the program represents direct outlays of taxpayer dollars rather than investments that may yield a return (as in other TARP programs), it is imperative that Treasury continue to improve HAMP's transparency and accountability. As we have noted, HAMP is Treasury's cornerstone effort under TARP to meet the act's purposes of preserving homeownership and protecting home values. As the number of delinquent loans and foreclosures continues to climb and home values continue to fall in many areas of the country, Treasury will need to ensure that borrowers receive consistent access to and treatment from servicers. Treasury also needs to make sure that it has the information, controls, and resources to successfully implement a still-developing program. We will continue to evaluate the implementation of HAMP as part of our ongoing oversight of the activities and performance of TARP.

Mr. Chairman and Members of the Committee, I appreciate this opportunity to discuss this critically important program and would be happy to answer any questions that you may have. Thank you.

Contact

For further information on this testimony, please contact Richard J. Hillman at (202) 512-8678 or hillmanr@gao.gov, Thomas J. McCool at (202) 512-2642 or mccoolt@gao.gov, or Mathew J. Scirè 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 statement. GAO staff who made major contributions to this statement are listed in appendix IV.

Appendix I: Examples of Other Foreclosure Prevention Programs

Institution	Program or effort	Selected program characteristics
GSEs (Fannie Mae and Freddie Mac)	Home Affordable Refinance Program	• Borrowers with loans owned or guaranteed by Fannie Mae or Freddie Mac can refinance into a fixed rate loan at the current market rate • Eligible borrowers are current on their loans, the owner occupant of a one- to four-unit property, and have a loan-to-value ratio (LTV) of less than 125 percent • Between February 2009 and February 2010, over 190,000 borrowers were refinanced through HARP
Federal Housing Administration (FHA)	Hope for Homeowners	• Borrowers can refinance into an affordable loan insured by FHA • Eligible borrowers are those who, among other factors, have a monthly mortgage debt-to-income ratio above 31 percent • Servicers provided incentive payments; lenders required to write down the existing mortgage amount depending on the borrower's monthly mortgage debt-to-income ratio and total household debt. • Borrowers must agree to share the equity created at the beginning of their new Hope for Homeowners mortgage • Between October 2008 and January 2010, 96 loans were refinanced under Hope for Homeowners
Federal Deposit Insurance Corporation	IndyMac Loan Modification Program	• Eligible borrowers can get monthly mortgage payments reduced to 31 percent of gross monthly income.
Private-sector financial institutions	Private-sector foreclosure prevention programs	• Programs vary, but include modification programs aimed at reducing monthly payments. • For example, one bank has a program to modify pay option adjustable rate mortgages. Another bank modifies loans to decrease monthly payments to between 31 and 40 percent of the borrower's monthly gross income.

Source: Publicly available information from agencies and organizations listed above.

Appendix II: Example of Treasury Payments for a Typical Modification over 5 Years

	Monthly loan payment	Debt to income ratio	Loan to value ratio	Term (months)	Interest rate (fixed)	Total unpaid balance	Notes
Loan origination	$1,760	44%	90%	360	7.5%	$222,000	House value of $246,667.
Two years later (borrower 60 days delinquent)	$1,760	44%	114%	338	7.5%	$225,194	House value decreases 20%.
Loan modification	$1,240	31%	114%	480	2.0%	$225,194	Reduction in payment of 30%

$520 monthly payment reduction (Treasury pays $140; investor forgoes $380)

First five years after loan modification

		Incentive recipients: Investor	Servicer	Borrower
Treasury payments	Payment for Monthly Reduction (from 38% to 31%)	$6,400		
	Servicer Incentive		$1,000	
	Current Borrower Bonus	1,500	500	
	Pay for Performance Success ($1,000/yr for 5 yrs)			$5,000
	Pay for Success ($1,000/yr for 5 yrs)		5,000	
	Home Price Decline Protection (HPDP)	*		
	Total	$7,900[a]	$6,500	$5,000

Borrower benefits	Pay for Performance Success ($1,000/yr for 5 yrs)	$5,000
	Treasury Payments on Behalf of Borrower for Monthly Payment Reduction	8,400
	Investor Payments on Behalf of Borrower for Monthly Payment Reduction	22,800
	Total	$36,200

Source: GAO.

[a]Investors may also be eligible to receive HPDP incentive payments depending on where the property is located. For this example, if the trial modification were started in September 2009, investors may be eligible for HPDP incentives that range from $0 to $16,200. If the trial started during October, November, and December 2009, the amounts could range from $0 to $10,800. If the trial started during the first 3 months of 2010, the incentive payment could be as much as $5,880.

Appendix III: Treasury's Actions in Response to GAO's July 2009 HAMP Recommendations

GAO recommendation	Treasury actions to date
Consider methods of monitoring whether borrowers with total household debt of more than 55 percent of their income who have been told that they must obtain HUD-approved housing counseling do so, and assessing how this counseling affects the performance of modified loans to see if the requirement is having its intended effect of limiting redefaults.	• According to Treasury, it considered options for monitoring what proportion of borrowers is obtaining counseling, but determined that it would be too burdensome to implement. • Treasury does not plan to assess the effectiveness of counseling in limiting redefaults because it believes that the benefits of counseling on the performance of loan modifications is well documented and the assessment of the benefits to HAMP borrowers is not needed.
Reevaluate the basis and design of the HPDP program to ensure that HAMP funds are being used efficiently to maximize the number of borrowers who are helped under HAMP and to maximize overall benefits of utilizing taxpayer dollars.	• On July 31, 2009, Treasury announced detailed guidance on HPDP that included changes to the program's design that, according to Treasury, improve the targeting of incentive payments to mortgages that are at greater risk because of home price declines. • Treasury does not plan to limit HPDP incentives to modifications that would otherwise not be made without the incentives, due to concerns about potential manipulation of inputs by servicers to maximize incentive payments and the additional burden of re-running the NPV test for many loans.
Institute a system to routinely review and update key assumptions and projections about the housing market and the behavior of mortgage-holders, borrowers, and servicers that underlie Treasury's projection of the number of borrowers whose loans are likely to be modified under HAMP and revise the projection as necessary in order to assess the program's effectiveness and structure.	• According to Treasury, on a quarterly basis it is updating its projections on the number of non-GSE first-lien modifications expected when it revises the amount of TARP funds allocated to each servicer under HAMP. • Treasury is gathering data on servicer performance in HAMP and housing market conditions in order to improve and build upon the assumptions underlying its projections about mortgage market behavior.
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.	• A permanent Chief Homeownership Preservation Officer was hired on November 9, 2009. • According to Treasury, staffing levels for HPO have been revised from 36 full-time equivalent positions to 29. • According to Treasury, as of March 2010, HPO had filled 27 of the total of 29 full-time positions.
Expeditiously finalize a comprehensive system of internal control over HAMP, including policies, procedures, and guidance for program activities, to ensure that the interests of both the government and taxpayer are protected and that the program objectives and requirements are being met once loan modifications and incentive payments begin.	• According to Treasury, it will work with Fannie Mae and Freddie Mac to build and refine the internal controls within these financial agents' operations as new program components are implemented. • Treasury expects to finalize a list of remedies for servicers not in compliance with HAMP guidelines by April 2010.
Expeditiously develop a means of systematically assessing servicers' capacity to meet program requirements during program admission so that Treasury can understand and address any risks associated with individual servicers' abilities to fulfill program requirements, including those related to data reporting and collection.	• According to Treasury, a servicer self-evaluation form, which provides information on the servicer's capacity to implement HAMP, has been implemented beginning with servicers who started signing Servicer Participation Agreements in December 2009.

Source: GAO and analysis of Treasury information.

Appendix IV: GAO Contacts and Staff Acknowledgments

GAO Contacts

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Staff Acknowledgments

In addition to the contacts named above, Lynda Downing, Harry Medina, John Karikari (Lead Assistant Directors); and Tania Calhoun, Emily Chalmers, Heather Latta, Rachel DeMarcus, Karine McClosky, Marc Molino, Mary Osorno, Winnie Tsen, and Jim Vitarello made important contributions to this testimony.

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Chairman TOWNS. Thank you very much for your testimony.

Dr. Calabria.

STATEMENT OF MARK A. CALABRIA

Mr. CALABRIA. Chairman Towns, Ranking Member Issa, distinguished members of the committee, I do want to thank you for the invitation to appear at today's important hearing.

Before I begin my testimony, I want to emphasize a point the chairman made about foreclosure scams. These are widespread, and I think we should all commend the work that SIGTARP is doing. I would, as well, encourage the committee to bring the Federal Trade Commission up to update you on their efforts. They really are the ones leading the effort against foreclosure scams.

My testimony is going to touch on essentially two points. The first point in question rather is: why have the current administration and the previous administration efforts, along with those of the mortgage industry, to reduce foreclosures had so little impact in the foreclosure numbers? I very much want to emphasize at this point it is not a partisan issue. If you look at HOPE now and you look at HAMP, they were very different programs, but the assumptions underlying their structure are the same.

The second question is: given what we know why those efforts haven't worked, what are our options going forward to improve those? So I will give a very short answer to why I think the previous efforts have not worked, and that is because the implicit assumption behind these programs that most of if not all of the foreclosures are the result of predatory lending or exploding ARMs is simply false. The simple truth is that the vast majority of mortgage defaults are being driven by the same factors that have always driven mortgage defaults: generally, a negative equity position on the part of the homeowner coupled with a life event, generally most often a job loss or reduction of earnings in some other point.

So I would emphasize, until both of these components—negative equity, negative income shock—are addressed, I think foreclosures will remain at very high levels.

I would note if payment shock alone were the dominant driver of defaults, then we would observe most defaults occurring around the time of reset on the interest rate, but we do not see that. What we see is the vast majority of defaults occurring long before reset. Obviously, the high level of foreclosures, I think, has left us all frustrated. I think we need to start with asking ourselves if these answers need to be grounded in solid, unbiased analysis, and I would want to reiterate and emphasize some of the points that Neil made, which is, to gauge the success of this program, we need to have a reasonable baseline. I don't believe we have any really baseline to establish whether the Treasury is doing a good or bad job, really.

I think, if you look at the promises that Treasury has made, it is really kind of hard to conclude that they are either just making the numbers up or they don't have a sense of what their own metrics are.

So the important part of this is: Treasury needs to put out metrics upon which we can measure their performance and know whether they are doing a good or bad job.

I think it is also essential that Treasury put out a credible, clear analysis of the cost and benefits of this program. If the full $75 billion is spent and if we end up—which I expect that maybe, if we are on the track to have maybe permanent modifications of about 200,000, if we are lucky, then that assistance will mean that we will have spent almost 400,000 per permanent modification, which, as I will note, is more than twice the median U.S. home value. So we do need to make sure that this money is going and is being spent effectively.

Before discussing specific proposals, I think we need to start from the very clear reality that almost half, about 50 percent, of foreclosures today are driven by job loss. Absolutely no way we can address the foreclosure situation without addressing the job situation. So I would say the most significant thing we could do is try to find a way to foster an environment that is conducive to private sector job creation and the foreclosure problem will follow that.

In addition, I think we need to focus not simply on homeowners in foreclosure, but those who are potentially at risk of foreclosure. For instance, I will note that about 4 million of the jobs that have been lost in this recession have been what are called mass layoffs. Mass layoffs present a double shock to our household. Not only do you have the loss of your home, but you also take a loss to the housing market because of a very big shock to the labor market, but as damaging as mass layoffs can be, they have one advantage, which is the Department of Labor collects statistics on them and reports them because there are laws that require that employees receive notice.

So there is a point of intervention where we can try to help families before they actually hit foreclosure, because we know that these mass layoffs are coming.

But, despite that connection, there is almost no coordination between HUD and Department of Labor, so I would encourage HUD and I would encourage the DOL to partner so that the appropriated dollars we have spent so far in counseling funds can be focused on those workers at the time they receive a notice of a layoff, because we know that there is a high probability that 6 to 9 months later after their layoff is when they are going to be getting into financial trouble.

I would also emphasize we do need to approach this as a form of triage, which in my mind we need to put our resources at those families who need it the most.

Several of the programs, such as those that are aimed not at families in foreclosure but simply those who cannot refinance because they are underwater, I think should be ended. These divert resources away from families who are most in need and focused on families who don't need it.

In concluding, I want to emphasize very, very strongly we need to do something about the underlying causes, and the underlying causes are not ARMs, they are the employment market, they are negative equity, and that needs to be the focus of this.

Thank you. I look forward to your questions.

[The prepared statement of Mr. Calabria follows:]

Testimony of Mark A. Calabria, Ph.D.
Director, Financial Regulation Studies, Cato Institute
Before the
House Committee on Oversight and Government Reform
On "Foreclosure Prevention: Is The Home Affordable Modification Program Preserving Homeownership?"
March 25, 2010

Mark A. Calabria, Ph.D. is Director of Financial Regulation Studies at the Cato Institute. Before joining Cato in 2009, he spent six years as a member of the senior professional staff of the U.S. Senate Committee on Banking, Housing and Urban Affairs. In that position, he handled issues related to housing, mortgage finance, economics, banking and insurance for Ranking Member Richard Shelby (R-AL). Prior to his service on Capitol Hill, Calabria served as Deputy Assistant Secretary for Regulatory Affairs at the U.S. Department of Housing and Urban Development, and also held a variety of positions at Harvard University's Joint Center for Housing Studies, the National Association of Home Builders and the National Association of Realtors. Calabria has also been a Research Associate with the U.S. Census Bureau's Center for Economic Studies. He has extensive experience evaluating the impacts of legislative and regulatory proposals on financial and real estate markets, with particular emphasis on how policy changes in Washington affect low and moderate income households. He holds a doctorate in economics from George Mason University. http://www.cato.org/people/mark-calabria

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Chairman Towns, Ranking Member Issa, and distinguished members of the Committee, I thank you for the invitation to appear at today's important hearing. I am Mark Calabria, Director of Financial Regulation Studies at the Cato Institute, a nonprofit, non-partisan public policy research institute located here in Washington. Before I begin my testimony, I would like to make clear that my comments are solely my own and do not represent any official policy positions of the Cato Institute. In addition, outside of my interest as a citizen and a taxpayer, I have no direct financial interest in the subject matter before the subcommittee today, nor do I represent any entities that do.

My testimony today will address two specific questions. The first is: why have the Obama and Bush Administration efforts, along with those of the mortgage industry, to reduce foreclosures had so little impact on the overall foreclosure numbers? This critique applies to the Home Affordable Modification Program as well as previous efforts, such as HOPE NOW.

The second question is: given what we know about why previous efforts have had such little impact, what are our policy options?

In answering both these questions, I rely on an extensive body of academic literature, the vast majority of which has been subjected to peer review, which has examined the determinates of mortgage delinquency and default. Foremost among this literature is a series of recent papers written by economists at the Federal Reserve Banks of Boston and Atlanta, in particular the work of Paul Willen, Christopher Foote and Kristopher Gerardi. My testimony owes a considerable intellectual debt to this research.

Why haven't previous efforts stemmed the foreclosure tide?

The short answer to why previous federal efforts to stem the current tide of foreclosures have largely failed is that such efforts have grossly misdiagnosed the causes of mortgage defaults. An implicit assumption behind former Treasury Secretary Paulson's HOPE NOW, FDIC Chair Sheila Bair's IndyMac model, and the Obama Administration's current foreclosure efforts is that the current wave of foreclosures is almost exclusively the result of predatory lending practices and "exploding" adjustable rate mortgages, where large payment shocks upon the rate re-set cause mortgage payment to become "unaffordable."

The simple truth is that the vast majority of mortgage defaults are being driven by the same factors that have always driven mortgage defaults: generally a negative equity position on the part of the homeowner coupled with a life event that results in a substantial shock to their income, most often a job loss or reduction in earnings. Until *both* of these components, negative equity and a negative income shock are addressed, foreclosures will remain at highly elevated levels.

Given that I am challenging the dominant narrative of the mortgage crisis, it is reasonable to ask for more than mere assertions. First, if payment shock alone were the dominate driver of defaults then we would observe most defaults occurring around the time of re-set, specifically just after the re-set. Yet this is not what has been observed. Analysis by several researchers has found that on loans with re-set features that have defaulted, the vast majority of defaults occurred long before the re-set. Of course some will argue that this is due to such loans being "unaffordable" from the time of origination. Yet according to statistical analysis done at the Boston Federal Reserve, the borrower's initial debt-to-income (DTI) had almost no predictive power in terms of forecasting subsequent default.

Additionally if payment shock was the driver of default, the fixed rate mortgages without any payment shocks would display default patterns significantly below that of adjustable rate mortgages. When one controls for owner equity and credit score, the differences in performance between these different mortgage products largely disappears. To further illustrate this point, consider that those mortgages generally considered among the "safest" – mortgages insured by the Federal Housing Administration (FHA), which are almost exclusively fixed rate with no-prepayment penalties and substantial borrower protections, perform, on an apples to apples basis, as badly as the subprime market in terms of delinquencies.

The important shared characteristic of FHA and most of the subprime market is the widespread presence of zero or very little equity in the mortgage at origination. The characteristics of zero or negative equity also explain the poor performance of most subprime adjustable rate mortgages. Many of these loans also had little or no equity upon origination, providing the borrower with little equity cushion when prices fell. Recognizing the critical role of negative equity of course raises the difficult question as to what exactly it is that homeowners are losing in the event of a foreclosure.

"Unnecessary" foreclosures

Central to the arguments calling for greater government invention in the mortgage market is that many, if not most, of the foreclosures being witnessed are "unnecessary" or avoidable. Generally it is argued that investors and loan servicers do not face the same incentives and that in many cases in would be better for the investor if the loan were modified, rather than taken to foreclosure, but still the servicer takes the loan to foreclosure.

The principal flaw in this argument is it ignores the costs to the lender of modifying loans that would have continued paying otherwise. Ex Ante, a lender has no way of separating the truly troubled borrowers, who would default, from those that would take advantage of the system, if they knew they could get a modification just by calling. As long as potentially defaulting borrowers remain a low percentage of all borrowers, as they are today, it is in the best interest of the investor to reject many modifications that might make sense ex post. In addition, lenders may institute various mechanisms to help distinguish troubled borrowers from those looking to game the system.

It is also claimed that the process of securization has driven a wedge between the interests of investors and servicers, with the implication that servicers would be happy to modify, and investors would prefer modifications, but that the pooling and servicing agreements preclude modifications or that servicers fear being sued by investors. The first fact that should question this assumption is the finding by Boston Fed researchers that there is little difference in modification rates between loans held in portfolio versus those held in securitized pools. There is also little evidence that pooling and servicing agreements preclude positive value modifications. According to recent Credit Suisse report, less than 10 percent of agreements disallowed any modifications. While the Congressional Oversight Panel for the TARP has been critical of industry efforts, even that Panel has found that among the sample of pools it examined with a 5-percent cap on the number of modifications, none of the pools examined had actually reached that cap. If few pools have reached the cap, it would seem obvious that the 5 percent cap is not a binding constraint on modifications. In many instances the pooling agreements also require the servicer to act as if the servicer held the whole loan in its portfolio, raising substantial doubts as the validity of the "tranche warfare" theory of modifications.

A careful review of the evidence provides little support for the notion that high transaction costs or a misalignment of incentives is driving lenders to make foreclosures that are not in their economic interest. Since lenders have no way to separate troubled borrowers from those gaming the system, some positive level of negative value foreclosures will be profit-maximizing in the aggregate.

What could reduce the level of foreclosures?

The high level of foreclosures has left many policymakers and much of the public understandably frustrated and searching for answers. To be effective, those answers must be grounded in solid and unbiased analysis. In order to gauge the success of any federal efforts, we must also establish a reasonable baseline. I strongly encourage both Congress and the Administration to present detailed estimates of how many foreclosures are driven by which primary causes and how many of those foreclosures can be reasonably avoided.

Before discussing specific policy proposals, Congress should bear in mind that as approximately 50 percent of foreclosures are currently driven by job loss, the most significant way to reduce foreclosures is to foster an environment that is conducive to private sector job creation. Accordingly, the worst thing Congress can do is to insert uncertainty into the job market, pushing employers to the sides-lines.

In addition to focusing on owners currently in foreclosure, efforts can also be made to reach families before they fall behind on their obligation. For instance, approximately 4 million jobs have been lost in "mass lay-offs" since the beginning of the current recession. Mass lay-offs represent a double shock to households: the loss of a job along with a shock to the local housing market as the result of a major employer downsizing. As damaging as mass lay-offs can be, they do have one advantage – we know about them ahead of time, as the Department of Labor (DoL) collects data on mass lay-offs and workers must be given notice of such. Despite the strong connection between mass lay-offs and foreclosures, there is almost no coordination between DoL and HUD (or the many non-profit organizations providing housing assistance). DoL and HUD should partner in an effort to provide currently appropriated housing counseling funds to workers when they receive a notice of mass lay-off.

Congress can also encourage bank regulators to give lenders more flexibility to lease out foreclosed homes to the current residents. Typically banks come under considerable pressure from their regulators not to engage in long term property leasing or management, as that activity is not considered a core function of banks. I believe we can avoid the larger debate of banks being property managers by giving banks greater flexibility in retaining properties with non-performing mortgages as rentals, preferably to current residents. In addition to many owners who may wish to stay in their homes as renters, approximately 20 percent of foreclosures occur on renter-occupied investment properties. If current renters can continue to make their rent, many banks may prefer to keep those renters rather than proceed to a foreclosure sale.

In order to separate out deserving borrowers, who are trying to get back on their feet, from those simply walking away from a bad investment, Federal lending entities, such as FHA and the GSEs, should engage in aggressive recourse against delinquent borrowers who have the ability to pay, but simply choose not too. All federal modification programs should also include strong recourse provisions. We should make every effort to turn away from becoming a society where legally incurred debts are no longer obligations to be honored but simply options to be exercised.

Lastly, Congress and the Administration should focus resources on those households most in need, who *but for* an intervention, would lose their home. Programs aimed at households who are not facing foreclosure, but simply cannot re-finance due to being "underwater" on their mortgage should be ended. These programs draw off limited lenders/servicer resources that should instead focus on at-need families.

Conclusions

In concluding my testimony, I again wish to strongly state: the current foreclosure relief efforts have largely been unsuccessful because they have misidentified the underlying causes of mortgage default. It is not exploding ARMs or predatory lending that drives the current wave of foreclosures, but negative equity driven by house prices declines coupled with adverse income shocks that are the main driver of defaults on primary residences. Defaults on speculative properties continue to represent a large share of

foreclosures. Accordingly, for any plan to be successful it must address both negative equity and reductions in earnings.

Given the relatively low number of actual permanent modifications under HAMP, it is likely that the program's overall impact has been negative. First, the program has delayed the needed adjustment in the housing market. HAMP also has likely provided an incentive for additional borrowers to withhold mortgage payments in order to receive modifications, pushing some of those borrowers into delinquency while also diverting limited resources to households not at risk of foreclosure.. I thank you for your attention and welcome your questions.

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Chairman TOWNS. Thank you, Dr. Calabria.

Mr. Taylor.

STATEMENT OF JOHN TAYLOR

Mr. TAYLOR. Good morning, Chairman Towns, Ranking Member Issa, and distinguished members of the committee. My name is John Taylor. I am president of the National Community Reinvestment Coalition. I come to you from the front lines of America's foreclosure crisis to tell you that the battle is being lost. Our economy will continue to be dragged down by these mounting foreclosures if immediate change is not instituted.

The Federal Government's response to the foreclosure crisis, called, "Making Home Affordable," comes in two forms: HAMP, the Home Affordable Modification Program; and HARP, the Home Affordable Refinance Program.

The Federal Government's response, HAMP and HARP, while an improvement over the previous administration, is simply failing to make a difference.

The goal of HAMP and HARP was to help nearly 5 million families facing foreclosure. How many have they helped to date?

HAMP has modified a total of 170,000 permanent loans. HARP has refinanced a total of 190,000 permanent loans. So a total of all the 5 million plus folks facing foreclosure, the Government in the total length of this program has done 360,000 permanent modifications and refinances.

Now, consider that just last month we had over 300,000 foreclosure filings, alone. In 2009, for the year we had 2.8 million foreclosure filings, alone, for that year. So when you consider a number like 360,000 being modified or refinanced, you can understand why we are saying it is a failure.

Two important points here, too. According to the Inspector General, Special Inspector General Barofsky, the Treasury Department, under its current plans, will spend only $22 billion of the $75 billion committed to the HAMP program. Why they are sitting on those funds is beyond belief.

As for HARP, 99 percent of the refinancing of this program does it to borrowers with the LTVs of less than 105 percent, meaning they are really not helping people who are below water; they are helping people who are floating on the water.

Now, the keys to the crisis that Chairman Towns pointed to, I just want to point out to the members of the committee these keys represent a home, an individual home. Every single key in this box represents a family that is losing their home. These keys are just what will happen while we have this hearing. These keys represent 1,635 families across America who will lose their homes just while we sit here talking about what needs to be done.

Let me show you what Fannie and Freddie—sorry, what the Federal Government is going to do through the HAMP program during this same period of time. These are the amount of homes they are going to help out of this lot. That is the entire HAMP. During this hearing all these houses are going to be lost; this is what the HAMP program is going to help.

Well, let's give the Government some more credit. What are they going to do with the HARP? Those are the refinancing—your

friends at Fannie and Freddie, here is what they are going to do in that same period of time for that same group of people.

Now, if you think that this is success, then continue the way things are. But I can tell you this: regardless of how you view this, we spent trillions for Wall Street. This is a trickle for Main Street. And whether you look at this crisis and say, well, and I know some Members of Congress are fond of saying some of the homeowners bit off more than they could chew, and others will say, well, there are a lot of greedy people, lenders, brokers looking for a fee, a quick fee.

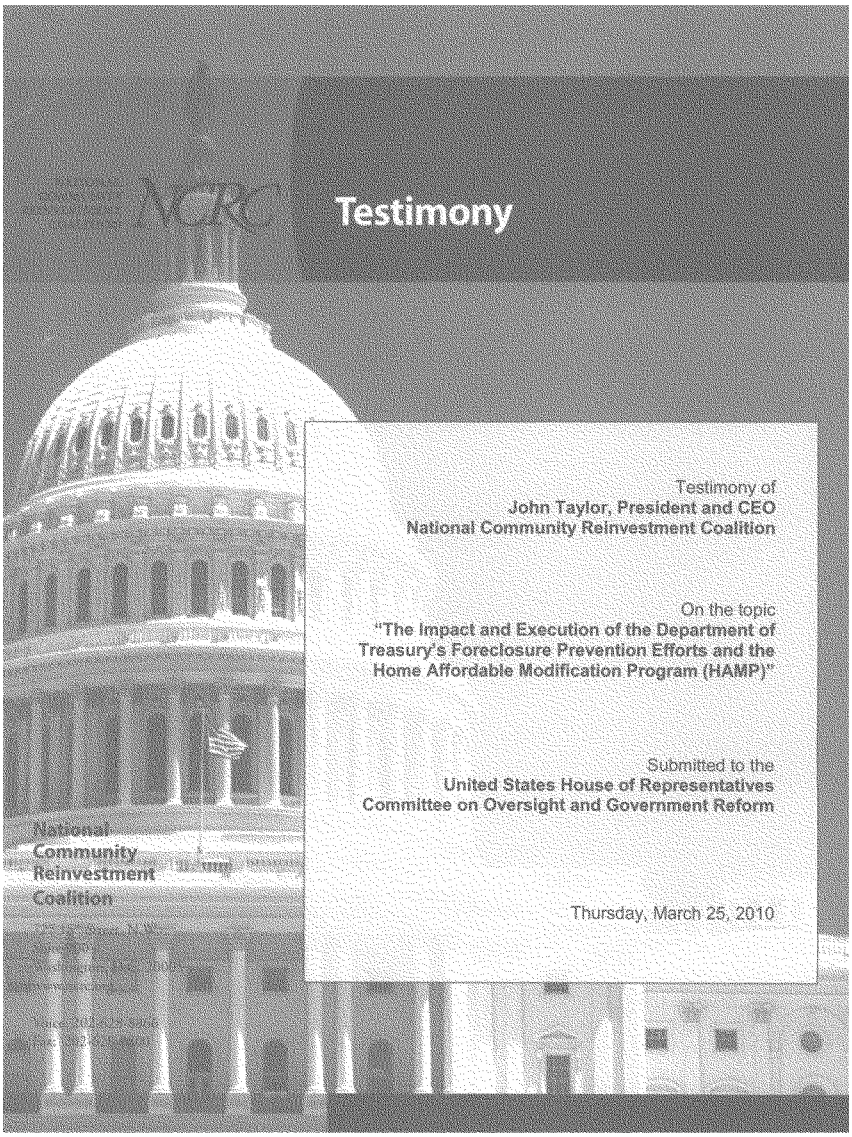
Let's be clear about two things: first, subprime lending became the norm for the mortgage industry and that is the kind of loan that was made to anybody, the subprime lending became the norm for the mortgage industry. Banks would not have made these loans 7 or 8 years ago. They simply would not be the norm. Subprime was not the norm. It was an exception to what this industry did. This became the norm.

Then this Congress in 1994 told the Federal Reserve to fix this, said, "You issue unfair and deceptive rules and practices that prohibit the kind of activities that are going to land people in this, including people who were biting off more than they can chew." In the old days, the bank would have said you can't afford this, but because you can get a fee, you can get money, quick money because it is being guaranteed by Wall Street or by your securitizer, this is what happened. This industry ran amuck and the Federal Reserve did not respond to this crisis until July 2008 when it finally, long after the horse had escaped the barn, the hay had rotted, the barn roof fell in, long after that, they finally issued rules on unfair and deceptive practices that would have prevented this kind of system.

Second, for those who think well, "buyer beware, I got mine, good luck to those folks," let me just say this: everybody has a dog in this hunt when it comes to these foreclosures. Every foreclosure reduces the value of their neighbor's property. Millions of foreclosures cause job loss, reduction in tax revenue, and dragging down of the American economy. Foreclosures reduce all homeowners' equity, and for many, a significant portion of their retirement savings. Over $7 trillion of wealth has been lost by American households.

So I am out of time, Mr. Chair, so I can start now, I can talk a little about the studies. I wanted to make a couple of recommendations. It is obviously the committee's call.

[The prepared statement of Mr. Taylor follows:]


NCRC
Testimony
Testimony of
John Taylor, President and CEO
National Community Reinvestment Coalition
On the topic
"The Impact and Execution of the Department of Treasury's Foreclosure Prevention Efforts and the Home Affordable Modification Program (HAMP)"
Submitted to the
United States House of Representatives
Committee on Oversight and Government Reform
Thursday, March 25, 2010
National
Community
Reinvestment
Coalition

I. Introduction

Good morning, Chairman Towns, Ranking Member Issa, and other distinguished members of the Committee. My name is John Taylor and I serve as President and CEO of the National Community Reinvestment Coalition (NCRC). I am honored to testify today before the House Committee on Oversight and Government Reform on behalf of NCRC on the topic of impact of the Administration's foreclosure prevention program and suggestions for improvement.

NCRC is an association of more than 600 community-based organizations that promotes access to basic banking services, including credit and savings, to create and sustain affordable housing, job development, and vibrant communities for America's working families.

Our country faces a foreclosure and economic crisis, dubbed the Great Recession, which is the worst crisis since the Great Depression. It is sadly ironic that this crisis could have been averted or, at the very least, mitigated if Congress and the federal regulatory agencies had increased the rigor of consumer protection and fair lending law and enforcement. A major factor causing this crisis was reckless and irresponsible lending that was not stopped by the regulatory agencies. For instance, the Office of the Comptroller of the Currency facilitated this lending by preempting state law in 2004 and the Federal Reserve Board finally enacted an anti-predatory regulation in the summer of 2008, much too little and too late.

RealtyTrac found that the nation experienced 2.8 million foreclosure filings in 2009, a 21 percent increase from 2008. In its latest report, RealtyTrac finds that the nation suffered foreclosure filings on an additional 308,524 properties in February 2010, which was a 6 percent increase from February 2009. In just February alone, one out of every 418 homeowners received a foreclosure filing.[1] In addition, the Mortgage Bankers

[1] *U.S. Foreclosure Activity Decreases 2 Percent in February*, see http://www.realtytrac.com, March 11, 2010 press release.

Association (MBA) reports that the national delinquency rate was 9.5 percent and the foreclosure rate was 4.6 percent in the fourth quarter of 2009. The combined delinquency and foreclosure rate of about 15 percent was the highest recorded by the MBA survey.[2]

Chairman Towns, NCRC has started a campaign called "Keys from the Crisis" that symbolizes the powerful and devastating impacts of this crisis on families. In this container next to me, NCRC has collected several hundred keys that are from families experiencing foreclosures. We are also collecting stories and pictures from displaced families. NCRC hopes that this imagery motivates policymakers and stakeholders to craft a large scale and effective foreclosure prevention program.

Solving the foreclosure crisis is critical for the economic health of this country. Since the onset of this crisis, $7 trillion in household wealth has been lost.[3] The loss of household wealth translates into reduced consumer spending, depressed business activity, lower gross national product, lower property tax receipts, and higher local and state budget deficits. Foreclosures do not only impact individual homeowners but entire neighborhoods through declining property values, increases in abandonment, decay, crime, and vandalism. In short, the continued failure to adequately address this crisis multiplies the profound social, cultural, and economic injury to our nation.

Since the federal government exacerbated the foreclosure crisis through its inaction, the government has an obligation to play a major role in ending this crisis. My testimony today will describe in detail the origins of the crisis (problematic lending followed by severe unemployment) since understanding the causes of the crisis is critical to designing programs to end the crisis. The experiences of NCRC's Housing Counseling Network will add important insights in the discussion about the accomplishments and shortcomings of the current Administration programs. NCRC also participates in the Coalition of U.S. Department of Housing Counseling Intermediaries which has sent

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[2] Mortgage Bankers Association, *Delinquencies, Foreclosure Starts Fall in Latest MBA National Delinquency Survey*, February 19, 2010 press release available at http://www.mbaa.org/NewsandMedia/PressCenter/71891.htm.

[3] *The Economy: The Crisis and Response*, a presentation of the San Francisco Federal Reserve Bank, see http://www.frbsf.org/econanswers/crisis.htm?1

letters to Treasury Department officials discussing critical programmatic issues associated with the Administration foreclosure prevention programs.[4]

As part of this testimony NCRC is releasing two reports: *NCRC HAMP Mortgage Modification Survey* and *Foreclosure Prevention Service Providers*. NCRC's *HAMP Mortgage Modification Survey* is the first report of its kind in that NCRC reports on modification outcomes by race, gender, and age of borrower based on a survey administered to 29 nonprofit counseling organizations whose counselors assisted 179 homeowners respond to the questions. The survey reveals a number of troubling trends. For example, only 36.4 percent of white homeowners eligible for the federal Home Affordable Modification Program (HAMP) received a modification at the time of the survey but even fewer (24.3 percent) of African-American homeowners received a modification. Almost 50 percent of the distressed homeowners seeking modifications were 50 and older, suggesting that this crisis has the potential to threaten the retirement security of a large segment of the American population. In addition, non-HAMP eligible homeowners were more likely to receive a modification than HAMP eligible homeowners.

NCRC's *Foreclosure Prevention Service Providers: What Consumers Should Know and Red Flags to Avoid* serves as a sober warning about the perils waiting for desperate borrowers if reputable modification programs are not widely available.[5] In this report, NCRC conducts "mystery shopping" of about 100 foreclosure prevention providers. Guided by NCRC professional staff, the shoppers posed as delinquent borrowers facing steep increases in the monthly payment of their interest-only loans. The foreclosure prevention providers quoted an average fee of $2,611 for their services and only 20 percent followed Federal Trade Commission (FTC) guidance that requires companies to inform consumers of alternatives such as nonprofit organizations that provide foreclosure prevention services for free. In about one fourth of the mystery shopping calls, the

[4] See for example, an October 9, 2009 letter to Treasury Secretary Geithner, HUD Secretary Donovan, and NEC Director Summers that highlights process issues in the HAMP program that are elaborated on in this testimony. Letter on file at NCRC.

[5] The full title is *Foreclosure Prevention Service Providers: What Consumers Should Know and Red Flags to Avoid – A Compliance White Paper based on Client Interviews, Literature Review, and a Comprehensive Fair Lending Audit*

shoppers were advised not to pay their mortgage and not to have any contact with their lender since the foreclosure prevention provider would communicate with the lender. These foreclosure prevention providers were engaged in the exact opposite of their companies' descriptions in that their abusive practices would exacerbate the chances of foreclosure instead of reducing them.

This testimony will outline several recommendations. These recommendations include:

NCRC's HELP Now Proposal: NCRC's HELP Now proposal features bulk purchases of distressed loans at a discount, refinancing these loans by FHA and the Government Sponsored Enterprises (GSEs) into sustainable mortgages, and then the sale of these mortgages back into the private sector. The government's general eminent domain powers and the statutory language establishing the Troubled Asset Relief program (TARP) provides the authority for the approach of the HELP Now proposal. While the goal of the Administration's Home Affordable Modification Program (HAMP) is laudable, the program has not produced the necessary volumes of modifications because it has relied on voluntary industry efforts motivated by federal subsidies.

In 2008, the federal government guaranteed or owned (via the Government-Sponsored Enterprises, which were put in conservatorship that year) almost 70 percent of the mortgages issued that year. For 2009 and 2010, estimates are as high as 86 percent of the mortgages guaranteed or owned by the federal government. In this context, it is hard to understand why there is not more progress under HAMP and the Home Affordable Refinance Program (HARP) since the government could be more forceful in deciding the fate of the distressed loans it controls. It is time, therefore, to consider a mandatory approach which requires the private sector to be expeditious and to exceed the subsidies offered by the American taxpayer to restructure distressed loans into affordable mortgages.

Need for Principal Reductions: Currently, the HAMP program regards principal reductions or forbearance as one of the last modification options. Substantial research

and programmatic experience, however, indicates that significant principal reduction is needed on a large scale, particularly in geographical regions of the country experiencing high levels of negative equity, foreclosures, and nonprime lending. The NCRC Help Now proposal would facilitate principal reduction by requiring financial institutions to sell distressed loans to the federal government at a significant discount.

Establish Loan Program for the Unemployed: H.R. 4173, passed by the House, establishes a $3 billion loan program, modeled after a successful and longstanding Pennsylvania program that provides low-interest loans for unemployed homeowners so that they can continue making loan payments and avoid foreclosure. Last month, the Administration announced a $1.5 billion initiative to be targeted to five states experiencing steep prices declines to establish loan modifications for unemployed homeowners and other distressed homeowners. This proposed funding is a start and will need to be supplemented by additional public and private funding in order to reach adequate scale in the five states and in other states as well.

Process Improvements in HAMP: The Administration must increase fairness and equity in the HAMP program by immediately stopping foreclosure proceedings while borrowers are in the loan modification stage. We are encouraged about media reports indicating that the Treasury Department intends to halt foreclosure proceedings while borrowers are in a trial modification.[6] It is unclear, however, how many other protections are being contemplated by the Treasury Department. For example, will this new policy apply to borrowers being evaluated for trial modifications? In addition, we are pleased that Treasury plans to require consideration of applications from borrowers in bankruptcy. Finally, the Treasury Department must increase the transparency of the Net Present Value (NPV) model that considers eligibility for modifications so that counselors and borrowers can more effectively appeal denials of loan modification requests.

[6] "Obama Mulls Changes to Mortgage Program: More consumer protections may be added to fix long-standing complaints," Associated Press report 3:30 PM, February 22, 2010, accessed via http://www.msnbc.msn.com/id/35525942/ns/business-real_estate/.

Fair Lending Investigation in the HAMP Program and Participating Servicers: NCRC's survey findings of racial disparities in receiving modifications call for a thorough fair lending investigation of the HAMP program and participating servicers. The investigation should assess if the HAMP program guidelines and NPV test contain any elements that have a disparate impact on protected classes that is not justified by business necessity. In addition, do the servicers engage in any practices that result in disparities or, worse, are discriminatory in intent and effect?

Second Liens and Short Sales: Banks own a significant amount of second liens. The regulatory agencies must recognize the reluctance to modify second liens as both a consumer protection/fair lending and a safety and soundness issue. If a high percentage of second liens default, the safety and soundness of the banks are undermined.

Related to the stubbornness of holders of second liens to modify their loans is the short sale program recently announced by the Treasury Department. The short sale program must not become a convenient excuse for not modifying difficult loans, including those with second liens. The short sale program must truly become a last resort for borrowers who cannot afford loans even after modification. Congress and the Treasury Department must monitor the use of short sales carefully to ensure that lenders and servicers do not abuse the short sale program. Also, policymakers must outlaw or limit the use of broker price opinions (BPOs) in conjunction in HAMP's short sale programs. BPOs have been found to destabilize property values by underestimating values in order to facilitate sales.

Larger Role for Nonprofit Organizations: Consider a larger role for nonprofits as borrower advocates, including taking over caseloads for servicers who display continued and gross incompetence in executing loan modifications. Another option is for the Treasury Department, the Government Sponsored Enterprises, or servicers to consider contracting out to nonprofit organizations for the roles of underwriting and arranging for modifications or refinances in the HAMP and HARP programs. While further considering nonprofit roles in foreclosure prevention programs, we also urge the Department of Housing and Urban Development (HUD) to exempt nonprofit counseling

agencies from the requirements of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act). Further registration and fee requirements would overburden nonprofit counseling organizations which already must comply with rigorous HUD certification standards.[7]

Enhance Publicly Available Data on HAMP and HARP: Accountability depends on transparency. The cursory reports on HAMP and HARP must be replaced with detailed data disclosure that provides information on applications and denials for modifications by race, income, and gender of borrower so that the public and private sectors can be effectively held accountable for equitably serving all segments of the population. About a year after HAMP and HARP program implementation, NCRC is releasing a survey today that examines modification experience by demographic characteristics. The government, with vastly greater resources than NCRC, should have conducted such a study much earlier to make sure all communities have equitable access to foreclosure prevention.

Require Loss Mitigation and Bankruptcy Reform: Private sector institutions would be more serious about modifying loans if Congress passed laws requiring reasonable and documented loss mitigation efforts before foreclosure and reformed the bankruptcy laws to allow judges to modify loans for primary residences.

Stop Foreclosure Prevention Scams: NCRC's foreclosure prevention service provider report underscores the need for an effective legislative solution and increased public and private sector oversight combined with effective education and outreach to ensure consumers work with responsible providers. Modification companies are often operating in a regulatory vacuum, without any accountability, and today, may be one of the factors blocking consumer access to the Home Affordable Mortgage Program and the Home Affordable Refinance Program.

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[7] See February 9 letter from the Coalition of Housing Counseling Intermediaries to HUD regarding Docket No. FR-5271-P-01, on file at NCRC.

Prevent Future Crises: In order to avert future crises, Congress must pass a robust financial regulatory reform bill that modernizes the Community Reinvestment Act (CRA) and expands CRA's coverage to non-bank financial institutions, enacts a comprehensive anti-predatory law, and establishes a strong and independent Consumer Financial Protection Agency (CFPA) with jurisdiction over all consumer protection and fair lending laws, including CRA.

II. Problematic Lending Practices Drive the Foreclosure Crisis

The "originate-to-distribute" model of lending drove the foreclosure crisis. Over the last several years, financial institutions engaged in riskier lending as they realized that they could avoid the financial consequences of such lending by selling loans to investors. Policy makers including Federal Reserve Chairman Ben Bernanke acknowledge that the originate-to-distribute model lead to a loosening of underwriting standards.[8] As a result, borrowers became deeply leveraged in debt. Understanding the characteristics of the problematic loans is the key to designing foreclosure prevention programs. Loans that highly leverage borrowers require deep subsidies or reductions in monthly payments in order for borrowers to resume timely loan payments. Foreclosure prevention programs that feature relatively shallow subsidies from either the public or private sector will not succeed in ameliorating the foreclosure crisis.

Substantial research documents the deterioration in underwriting standards and the increase in reckless lending. The Government Accountability Office (GAO) reports that the Federal Housing Administration (FHA) observes a guideline that loans and other debt should not exceed 41 percent of a borrower's monthly income. The GAO then found that

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[8] Federal Reserve Chairman Ben S. Bernanke, Speech, *Fostering Sustainable Homeownership* at the National Community Reinvestment Coalition Annual Meeting, Washington, D.C, March 14, 2008, see http://www.federalreserve.gov/newsevents/speech/bernanke20080314a.htm, The Chairman observes, "In this instance, this originate-to-distribute model appears to have contributed to the breakdown in underwriting standards, as lenders often found themselves able to pass on the credit risk without much resistance from the ultimate investors. For a number of years, rapid increases in house prices effectively insulated lenders and investors from the effects of weaker underwriting, providing false comfort."

47 percent of subprime loans exceeded this 41 percent debt-to-income ratio in 2000, but by 2007 this worsened to 59 percent of subprime loans exceeding the benchmark.[9]

Likewise, the Federal Reserve found that the percentage of subprime loans which did not involve sufficient documentation of borrowers' incomes increased from 20 percent in 2000 to 40 percent in 2006.[10] Similarly, the share of so-called ALT-A loans (that feature reduced documentation of borrower income) which involved high loan-to-value ratios (LTV) of 90 percent or more surged from 2 percent in 1998 to 32 percent in 2006 according to the St. Louis Federal Reserve Bank.[11] High loan-to-value ratio loans contributed to leveraged borrowers being "underwater" or owing more than their house is worth in the wake of significant price declines.

As the following two graphs illustrate, the first wave of problematic loans consisted mostly of subprime loans while the second wave of problematic loans was comprised predominantly of so-called option Adjustable Rate Mortgage (ARM) or "non-traditional" loans. An option ARM loan features payment options that range from paying the principal and interest rate each month to not even paying the entire monthly interest rate. When a borrower chooses the pay the least amount required, the loan negatively amortizes, meaning that the outstanding amount actually increases. This plus the increase in interest rates caused by the ARM feature results in payment shock, or substantial increases in monthly payments that were not usually explained adequately to borrowers. More than 270,000 option ARM loans will have interest rate adjustments or resets this year, and more than 460,000 will have resets in 2011 as shown below. Fitch Ratings finds that the average increase in the monthly payment due to an interest rate reset is an incredible $1,053 or more than 60 percent increase in the monthly payment.[12]

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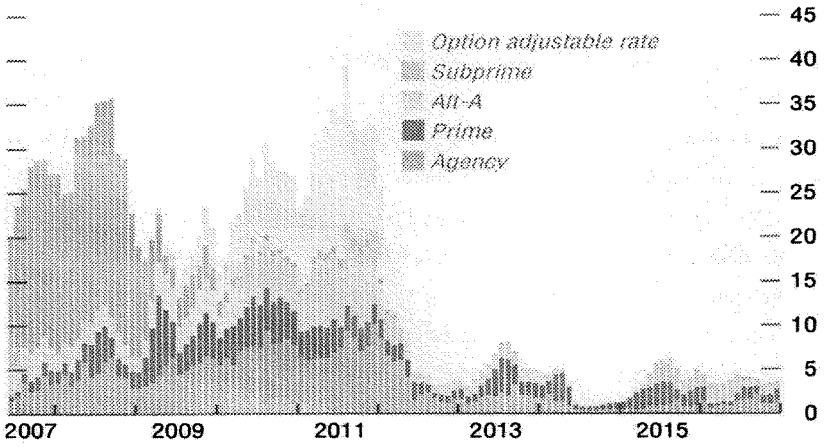
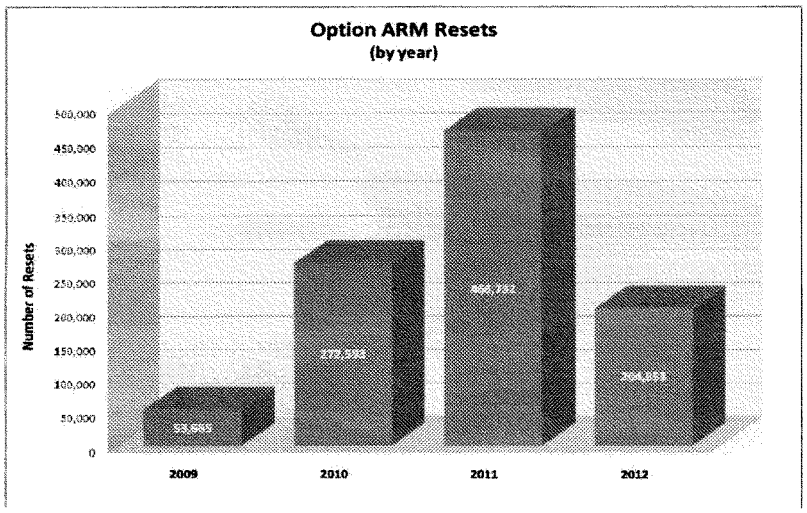
[9] Government Accountability Office, *Characteristics and Performance of Nonprime Mortgages,* report for Joint Economic Committee, July 2009, p. 10, see, http://www.gao.gov/new.items/d09848r.pdf
[10] Federal Reserve System, Truth in Lending: Final Rule, Federal Register, July 30, 2008, Vol. 73, No. 147
[11] Rajdeep Sengupta, *Alt-A: The Forgotten Segment of the Mortgage Market*, Federal Reserve Bank of St. Louis Review, January/February 2010, p. 64, see http://research.stlouisfed.org/publications/review/10/01/Sengupta.pdf
[12] "The Growing Foreclosure Crisis," The Washington Post, January 17, 2009.

Figure 1.7. Monthly Mortgage Rate Resets
(First reset in billions of U.S. dollars)



Source: Credit Suisse.



Because subprime and non-traditional loans exhibited imprudent underwriting, their delinquency rates are considerably higher than prime loans. According to the OCC and OTS Mortgage Metrics report for the Third Quarter of 2009, the serious delinquency rate for prime, Alt-A, and subprime loans were 3.6 percent, 12 percent, and 20.1 percent, respectively.[13] Other estimates of serious delinquency are even higher. For example, the GAO reports a serious delinquency rate for subprime loans at 31 percent and payment option ARM loans at 33 percent.[14] The GAO further reports that among all active non-prime loans, 13 percent are in the foreclosure process.[15]

Another disturbing aspect of the reckless lending is that this lending was targeted to financially vulnerable communities. NCRC's *Broken Credit System* and other research shows that minority neighborhoods received larger percentages of subprime loans than predominantly white neighborhoods, even after controlling for creditworthiness and other housing stock characteristics.[16] Because minorities are more likely to receive high-cost and non-traditional loans than whites, minorities are more likely to experience foreclosure according to researchers at the Federal Reserve Banks of San Francisco and Boston. Laderman and Reid found that African-American borrowers were 1.8 times more likely than whites to be in foreclosure, whereas Latinos and Asians were 1.4 and 1.3 times more likely to be in foreclosure, respectively than whites after controlling for several loan and borrower characteristics.[17] Likewise Geraldi and Willen document that in Massachusetts, underwriting standards for subprime loans were deteriorating over time, but more so for minorities than whites. The median debt-to-income ratios and loan-

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[13] OCC and OTS Mortgage Metrics Report, Third Quarter 2009, December 2009, p. 17 available at http://www.occ.gov/ftp/release/2009-163a.pdf

[14] Government Accountability Office, *Loan Performance and Negative Home Equity in Nonprime Mortgage Market*, report for the Joint Economic Committee, Dec 09, p. 9 available at http://www.gao.gov/new.items/d10146r.pdf

[15] Government Accountability Office, *Loan Performance and Negative Home Equity*, p. 8.

[16] *Broken Credit System* available via NCRC on 202-628-8866. Paul S. Calem, Kevin Gillen, and Susan Wachter, *The Neighborhood Distribution of Subprime Mortgage Lending*, October 30, 2002. Available via pcalem@frb.gov. also Paul S. Calem, Jonathan E. Hershaff, and Susan M. Wachter, *Neighborhood Patterns of Subprime Lending: Evidence from Disparate Cities*, in Fannie Mae Foundation's Housing Policy Debate, Volume 15, Issue 3, 2004 pp. 603-622

[17] Elizabeth Laderman and Carolina Reid, Federal Reserve Bank of San Francisco, "CRA Lending during the Subprime Meltdown in Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act," a Joint Publication of the Federal Reserve Banks of Boston and San Francisco, February 2009, http://www.frbsf.org/publications/community/cra/cra_lending_during_subprime_meltdown.pdf

to-value ratios worsened to a greater extent for African-American and Hispanic borrowers than whites from 1998 through 2006. It follows then that 15 percent of subprime loans originated in 2005 ended in foreclosure by December 2007 for African-Americans, 10 percent for Hispanics, and only 6.5 percent for whites.[18]

To make matters worse, NCRC's HAMP survey reveals that minorities, which were disproportionately subjected to problematic lending, are now experiencing less access to modifications. The survey indicates that 36.4 percent of HAMP-eligible whites received modifications, but only 24.3 percent of African-Americans received modifications. Whites were almost 50 percent more likely to receive a modification. Given that minority communities were targeted by abusive lenders, it would seem that federally-supported modification programs should go to extra lengths to ensure equitable access to modifications for all applicants that qualify.

Case Study of NCRC Housing Counseling's Network Client

The following is a case study told in the client's own words of a problematic loan, followed by a spell of unemployment and then a new lower paid job, which almost cost the family the home. The modification process was difficult but finally, a final modification appears to be in sight.

We purchased the home on December 29, 2006 for $639,940, feeling pressured to settle for a huge mortgage of $450,000 and a mortgage payment of $2,770 each month. The payment has since been raised due to the escrow going up. The only way the lender could get us into the home, based on our income, was to offer us an interest-only loan. Although we had concerns about the market, we had already tied up $62,000 in earnest money deposit and opened a construction loan. Shortly after, the housing market plummeted and continues to fall even three years later.

Well, about a year after we settled, my husband was laid off from his job as a residential home builder. My career also suffered because I work in the real estate industry. We did what we could while my husband searched for jobs daily for the next eight months until he was able to secure another position. We still have not caught up from the reduction in income during those eight months and we continue to go into more debt just trying to keep up with the bills. My husband's new position has the same title and responsibilities but he is earning $30,000 less in income each year.

[18] Kristopher S. Geraldi and Paul Willen, *Subprime Mortgages, Foreclosures, and Urban Neighborhoods,* Public Policy Discussion Papers, Federal Reserve of Boston, No. 08-06, December 22, 2008.

We knew we could not keep up with payments because we kept getting into more debt. In January 2009, we requested assistance from the mortgage company, but the process was a nightmare. After submitting the initial package that included all the documents, we had to resend the same documents on three different occasions. I finally got to the point where the situation was too overwhelming and I needed help.

In August of 2009, after many months of confusion and frustration, I reached out to a HUD Counseling Agency located close by in Washington DC, and was then quickly contacted by NCRC. After talking with NCRC, we got results in just over a month. NCRC was able to get my mortgage into the Making Home Affordable Loan Modification Program.

We received a trial modification in the middle of November 2009, and the first of our three trial payments began on December 20, 2009. The new payment has taken a huge financial burden off of me and my family. Our new payments are $2,006.51 which is a $796.04 monthly savings. Most importantly, our new payment includes principal and is on a fixed term. Our previous mortgage was interest only and would adjust upward.

We have just made our last trial payment and hope to receive our final modification soon. After months of hardship, we are close to getting back to normal without the cloud hanging over our head.

III. Unemployment and the Foreclosure Crisis

The foreclosure crisis has contributed to the highest unemployment rates in the last quarter center.[19] The slump in the lending, housing, and construction industries directly contributed to layoffs. In a vicious cycle, the record rates of unemployment are now feeding continued foreclosures. The Bureau of Labor Statistics reports that for January of 2010, 9.7 percent of American workers are unemployed with 16.5 percent of African-Americans and 12.6 percent of Hispanics unemployed. The long term unemployed (or those unemployed for 27 weeks or at least 6 months) reached 6.3 million or about 43 percent of all unemployed persons.[20] Moreover, when adding the numbers of involuntary part time workers and discouraged workers to the number of unemployed persons, the portion of unemployed and under-employed Americans is about 16 percent of the workforce.[21]

[19] The current unemployment rate is the highest since 1982 according to historical records of the Bureau of Labor Statistics.
[20] Bureau of Labor Statistics (BLS), Economic News Release, Employment Situation Summary, February 5, 2010, see http://www.bls.gov/news.release/empsit.nr0.htm
[21] Authors calculations from BLS data.

Consistent with other research, NCRC's HAMP survey finds that unemployment has taken over problematic lending as the leading contributing factor for foreclosure. About three quarters of survey respondents cited unemployment or reduction in work hours as the reason for struggling with mortgage payments while 33.5 percent reported problematic loans as the reason for struggling with payments (see accompanying NCRC HAMP report for more information).

The combined impacts of problematic lending and unemployment suggests that a foreclosure prevention program will need to operate on a large scale and offer relatively deep subsidies and reductions in loan amounts in order to provide sustainable loans for distressed homeowners.

IV. Public Sector and Private Sector Modification Efforts Not Keeping Pace

The magnitude of the foreclosure and unemployment crisis calls for aggressive loan modification programs. Despite the best of intentions, the current private and public sector programs do not achieve the scale needed to ameliorate the current crisis.

The approach of the Bush Administration was to encourage the private sector to embark upon a loan modification program. At the urging of the Administration, financial institutions created the HOPE Now Alliance, whose purpose was to coordinate the foreclosure prevention efforts of counseling organizations, servicers, and other financial institutions. The HOPE Now Alliance recorded 3.1 million loan workouts during 2007 and 2008, but two thirds of these workouts deferred or re-scheduled borrower payments without lowering monthly payments.[22] Meanwhile, the foreclosure crisis worsened.

[22] Patricia McCoy, *Of Loan Modifications and Write-Downs*, a paper presented at Moving Forward: The Future of Consumer Credit and Mortgage Finance - A National Symposium held by the Joint Center for Housing Studies, Harvard University, February 18, 2010 , p. 5, see http://www.jchs.harvard.edu/moving_forward_symposium/conference_drafts/2-3_mccoy.pdf

The Obama Administration created two programs, the Home Affordable Modification Program (HAMP) and the Home Affordable Refinance Program (HARP) that aimed to increase the number of loan modifications and refinances by offering public subsidies to financial institutions and borrowers. Using $75 billion of funding from the Troubled Asset Relief Program (TARP), HAMP's goal is to reach 3 million to 4 million borrowers. HAMP offers servicers $1,000 for each eligible modification and up to $1,000 each year for up to three years during which a borrower has remained current on loan payments. Borrowers receive $1,000 each year for up to five years as long as they remain current on loan payments. HAMP offers additional subsidies to financial institutions for assisting borrowers current on their payments but at the risk of default, for modifying second liens, and for protecting against house price declines. Through interest rate reductions, loan term extensions, and as a last resort principal forbearance or deferment, a borrower's mortgage payment is to be reduced to no more than 31 percent of his or her monthly income.[23] HAMP offers borrowers a trial modification for three months after which the borrower is eligible for a permanent modification if the borrower is current on the payments during the trial period.

HARP focuses on mortgages held by the Government-Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac. Under HARP, mortgages held by the GSEs can be refinanced into the current low rates as long as borrowers are current on their loans and do not have loan-to-value ratios (LTVs) exceeding 125 percent. Before HARP, the GSEs generally could not finance mortgages with LTVs exceeding 80 percent. Unlike HAMP recipients that are usually delinquent on their mortgages, HARP recipients are current on their mortgages. HARP is intended to make loans more affordable for borrowers and also assist "underwater" borrowers at risk of foreclosure whose outstanding loan amounts exceed the value of their homes. HARP was intended to reach 4 to 5 million borrowers.[24]

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[23] The "waterfall" process in the HAMP program takes the servicer or lender through a series of steps for making the loan more affordable. Principal reduction is one of the last steps listed.

[24] Treasury Department information on HAMP and HARP, see Home Affordable Modification Program: Overview, Homeowner Affordability and Stability Plan Fact Sheet, Making Home Affordable.gov – Borrower: Frequently Asked Questions

While a considerable improvement over the previous administration's programs, the Obama Administration's programs are not keeping pace with foreclosures. Almost one year after its inception, the HAMP program has offered about 1.3 million trial modifications but has converted only 170,000 of these trial modifications into permanent modifications.[25] In addition, the HARP program has assisted 190,000 borrowers refinance into lower cost loans.[26] Only 1 percent or about 1,900 of the HARP refinances have involved loans with LTV ratios between 105 percent and 125 percent.[27] It is disappointing that the HARP program has not refinanced more high LTV loans because these loans are at elevated risk of default since the borrowers owe more than the houses are worth. In total, the federal government programs alone are not sufficient to reduce the volume of foreclosures that are running at 2 to 3 million per year.

Even combining federal and private sector efforts, however, still does not overcome the number of foreclosures. According to the OCC and OTS, for every six homeowners in foreclosure at the end of the third quarter of 2009, only 1 is in a loan modification or trial plan.[28] Possibly because of the slow pace of converting HAMP trial modifications to permanent modifications, the ratio of loan modifications in process to loan modifications completed fell from 46 percent in July 2008 to 8 percent by October 2009 according to the State Foreclosure Prevention Working Group.[29] On the positive side, the OCC and OTS find that servicers have implemented almost twice as many home retention actions (loan modifications, short sales, and other alternatives to foreclosures) as new foreclosures in the third quarter of 2009, which is an improvement over previous quarters.[30] While an improvement, it is still not fast enough.

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[25] Making Home Affordable Program, Servicer Performance Report though February 2010, Treasury Department release of March 12, 2010, p.4, see http://www.makinghomeaffordable.gov/docs/Feb%20Report%20031210.pdf

[26] Dina ElBoghdady and Renae Merle, Refinancing unavailable for many borrowers, Washington Post Staff, Sunday, February 14, 2010; A01.

[27] Federal Housing Finance Agency News Release of January 29, 2010, *Refinance Volumes and HAMP Modifications Increase in December*, see http://www.fhfa.gov/webfiles/15389/Foreclosure_Prev_release_1_29_10.pdf

[28] OCC and OTS Mortgage Metrics Report, December 2009 report on the Third Quarter 2009, p. 6.

[29] State Foreclosure Prevention Working Group, *Analysis of Mortgage Servicing Performance*, Data Report No. 4, January 2010, p. 16, see http://www.csbs.org/Content/NavigationMenu/Home/SFPWGReport4Jan202010FINAL.pdf

[30] OCC and OTS Mortgage Metrics Report, December 2009 report on Third Quarter 2009, p. 8.

V. Quality of Loan Modifications

Speed is a necessary but not sufficient element for successful modifications. The modifications must also offer enough of a reduction in monthly payments in order to result in loans that are sustainable and affordable for borrowers. Although the high volumes of reckless lending has created the need for significant reductions in payments, approximately 70 percent of the modifications have actually increased monthly payments according to the State Foreclosure Prevention Working Group.[31] Modifications that increase monthly payments usually involve tacking on missed payments and late fees onto outstanding principal. In contrast, only 9 percent of loan modifications reduce loan principal by more than 10 percent. Since the great majority of loan modifications increase monthly loan costs, it is not surprising that the re-default rate on modifications is high. The OCC and OTS find that about half of all loan modifications re-default after six months.[32]

Fortunately, the most recent modifications usually involve reductions in monthly payments, but the evidence is mixed regarding how deep the reductions are. The OCC and OTS report that 80 percent of all loan modifications in the third quarter of 2009 reduced monthly payments. Modifications with principal reductions were 13 percent of all modifications in the third quarter, up from 3 percent in the first quarter of 2009.[33] The NCRC HAMP survey is consistent with low percentages of principal reductions. In fact, only one of the 179 respondents in the NCRC survey received a principal reduction; two respondents received a principal forbearance.

According to the recent Treasury Department report, 27 percent of HAMP permanent modifications involved principal forbearance.[34] However, it is unclear how much of a reduction in principal is occurring in the HAMP modifications. The median debt-to-

[31] State Foreclosure Prevention Working Group, January 2010, p. 2.
[32] OCC and OTS Mortgage Metrics Report, December 2009, p. 5.
[33] OCC and OTS Mortgage Metrics Report, December 2009, p. 5.
[34] Making Home Affordable Program, Servicer Performance Report though February 2010, Treasury Department release, p.6.

income ratio of a permanent modification is still a high 59 percent.[35] In other words, after a HAMP permanent modification, payments on all debt still consumes almost 60 percent of a borrower's income.

Re-default rates are much lower for modifications that involve significant reductions in monthly loan payments. The OCC and OTS find that 38.6 percent of modifications that reduced payments by 20 percent or more re-defaulted while 66 percent of modifications that did not reduce payments re-defaulted after one year.[36] Though mixed, the evidence suggests that the trends are in the right direction in terms of the extent of reductions in monthly payments. The question remains whether these trends will continue and whether the speed of modifications will increase sufficiently.

VI. The Need for Principal Reduction

As discussed above, significant reductions in monthly payments are needed for successful and sustainable modifications. Oftentimes, the most effective means to offer significant reductions in monthly loan payments is to offer reductions in loan principal or the outstanding loan amount. About 25 to 30 percent of homeowners in this country have negative equity, meaning that they owe more on their outstanding loan balance than their homes are worth. A number of these borrowers will lose their incentive to continue making loan payments because equity losses are substantial. Even after several years of making payments, these borrowers may not have accumulated any equity, particularly in parts of the country experiencing sharp home price declines. Much has been written about strategic defaults, or borrowers simply walking away from what looks like a hopeless proposition of reclaiming their wealth. In addition, other "underwater" borrowers end up defaulting because they are struggling with monthly payments and find themselves unable to qualify for refinance loans due to negative equity.

[35] Treasury Department, p.6.
[36] OCC and OTS Mortgage Metrics Report, December 2009, p.7.

In paper last summer, the Center for Community Capital found that loans involving principal reduction are least likely to re-default, using a sample of nonprime loans and controlling for loan characteristics, borrower characteristics, local economic conditions, and servicer practices. Because a loan modification with a principal reduction reduces LTV, the modification has lower re-default probabilities even when it results in same monthly mortgage payment as an interest rate reduction. The paper revealed that a combination of principal and rate reduction lowers re-default probability by 19 percent while rate reduction only lowers re-default probability by 13 percent. In addition, deeper reductions in monthly payments were more effective; reducing a borrower's payment by 5 to 10 percent lowers the probability of re-default by 10.3 percent, but reducing payment by 30 to 40 percent lowers the probability of re-default by 18 percent. Finally, borrowers with negative equity are more likely to default than borrowers with equity.[37] The paper maintains that "principal forgiveness modification has the lowest re-default rate very likely because it addressed both the short-term issue of mortgage payment affordability and the longer-term problem of negative equity."[38]

In a follow-up paper, the Center for Community Capital offers valuable and practical suggestions for geographical targeting of various types of modifications. The Center suggests that when the desired payment reduction needs to be large, Net Present Value (NPV) tests indicate that a combination of rate and principal reduction is most effective. Principal reduction is the best option according to the NPV tests when payment reductions of 20 to 30 percent are needed. In addition, principal reductions are most effective in states with high levels of subprime lending, steepest price declines, highest foreclosure rates, and weak job markets. In particular, principal reductions are especially needed in California, Nevada, Arizona, and Florida. In contrast, in other geographical

[37] Roberto G. Quercia and Lei Ding, *Loan Modifications and Redefault Risk: An Examination of Short-term Impacts*, Working Paper, July 21, 2009, Center for Community Capital, pp. 13-14, see http://www.ccc.unc.edu/documents/LoanMod_Redefault_7.20%202009.pdf
[38] Ibid., p. 16.

areas where borrowers have some equity, rate reductions and loan term extensions are feasible.[39]

A Government Accountability Report (GAO) issued this past December sheds additional light on geographical areas most in need of principal reductions. In 16 large metropolitan areas, an incredible 59 percent of nonprime borrowers had negative equity. This included 94 percent of nonprime borrowers in Las Vegas, 89 percent in Phoenix, 86 percent in Miami, and 80 percent in Minneapolis. The total amount of negative equity for nonprime borrowers (the difference between outstanding loan balances and property values) was $54 billion overall and $36,000 for the median borrower.[40] The negative equity estimate looms even larger in terms of wealth loss for nonprime borrowers and their neighborhoods if many of these borrowers subsequently default absent foreclosure prevention assistance. In addition, negative equity loses for all borrowers are much larger. The 25 percent drop home prices from the 2006 peak has left homeowners underwater by $745 billion, according to First American CoreLogic.[41]

VII. Barriers to Modification

Losses to lenders on nonprime foreclosures are as high as 50 percent, yet the pace of modifications remains frustratingly slow.[42] It would seem that it would be preferable for a financial institution to modify a loan and take a loss of 20 to 30 percent or even 40 percent rather than undergo the considerable costs associated with a foreclosure. However, several structural, institutional, and financial barriers to modifications include compensation mechanisms, credit rating agencies, and second liens, which are now reviewed in turn.

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[39] Roberto G. Quercia and Lei Ding, *Tailoring Loan Modifications: When is Principal Reduction Desirable*, Working Paper - August 23, 2009, Center for Community Capital, pp. 16-20, see http://www.ccc.unc.edu/documents/Tailor.Loan.Mods.8.23.09.pdf

[40] Government Accountability Office, *Loan Performance and Negative Home Equity,* p. 14 & 17.

[41] John Gittelsohn and Prashant Gopal, *Principal Cuts on More Lender Menus as U.S. Foreclosures Rise,* Bloomberg, January 7, 2010.

[42] Chairman Ben. S. Bernanke, *Housing, Mortgage Markets, and Foreclosures*, Speech, December 4, 2008 at the Federal Reserve System Conference on Housing and Mortgage Markets, Washington DC, see http://www.federalreserve.gov/newsevents/speech/bernanke20081204a.htm

Case Study of NCRC Housing Network Client

Patricia Stringer is a resident of the District of Columbia; she is a single parent who has worked her entire life to make sure her son is well taken care of. In 1988, she purchased her family home from her mother.

After her mother was diagnosed with dementia, she became her primary caretaker. This caused more stress and a greater burden to cover the bills. When she contacted her lender, they told her that they could refinance her loan to help cover the increased balances on her credit cards and to pay off her son's education loans. They also suggested that she go to another lender to get a second mortgage as her home had plenty of equity in it and could help pay the bills; she followed their advice and got a second mortgage.

When gas reached $4 a gallon, she became stretched again because she depends on her car to get to her job. Her savings account became depleted and she turned to taking out loans on her 401K until she was told she was no longer allowed to do so. After many months, she was no longer able to stay current on her mortgage, and she even had to turn to neighbors to buy food. She missed a few payments and then contacted NCRC. NCRC arranged a workout with both lenders, holding the first and second mortgage, but then the lender with the first mortgage balked.

Facing foreclosure, she moved out of her house and rented an apartment in February 2009. NCRC was then able to get her a three month HAMP trial loan and the lender cancelled the foreclosure sale. She moved out of the apartment and back into her house in April. The landlord told her that she would have to pay 6 months of rent because she had broken her lease without 30 days of notice. NCRC stepped in and is negotiating with the landlord.

She made two payments on her trial HAMP loan but then was sent another agreement in June 2009 with a different payment amount. She made her payments for five months, only to be told that her permanent modification had been denied because of missing information. This was not the case as all documents had been submitted. Her counselor at NCRC tried several times to get the lender to reduce the amount she owed but was not successful even though the house's value is now less than the amount she owes.

Seeing that the lender was intent in denying her again, NCRC asked them to review the file one more time. She was not sleeping well and crying almost every night because the lender told her she was in foreclosure again.

Until recently, Ms. Stringfield was in her fourth HAMP trial modification. The Net Present Value (NPV) test rejected her application for a permanent modification in December of 2009. The fourth HAMP trial modification was signed last month by Ms. Stringfield. Ms. Stringfield also testified before the Domestic Policy Subcommittee of the Government Oversight Committee of the House of Representatives last month. After her testimony, she finally received a permanent modification. It should not take testimony before Congress to receive a permanent modification.

Compensation Mechanisms: In a recent article for a Harvard symposium, Law Professor Patricia McCoy postulates that compensation mechanisms for servicers provide a

disincentive for principal write-downs and substantial reductions in monthly borrower payment. Servicers typically collect a fee of 25 to 50 basis points of the outstanding loan amount.[43] Thus, servicers have a disincentive to reduce the principal amount because that type of modification directly reduces their fee. Instead, servicers may prefer interest rate reductions or adding arrears and fees to the outstanding loan amount because these types of modifications do not directly affect the principal and thereby cut into their fees. Interestingly and coinciding with McCoy's theory, the OCC and OTS find that the great majority of principal reductions occur in loans held in lender portfolios rather than loans serviced for investors.[44]

The costs associated with foreclosure prevention and modification are not recouped by the servicer since the servicing fee remains flat and is not adjusted to compensate for foreclosure prevention costs. The flat fee therefore makes foreclosure less costly than modification for the servicer. HAMP addresses this to some extent by providing subsidies for modification. Yet, it is also possible that the servicers may have an incentive to provide temporary rather than permanent modifications since temporary modifications involve less underwriting and fewer costs.[45]

Credit Rating Agencies: Credit rating agencies make their ratings of servicers conditional on servicers not delaying foreclosures on distressed loans.[46] Coupled with compensation mechanisms that discourage modifications, credit rating agency assessment of servicer performance is a strong incentive for servicers to pursue foreclosure. In fact, a common complaint by counseling agencies is that foreclosure proceedings do not stop while they are trying to help a borrower modify a loan.

The credit rating agencies also exacerbated the foreclosure crisis in communities of colors by awarding inflated ratings to reckless nonprime lending. NCRC has filed

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[43] Patricia McCoy, *Of Loan Modifications and Write-Downs*, a paper presented at Moving Forward: The Future of Consumer Credit and Mortgage Finance - A National Symposium held by the Joint Center for Housing Studies, Harvard University, February 18, 2010 , p. 11, see http://www.jchs.harvard.edu/moving_forward_symposium/conference_drafts/2-3_mccoy.pdf.
[44] OCC and OTS Mortgage Metrics Reports for Third Quarter 2009, released December 2009, p. 25.
[45] McCoy, p. 13.
[46] McCoy, p. 13.

discrimination complaints with the Department of Housing and Urban Development alleging that the credit rating agencies (Standard & Poor's, Fitch, and Moody's) violated the Fair Housing Act by fueling imprudent mortgage lending.[47]

Second Liens: The interests of financial institutions holding the first and second mortgages of distressed borrowers often diverge and thus prevent modifications. In some cases, the second lien holder will not allow the first lien holder to modify the loan because the second lien holder believes that its claim for borrower payments may be wiped out by the modification. In other cases, McCoy states that under existing law if a first mortgage undergoes significant modification, the holder of the first mortgage loses its status as a first mortgage holder and the second mortgage holder is now in the first position for receiving loan payments.[48] No satisfactory mechanism has yet been established to deal effectively with the issue of second liens. The HAMP program has a second lien component offering subsidies for second lien holders to participate in modifications. Bank of America and Wells Fargo are to be commended as the only banks that have signed up to participate in the HAMP second lien program. It is quite disappointing that no other bank has done so.[49] Moreover, there is a paucity of data that would reveal how many second liens have been modified by the HAMP program. The resistance to modifications posed by second liens is a tremendous barrier since about one third of subprime 2/28 hybrid ARMs issued in 2005 and 2006 also had second lien loans.[50]

NCRC's HAMP survey confirms the obstacles posed by second liens. Thirty five percent of survey respondents with one mortgage received a modification, but only 16.3 percent of respondents with two mortgages received a modification.

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[47]See January 2009 NCRC press release via http://www.ncrc.org/index.php?option=com_content&task=view&id=409&Itemid=75
[48] McCoy, p.15.
[49] Renae Merle, *Administration Pushed to Expand Foreclosure Program: Jobless Homeowners Need More Help, Housing Advocates Say*, Washington Post, February 18, p. A13.
[50] McCoy, p. 15.

Foreclosure Scams: Recalcitrant lenders and servicers are not the only obstacles to modifications. Abusive foreclosure service providers that are bent on stealing consumers' money and homes are a significant barrier to responsible modifications. For example, one of the respondents in NCRC's HAMP survey paid a foreclosure scam artist $4,000 to seek a modification.

VIII. Experience of NCRC Housing Counselors

NCRC's Housing Counseling Network is a HUD Certified National Housing Counseling Intermediary and a participant in the NeighborWorks National Foreclosure Mitigation Program. NCRC and our member organizations assist borrowers in negotiating with servicers and other financial institutions, and this year will train over 1,000 housing counselors to identify and overcome fair lending and fraud issues while working on behalf of consumers. Each year, NCRC and our members work with more than 10,000 consumers. In a previous report, NCRC estimated that the 5,000 modifications and refinances spearheaded by the Housing Counseling Network saved borrowers about $500 million in equity.

Institutional Capacity Constraints: NCRC's housing counselors report that the HAMP program has been "unpleasant and frustrating." NCRC's HAMP survey revealed that 43 percent of respondents described their experience with servicers as "bad" or "very bad," a quarter said their experience was "fair" while the minority (31 percent) described the experience as "good." Some observers suggest that servicers have been established as collection agents, collecting and processing borrower payments. The servicers are therefore not equipped to deal with a foreclosure crisis. NCRC's counselors' experience comports with this observation.

NCRC's counselors report that the initial phone call is with a servicer's customer service representative. This call is often cordial, and initial intake items such as documentation are discussed. However, in a number of cases, the customer service representative subsequently has erroneous information regarding the loan. To compound the frustration,

in the great majority of cases, the counselors cannot speak to the next layer of personnel in the servicing company.

The next layer of personnel in servicing companies is known as negotiators. The negotiator has underwriting discretion, but NCRC's counselors do not have access to the negotiator. The customer service representative is the go-between between NCRC counselors and the negotiator. The customer representatives, however, are usually not equipped with the knowledge to effectively communicate about the complexities of loan modifications. As a result of this cumbersome process, communication is difficult.

Meanwhile, the negotiator is actually negotiating with the homeowner over terms of the modification and will send modification offers to the homeowner. Without direct communication with the negotiator, the NCRC counselors believe they cannot safeguard the interests of the homeowner. For example, the negotiator will often send modification offers that look like HAMP modifications and even have similar language or logos, but in fact, the modifications are the bank's own internal modification offers, which are usually not as beneficial for the borrower. NCRC counselors question the ethics of this practice.

In addition, losing documents is commonplace. NCRC's counselors often have to re-submit documents four or five times. In NCRC's HAMP survey, 70.6 percent of respondents had to re-submit documents and those that had to re-submit documents did so an average of three times. NCRC's counselors assert that there should be a standard technological tool such as e-faxes for submitting documents that ensure that documents are stored and not lost.

According to the NCRC counselors, the current process is not well equipped to produce an "end result." Moreover institutional reforms such as the HAMP escalation process and the special counselor hotline have not been effective.

In perhaps an acknowledgment of limited capacity, a recent trend involves financial institutions selling distressed loans to other institutions as the modification process has

started. NCRC's counselors surmise that the selling institution does not want to deal with the complexities of the modification. In some cases, the loan sales are to financial institutions which are seeking a niche as modification specialists. These quick sales, however, complicate the counselors' efforts since they must essentially start over with a new institution.

Quality of Modifications: The extent of underwriting before the borrower receives a trial modification affects the ability of the borrower to achieve a durable solution by transitioning into a permanent modification. According to NCRC's counselors, some large financial institutions qualify borrowers for trial modifications based on the borrowers' verbal representations of income and other underwriting variables while other institutions qualify borrowers for trial modifications based on documents. The quicker qualification process gets a borrower into a trial modification faster but tends to delay the transition to the permanent modification. In these cases, documents need to be retrieved at the end of the trial modification time period. Then, additional underwriting and changes to the modifications often need to occur to take into account inconsistencies in information gathered during the trial and permanent modification process. Trial modifications can stretch into a time period of six months or more as these inconsistencies are ironed out. Stress for all parties increases during this uncertain time period.

Recently, the Administration released new HAMP guidelines requiring a standard set of documents to be obtained as borrowers are being evaluated for trial modifications.[51] This will hopefully reduce inconsistencies among institutions for evaluating borrowers for trial modifications, bolster the quality of underwriting during the trial modifications, and will make the transition between trial and permanent modifications more efficient.

In addition to the quality of modifications, timeliness is also a pressing issue. The HAMP program offers subsidies to financial institutions to assist borrowers at risk of

[51] *Administration Updates Documentation Collection Process and Releases Guidance to Expedite Permanent Modifications*, January 28, 2010 press release, http://www.makinghomeaffordable.gov/pr_01282010.html

imminent default. However it is a general practice for servicers not to review "imminent default" files in a timely manner to possibly cure the default. These files are often handled differently and are placed in the back of the queue according to NCRC's counselors. Sound principles taught by HUD certified counselors to contact the lender early if the borrower foresees payment difficulties is all for naught.

Regarding permanent modifications, NCRC's counselors report that the modifications usually offer interest rate reductions and that the modifications do not achieve the optimal solution in terms of affordability for borrowers. The interest rate modifications often offer rates of 4 to 5 percent and rarely reach the lowest rate of 2 percent permissible under the program. While the higher rates might be affordable for a number of borrowers, there are cases in which the lowest rate is needed. In addition, principal reduction is rare in the experience of NCRC's counselors. Instead of offering principal reduction, servicers are tacking stiff and expensive "balloon payments" to the end of loans. On occasion, interest rate reductions have been accompanied by fees added to the loan amount or upfront fees, which can actually increase monthly payments for borrowers experiencing financial distress.

Case Study of NCRC Housing Network Client

Mrs. Carmichael reached out to her mortgage company in August of 2009 for assistance with her mortgage payment. She has worked as a commissioned employee for a number of years but due to the slow economy her income has dropped significantly. In addition to her financial worries Mrs. Carmichael has began treatment for breast cancer. Her insurance does not cover a huge portion of her treatment which has added to her financial burdens.

In late September Mrs. Carmichael received the news she had been seeking. Mrs. Carmichael was approved for the trail payment plan under Making Home Affordable. The new payments were for $1,289 per month which was a significant drop from her normal payment of $2,148. Mrs. Carmichael made all her payments in the trial modification and looked forward to getting a permanent modification.

On March 2, 2010 she received notice that her request for permanent loan modification under Making Home Affordable Modification Program was denied. It was determined that default was not imminent on her loan. This determination was made because her financials showed that she had more than 3 months of payments in savings. This same information was provided on her initial application prior to being approved for the trail period. More importantly her current payments still exceed 31 percent of her current income making her existing mortgage unsustainable. Even though she tried speaking with a servicer representative about her dilemma, she was only given an option of making the payment or selling her home.

NCRC counselors observe that the haphazard quality of loan modifications reflects financial institution ambivalence about the HAMP program. Some institutions may be going through the motions and not seeking permanent modifications in which they have to make significant financial sacrifices because they may be waiting for additional government subsidies or even outright purchases of their distressed loans. The continued reluctance to offer principal reductions most likely reflects an aversion to taking a "haircut" (accepting a loss, which would probably be less than the loss associated with foreclosure but still a significant loss). Finally, other institutions may still prefer their own internal modifications and steer borrowers towards them since private sector programs typically modify loans for five years (and then require a refinance) whereas a HAMP modification locks in loan terms and conditions for 30 years. Professor McCoy also suggests a possibility of gaming the system by some servicers. She states, "At worst some servicers may be playing a cynical game of pocketing HAMP payments at the temporary modification stage with no intent of graduating to permanent modifications."[52]

[52] McCoy, p. 21.

Denials of Loan Modifications: The HAMP program features a Net Present Value (NPV) analysis that requires financial institutions to assess if the value of the modification exceeds the value of a foreclosure for investors owning the distressed loans. Since losses associated with foreclosure are steep, it was anticipated that the NPV analysis would promote modifications. The NPV analysis, however, is opaque to NCRC's counselors and many other counseling organizations since the formulas used by the NPV model and the inputs (variables considered by the model) have not been revealed by the Administration. Denials of loan modifications appear to be arbitrary and hamper appeals of denials. Counselors do not know the underwriting variables used by the model and whether the data for the variables was even accurate. It is not possible for counselors to assess whether borrower income data, property value, or other data used by the model was accurate.

Case Study of NCRC Housing Network Client

Norma Ruiz has been denied a HAMP modification four times already and each time it is due to a failure of the NPV test and by a miscalculation of income. NCRC's counselor is submitting the borrower's documents for the fifth time. Meanwhile the servicer has attempted three sales of the home. NCRC's counselors report that Norma's situation typifies the use of the NPV as a blanket denial system without explaining the numbers used to make the determination of eligibility.

Servicers are also denying HAMP modifications for homeowners if they have any savings or a retirement account, such as 401K or 403B. In anticipation of reaching a sustainable loan modification, NCRC's counselors generally advise their customers to establish savings. But when servicers request new financial information and see the savings they deny the loan. So, in essence homeowners are being penalized for being responsible and saving money to save their home.

IX. Recommendations

As discussed above, the pace of loan modifications needs to be significantly increased and the quality of modifications needs to be bolstered. Deeper reductions in principal loan payments need to occur, particularly in parts of the country experiencing high levels of negative equity. The recommendations below address the limitations of the HAMP and HARP program as well as including recommendations for preventing future foreclosure crises.

NCRC's HELP Now Proposal

In early 2008, NCRC proposed the establishment of a national Homeowners Emergency Loan Program (HELP Now). It would authorize the Treasury Department to buy troubled loans at steep discounts (equal roughly to their current write-downs by financial institutions) from securitized pools. This would result in a relatively low cost to taxpayers. The government would arrange for these loans to be modified through existing entities such as Fannie Mae and Freddie Mac, and then sell the modified loans back to the private market. The program would be relatively easy to implement, as it does not require the creation of a new entity.

The purchase discounts would be applied to the modification of problem loans to create long-term borrower affordability. Reflecting the write-downs by financial institutions, the government would purchase loans at a 30 percent to 50 percent discount. The write-downs would address the need for deep reductions in principal, particularly in parts of the country experiencing steep price declines and high levels of negative equity. If the discounted loans are still not affordable for some borrowers, the government could offer a low-interest second mortgage that could be due upon sale of the property.

The HELP Now proposal would rely on the federal government's power of eminent domain in order to purchase loans from investors and servicers. The current economic crisis would justify the government's use of eminent domain laws for a compelling public

purpose. The statutory language establishing the Troubled Asset Relief program (TARP) also provides the authority for the approach of the HELP Now proposal.[53]

Eminent domain would overcome several barriers. Through compulsory purchases of troubled loans, HELP Now does not have to overcome the series of financial and institutional impediments to coax reluctant servicers, investors, and lenders to participate—unlike the voluntary programs. Utilizing the federal government's power of eminent domain avoids lawsuits from disgruntled investors. Furthermore, as Harvard Law Professor Howell Jackson points out, eminent domain can also solve the barriers related to first and second liens by directly purchasing all mortgages on targeted properties.[54]

The use of eminent domain can alleviate pricing uncertainties and therefore unfreeze the credit market. The eminent domain method can establish fair prices for mortgages through existing judicial mechanisms.[55] Once fair prices are established, a secondary market can then be reestablished and voluntary efforts to refinance mortgages will probably accelerate. In order to unglue markets quickly and to target the greatest need, Professor Jackson proposes that eminent domain focus on the most problematic loans in geographical areas of the country where home prices have fallen significantly. This is similar to the targeting recommendations of the Center for Community Capital.

After the government has used eminent domain for a significant amount of loan purchases, HELP Now could also use reverse-auction mechanisms. In a reverse auction, financial institutions will name their price for selling troubled loans to the government. The objective will be to move HELP Now to more of a voluntary model and to accelerate

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[53] Title I, Section 101 of H.R. 1424, the Emergency Economic Stabilization Act of 2008, states that "The Secretary is authorized to establish the Troubled Asset Relief Program (or 'TARP') to purchase, and to make and fund commitments to purchase, troubled assets from any financial institution, on such terms and conditions as are determined by the Secretary, and in accordance with this Act and the policies and procedures developed and published by the Secretary." Troubled assets are defined as residential mortgages and any securities related to such mortgages.

[54] Professor Howell E. Jackson memo to the House Financial Services Committee, November 28, 2009, on file at NCRC.

[55] In cases of price disputes when the government has used eminent domain, a judge or mediator will rule on a fair price.

loan modifications after the most troubled loans have been removed from the financial system via the use of eminent domain.

HELP Now would be an efficient use of government resources. As NCRC originally proposed, HELP Now would require an initial government outlay of about $50 to $100 billion to purchase loans and would institute a revolving loan fund mechanism. Now that $75 billion has been allocated to HAMP, a HELP Now approach can use a portion of that funding, the level of which would be determined by a needs analysis focusing on the areas of the country with the steepest price declines, and highest levels of negative equity and subprime lending.

The government would be reimbursed for its loan purchases after it sells the loans (which have been modified) to Fannie Mae, Freddie Mac, or private sector investors. Moreover, the government would be able to establish mandatory underwriting criteria in order to guard against re-defaults. Unlike the Hope for Homeowners and the FDIC's Indymac program, the government would not guarantee the loans would therefore not assume significant losses.

The large-scale modification program must also use neutral third-party counselors to represent the interests of borrowers. A key to NCRC's Housing Counseling Network's success is the intervention of counselors from a non-profit organization that represents the borrower, and not the interests of the lender, servicer, or government. The counselors are therefore able to ensure that borrowers obtain an affordable and sustainable mortgage. Under a TARP program, the counselors should be empowered to review the proposed modification and suggest any further alterations necessary to achieve long-term affordability.

The government could also ensure that renters receive protections under its program. A sizable number of distressed loans involve investors who do not live in the property and have rented the properties to tenants.[56] Currently, tenants face eviction with little or no

[56] Fifteen million tenants or about 40 percent of all renters live in single family homes, many of which are owned by small scale investors. A segment of this large population is at risk during the current foreclosure crisis. See J.W. Elphinstone, What if Your Landlord Faces Foreclosure, Associated Press article appearing in the Washington Post, January 3, 2009.

notice after a foreclosure. In these cases, the government must provide sufficient time and relocation assistance for the tenants.

Establish Loan Program for Unemployed

The rapidly increasing unemployment rate is now driving foreclosures. In order to keep pace with rising unemployment, Congress and the Administration should consider implementing a program like Pennsylvania's Home Emergency Mortgage Assistance Program (HEMAP). When a homeowner becomes unemployed involuntarily, the state's housing finance agency will arrange for a two-year loan of up to $60,000 to enable the homeowner to continue making payments until the borrower's income recovers.[57] Since the program's inception in 1983, HEMAP has assisted more than 40,000 homeowners. The program is cost-effective in that it received an initial state appropriation with subsequent funding that came from borrower loan repayments. A federal program like HEMAP would most likely require a significant initial capital outlay, but could be sustainable through self-financing.

H.R. 4173, the Wall Street Reform and Consumer Protection Act of 2009 which passed the House, would make available $3 billion of Troubled Asset Relief Program (TARP) funding for loans to families and households experiencing unemployment. Modeled after the HEMAP program, each household would receive up to $50,000 for assistance in paying their mortgage. In addition, $1 billion in TARP funding would be made available to state and local governments for the redevelopment of abandoned and foreclosed homes.

In an announcement last month, the Administration also unveiled a $1.5 billion initiative to be funded from TARP that would provide financing to state housing agencies in five states experiencing the greatest home price declines to design programs to assist the unemployed stay in their homes, to provide relief to households experiencing negative

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[57] See http://www.phfa.org/consumers/homeowners/hemap.aspx and http://www.phfa.org/forms/brochures/foreclosure_prevention/HEMAP_2008.pdf.

equity, or to resolve loan modifications involving second liens.[58] This is a welcome announcement that allows housing agencies to respond flexibly to pressing local needs. In order to adequately address needs in states beyond the five targeted in this initiative, the funding level will need to be supplemented with the funding for the unemployed homeowners in H.R. 4173 and other resources.

Process Improvements in HAMP

As discussed above, several procedural and capacity issues hamstring HAMP's effectiveness. If servicers continue to exhibit widespread incompetence in receiving forms and storing information, the Administration ought to consider placing the responsibility of HAMP modifications with independent third party agents such as nonprofit organizations. In addition, blatantly unfair aspects of the process must end. Foreclosure proceedings must be halted while modifications are in process. We are encouraged about media reports indicating that the Treasury Department intends to halt foreclosure proceedings while borrowers are in a trial modification.[59] It is unclear, however, how many other protections are being contemplated by the Treasury Department. For example, will this new policy apply to borrowers being evaluated for trial modifications? What will HAMP's rules be regarding foreclosure proceedings while a borrower is appealing a HAMP denial? NCRC hopes that the Treasury Department errs on the side of protecting consumers and prohibits all aspects of the foreclosure proceedings until all non-foreclosure alternatives are exhausted.

The NPV analysis must be transparent (both the NPV formula and the data used) so that counselors and borrowers can appeal denial requests. The Administration should also establish rules for a fair appeal process.

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[58] The five states are California, Nevada, Arizona, Michigan, and Florida. For more details on the program, see White House, Office of Press Secretary, *President Obama Announces Help for Hardest Hit Housing Markets*, February 19, 2010, http://www.whitehouse.gov/the-press-office/president-obama-announces-help-hardest-hit-housing-markets.

[59] "Obama Mulls Changes to Mortgage Program: More consumer protections may be added to fix long-standing complaints," Associated Press report 3:30 PM, February 22, 2010, accessed via http://www.msnbc.msn.com/id/35525942/ns/business-real_estate/.

Fair Lending Investigation in the HAMP Program and Participating Servicers

NCRC's survey findings of racial disparities in receiving modifications call for a thorough fair lending investigation of the HAMP program and participating servicers. The investigation should assess if the HAMP program guidelines and NPV test contain any elements that have a disparate impact on protected classes that is not justified by business necessity. In addition, do the servicers engage in any practices that result in disparities or, worse, are discriminatory in intent and effect?

Second Liens and Short Sales

Banks own a significant amount of second liens. The regulatory agencies must recognize the reluctance to modify second liens as both a consumer protection/fair lending and a safety and soundness issue. If a high percentage of second liens default, the safety and soundness of the banks are undermined.

Related to the stubbornness of holders of second liens to modify their loans is the short sale program recently announced by the Treasury Department. The short sale program must not become a convenient excuse for not modifying difficult loans, including those with second liens. The short sale program must truly become a last resort for borrowers who cannot afford loans even after modification. Congress and the Treasury Department must monitor the use of short sales carefully to ensure that lenders and servicers do not abuse the short sale program.

Enhance Public Data on Loan Modifications

H.R. 4173 requires the monthly disclosure to the public of data relating to modifications executed as part of HAMP. Lenders and servicers would report the number of applications for modifications they processed, approved, and denied. The data would be publicly reported on an individual record level. Currently, the Treasury reports on HAMP are cursory without detail on the extent of principal reductions, the reductions in

interest rates or changes in other loan terms and conditions. The OCC and OTS mortgage metrics reports are more detailed but do not present the information for HAMP and non-HAMP modifications separately. The data must also be similar to Home Mortgage Disclosure Act (HMDA) data and disclose the information of applications, approvals, and denials by race, gender, age, and income. HMDA-like disclosure would enable stakeholders and policymakers to assess if fair lending disparities are present in the modification process.

HARP Improvements

Considering that Fannie Mae and Freddie Mac, entities in government conservatorship, own or guarantee the mortgages eligible for the HARP program, it is baffling why there has not been more refinances. Perhaps, the Administration should consider placing nonprofit organizations in charge of underwriting or have them as serve as borrower advocates. Nonprofit organizations could be assigned blocks of Fannie and Freddie mortgages that exhibit problematic features such as option ARMs and then represent borrowers who are interested in refinancing into lower rates.

Require Loss Mitigation before Foreclosures and Bankruptcy reform

The power imbalance between financial institutions and borrowers certainly contributes to the slowness and difficulties of securing affordable and sustainable modifications and refinances. A way to reduce the power imbalance and provide incentives for modifications is to establish more checks and balances in the process. For example, before the foreclosure process is started, the financial institution must demonstrate that it has engaged in reasonable loss mitigation efforts including modifications and when modifications are not feasible, short-sales, deeds-in-lieu, and other foreclosure alternatives. Representative Maxine Waters has introduced bills to require reasonable loss mitigation efforts. In addition, the bankruptcy laws must be reformed. Currently, a borrower in bankruptcy can ask a judge to modify almost any type of loan, including consumer loans for luxury items such as yachts. Yet, the current law prohibits borrowers

from asking judges to modify loans for their primary residences. If bankruptcy law was reformed to permit this, financial institutions would have an incentive to correct problematic loans or face the possibility of being ordered to do so by a judge.

Stop Foreclosure Prevention Scams

NCRC's foreclosure prevention service provider report underscores the need for an effective legislative solution and increased public and private sector oversight combined with effective education and outreach to ensure consumers work with responsible providers. Modification companies are often operating in a regulatory vacuum, without any accountability, and today, may be one of the factors blocking consumer access to the Home Affordable Mortgage Program and the Home Affordable Refinance Program. H.R. 1231, the Foreclosure Rescue Fraud Act of 2009 introduced by Representative Gwen Moore, prohibits foreclosure consultants from receiving compensation before services are provided and requires consultants to provide their clients with contracts, subject to a three-day rescission period.

Preventing Future Crises

If we learn nothing else from this crisis, it must be that Congress must take aggressive steps to ensure that a crisis of this magnitude must not be repeated again. The Community Reinvestment Act (CRA) requires banks to serve all communities, including low- and moderate-income communities, consistent with safety and soundness. As NCRC has testified on previous occasions before Congress, applying a law requiring the provision of responsible loans and financial services broadly throughout the financial sector would have averted a crisis of this magnitude. Therefore, NCRC urges Congress to consider CRA modernization bills such as H.R. 1479 as Congress considers financial regulatory reform legislation. Just as the House attached an anti-predatory lending bill to H.R. 4173, so should Congress attach a comprehensive CRA modernization bill to financial regulatory reform legislation. Finally, passing rigorous community reinvestment and consumer protection laws will not be enough if Congress does not

empower a strong independent agency to enforce the laws. Lax regulatory enforcement contributed to the crisis by enabling abusive and deceptive lending practices. Consumer protection was but one of many competing priorities for a multitude of agencies that had trouble coordinating an approach to consumer protection. Therefore, a Consumer Financial Protection Agency (CFPA) must be established as a strong, independent agency whose mission is protecting and promoting safe and sound lending and other financial services for consumers and communities. The CFPA must have jurisdiction over all consumer protection and fair lending laws, including CRA, in order to adequately safeguard the interests of consumers and neighborhoods.

X. Conclusion

The nation is currently experiencing the worst recession since the Great Depression. Dire economic times require bold leadership from the public and private sectors. Self-interest must give way to the national interest. Financial institutions must sacrifice and offer significant concessions for their self-interest (removing toxic loans from their portfolios) and for the overall economic interest. While an improvement over the previous Administration's programs, the HAMP and HARP programs are not delivering modifications and refinances on the scale and quality required to resolve the foreclosure crisis.

It is time to complement the voluntary nature of HAMP and HARP with mandatory programs such as the NCRC HELP Now proposal, which would be targeted to the most distressed parts of the country as measured by the extent of negative equity, foreclosure rates, and nonprime lending. A number of actions can also be taken to bolster the efficiency and equity of the HAMP and HARP programs including a larger role for nonprofit organizations to advocate on behalf of borrowers, more transparency and data regarding loan modification approvals and denials, a halt to foreclosures while modifications are in process, and establishing fair appeal processes for borrowers denied modifications. New programs and approaches to assist unemployed homeowners must be established immediately if we are to prevent negative feedback loops between

foreclosures and unemployment. Finally, future crises must be averted by Congress enacting financial regulatory reform that includes CRA modernization, a comprehensive anti-predatory lending law, and a strong and independent CFPA.

Chairman TOWNS. You will have an opportunity to do so in the question and answer period, I am certain. OK?

Mr. TAYLOR. Yes.

Chairman TOWNS. Thank you very much for your testimony.

Let me begin, I guess, Mr. Barofsky and Mr. Dodaro. What do you really see here as the problem? The fact that we have only been able to do less than 200,000 modifications, what is the problem? And the $75 billion I think has been allocated, 50 and then 25, yes, I think it was 75, so what is the problem?

When I look at the keys and know, in fact, that they represent people, they represent folks who poured their hearts into their homes, saved, and all of the sudden now they are asked to leave because they missed payments on their home. Good people. People that want to do right. What do you think needs to be done that is not being done?

Mr. BAROFSKY. Mr. Chairman, what we found in our audit is that I think a part of it is that doing a program like this is very retail oriented. It is on an individual basis. And when Treasury set this up, they out-sourced that to the mortgage servicers.

One of the problems that we have heard—and I know that in reviewing Mr. Dodaro's testimony, that they have seen it as well—is this lack of planning up front, almost a ready-fire-aim type of approach where these constant changes in guidance and documentation and requirements—and yesterday another guidance change came down. It is an admirable change. It is good for the program. But it is going to require these servicers to once again reset their systems, reset their procedures. Perhaps if there had been more planning up front, these servicers wouldn't have been constantly having to react to these changes in circumstances and the emphasis on verbal modifications.

So what happened is the infrastructure was not quite in place, and then it got overwhelmed by constant changes and lack of adequate planning up front that has created these tremendous backlogs and inefficiencies.

We have all heard reports about servicers who lose borrowers' paperwork. They send the paperwork in and then the paperwork is gone, and we read about how you can see seven or eight times borrowers send in the paperwork.

One of the servicers explained to us that they did, in fact, lose paperwork because they were so overwhelmed because of the verbal modifications, because of the constant changes to their systems that they hired a vendor and the vendor lost all the documents. That is not in any way to remove responsibility from the servicers; that just wasn't the focus of our report.

But I think one of the contributions to why this has been so slow to get off the ground and why it has been so inefficient is this sort of lack of planning.

Mr. DODARO. I would add a couple points. First, I would underscore the fact that there have been a number of program changes, so the program hasn't been stable. For example, last summer Treasury initially mentioned that it would be OK to improve trial modifications based upon stated income as opposed to having documentation and verification of the income of the borrowers. Then

subsequently they changed that guidance and now, before trial modifications, you need to have substantiated documentation.

The other point in the recommendation we made last July was that you needed program metrics. There is no standard guidance about when the servicers have to contact the borrowers, whether it is 30 days after they are delinquent or 60 days. You need some standards. How quickly should they respond to telephone calls? How quickly should they process the information? All these issues in terms of how the process should proceed. How do they handle complaints? None of these things are yet standardized where you could hold the servicers accountable.

As I mentioned, we made a recommendation last July that they have some ability to invoke penalties for servicers that don't comply with the requirements, but they need to be established first.

Second, they are having difficulty in a number of cases, from the servicers we talked with, of getting income verification from the borrowers. That is taking some additional time. Now, they have forestalled making decision on some of the trial modifications.

The other issue is that these other programs, which are intended to deal with some of the negative equity issues, like the hardest hit fund, hasn't been started yet. The second lienholder program hasn't been started yet.

So there were some problems with stability in the first program out of the chute for the first lienholder one, and these other programs haven't been brought online yet, even though it has been a year into the program. So with those activities we think you will see a better outcome, but they need to be managed properly.

Chairman TOWNS. Quickly, so, you don't think it is a lack of money?

Mr. DODARO. I think there is plenty of money. I mean, of the $36.7 billion that they have committed to the HAMP program, $58 million has been spent as of the end of February. There is plenty of money. It is not a question of lack of funding; it is a question of making sure you have the commitment of the servicers, Treasury has enough people to accurately manage the program, and that there is process and means to hold people accountable for moving forward, and they are not there yet.

Chairman TOWNS. My time has expired. I yield 5 minutes to the gentleman from California, Ranking Member Congressman Issa.

Mr. ISSA. Thank you, Mr. Chairman.

To begin, I am going to share just one example of the many I have received. This one comes from a Mr. Paul Habib, who was involved in a trial loan modification. He has submitted and received approval, first verbally and then canceled, based on a rule change, then in writing and canceled based on some rule and change. He is now being asked, after they have lost his applications twice, to fill out yet a third one.

Now, he happens to be a WAMU Chase applicant, but certainly we are going to hear more today about the problems of Countrywide, since it is a defunct company that B of A is trying to act on behalf of after their acquisition.

Let me try to be a businessman for a moment, 10 years removed, but still, let's get to the core of what Mr. Barofsky and Mr. Dodaro, what you have seen that doesn't work. I have read your reports.

They are very good, but they tell us that this system that we are presently using is not going to work any better, in spite of that curve, under the current situation. There is 1.3 million people that were given hope, 170,000 were given loans. The delta between the hope and the loan is so great as to be a misery inflicted by the Government in their own program. I think we can all agree that is not acceptable.

Let me just run though, and others that have familiarity with this can weigh in. As I said in my opening statement, if I went out to buy a home today I would go for pre-approval. It would take a matter of days or weeks. I would then have an amount of money, based on documentation, that I would qualify for. I would look at a home that I wanted to buy. Let's just assume that it is my own home and it is in foreclosure. And I would have it appraised independently and they would come up with an appraisal within days. None of that has changed from the boom era to today.

Why in the world are we not discussing a change that says, look, anyone can pre-approve you for a loan. Anyone qualified can do the assessment of the value. And at that point the pre-approval process is over and the application is submitted with knowledge of what you can afford and knowledge of what the home is worth. And this system worked for years relatively well with a matter of days between the applicant's desire and those two being met.

Can you comment on why we are not talking about a change to that system today? Mr. Dodaro, I will start with you because you talked about refilling the backlog. I would propose that the worst thing in the world is to have more people into a system that takes 6, 9 months or more to get through while they have this period of uncertainty.

Mr. DODARO. Well, first of all, the mortgage alternative program that Treasury has announced but not yet implemented is meant to deal with more up-front decisions about whether or not there is even a prospect that a trial modification makes sense, and if not move to a short sell type arrangement or other vehicle to help create a smooth exit strategy.

Mr. ISSA. We are only talking about this program, because if we continue doing what we have been doing that failed, then only insanity explains why we would continue doing what we know won't work.

Mr. DODARO. Well, I think in terms of making sure that the program has a fair opportunity, it needed to be set up to have some stability, to be managed properly. I still think that if Treasury proceeds there will have to be better decisions made. The one key decision that I——

Mr. ISSA. I am going to cut you off, because that is exactly business as usual around here. I have gotten better from you many times, but in this case, Mr. Barofsky, I want to move to you because your report told us we have had enough time to see a trend and people have suffered for a year under a program that is not working and that is unlikely to work dramatically better. Would you give us your comments on those changes or others that you want us to feature?

Mr. BAROFSKY. We are talking here about some of the structural problems with the servicers. I think that it is getting better. I

mean, that is the good news. This whole idea of verbal modifications, which I think is such a source of so many of the problems that you described——

Mr. ISSA. Right. We have put in too much in the front end without hope of coming out the back end.

Mr. BAROFSKY. In order to get these numbers up to flood the system and the over capacity, thankfully that is going to be done. Treasury has changed on that one, and that I think will be very helpful to increase the conversion rate. I think under these structural issues, I think Treasury has to decide and sort of do a final issue of guidance to foresee the various problems.

Mr. ISSA. We are going to ask them that question in just a few minutes.

Mr. BAROFSKY. So I think that there is good news that these structural things can be adjusted. I think the metrics, which are so important, as Mr. Dodaro recommended in July and we have re-emphasized today, so you can have accountability and make changes to those benchmarks and those goals are important.

But the third potential problem is re-default, and that Treasury has not shown a willingness to reconsider or re-examine, because ultimately this program will not be successful until——

Mr. ISSA. Thank you. We are going to get to that. The other two just wanted to chime in quickly, I believe, if the chairman will indulge.

Mr. TAYLOR. Thank you, Mr. Issa. I think your question is right on point, and I think though the answer is very much in your opening remarks when you mentioned that Bank of America is about to do 45,000 principal write-downs. Now, they were encouraged by State AGs—I will use the word encourage loosely—but the point is that is what is really going to make the difference at the end of the day, the principal write-downs.

In defense of Treasury, I will say that on paper the plan looks good, but the problem is it is voluntary, and unless and until we have something like what we proposed to Secretary Geithner and Secretary Paulson, to Secretary Paulson in February 2008, you must have mandatory compliance in this program. You are not going to get the principal write-downs——

Mr. ISSA. OK. And Dr. Calabria, you had something?

Mr. TAYLOR. That will make the huge difference.

Mr. CALABRIA. We are out of time, sir.

Mr. ISSA. Well, thank you very much. Thank you, Mr. Chairman.

Chairman TOWNS. Thank you.

I now yield 5 minutes to the gentleman from Maryland, Congressman Cummings.

Mr. CUMMINGS. Thank you very much.

Gentlemen, I am very familiar with all of what you were saying, because in my district we have two people in my office that all they do is foreclosure prevention. That is all they do. It is a big problem.

Mr. Barofsky, what, if anything, prevents a lender from deciding midway through the HAMP process that the $1,000 or whatever it might be incentive payment is not worth the company's resources and just say to heck with it? The reason, I am trying to figure out how to we get to this effectiveness and efficiency, because it seems

like we have a program here which we want to work, we think should work, but when we scratch the surface it is not working.

So we have the money, but we are not spending the money. Mr. Calabria said it is costing us $400,000 a piece. That is not accurate, because that means that we spent all the money, but we aren't spending. We are spending just a pittance of the money.

So do we need some kind of different carrot? Do we need some type of stick?

Mr. BAROFSKY. I think, to answer your question about the midstream change of heart, it gets to a central point. Under the rules, a servicer, once they sign the contract and they run the net present value test and it is positive, they do have an obligation to go forward and modify the mortgage, but your question almost goes to one of compliance. How do we make sure that they follow those rules?

Right now, Freddie Mac has been signed up to be the compliance agent. Our office is about to do an audit, about to announce an audit into compliance. I know that GAO is doing some work on compliance, as well. That will be one of the methods, which is a vigorous—and I think it is very important to have a compliance regimen in place.

One of the problems that GAO has pointed out—I don't want to speak for them—is that it has taken a while just to get that compliance shop up and running, and we are going to see how effective it has been.

Mr. CUMMINGS. Yes. Mr. Dodaro, other than your office and Mr. Barofsky's office, is there any other oversight of HAMP? And as we know, Freddie Mac is the compliance agent for HAMP. Has Freddie Mac its responsibilities in that role? And what about within Treasury? Have sufficient resources been allocated to effectively administer and monitor the program?

Mr. DODARO. One of the recommendations we made back in July last year was that Treasury look at and make a determination whether it has the adequate enough resources on board to implement the program. We still think they need to be able to do that. In fact, they went from reducing the number of people that they have had on place from 36 to 29. They only have 27 of the 29 positions filled. So we still think they need to look at whether or not they have enough people in order to be able to do it.

We do think there needs to be an overall compliance program put in place that is really not there. As Mr. Barofsky pointed out, we are going to continue to follow that up. But really the oversight is really coming from our office and Mr. Barofsky's office and needs to come from Treasury over the servicers. That is why we have encouraged them to put a better system in place to ensure compliance.

Mr. CUMMINGS. Mr. Taylor, the NCRC has released the results of a survey of homeowners seeking assistance to avoid foreclosure. What were you looking for in the survey? And can you share some of your findings? I understand that African American folks were less likely to benefit. They were less likely to benefit from the programs. Can you shed any light on that for us?

Mr. TAYLOR. We were trying to look at the front line of what was really transpiring for people, so we went to 29 counseling agencies

around the country, not the entire country, but the folks we could work with. So what we discovered, even to the minimum amount that the program is working, that if you are an African American you are 50 percent less likely to get a modification under this program, which really is abhorrent.

Further, we also discovered that if you are 50 or older, and many people looking at heading toward retirement, many people who are, indeed, classified as seniors, 50 percent of them are going to also have great difficulty in getting a modification, a permanent modification.

So not only is the program really just not making the dent in the problem; it is not really being administered in a way that is fair across the board.

Mr. CUMMINGS. I see my time is up. Thank you, Mr. Chairman.

Chairman TOWNS. Thank the gentleman from Maryland.

I yield 5 minutes to the gentleman from Ohio, Mr. Jordan.

Mr. JORDAN. Thank you, Mr. Chairman.

We have said many times, I said in my opening statement, this thing is a mess. Mr. Barofsky indicated in his opening comments that it is tough to even figure out what the exact goal is. I learned a long time ago you can't get anywhere if you don't know where you are going. You have to have a defined goal you are trying to achieve.

With that changing metrics, we have had the promise or the hope of potentially 4 million people getting their mortgage modified, and yet 170,000 there, and then, of course, the re-default problem that has already been talked about. For those who actually get permanent, 40 percent of them are likely to re-default, so a total mess.

But I actually want to go to Mr. Calabria. You said, I think, it is tough to pay a mortgage if you don't have a job. I mean, that is what this, in large part, boils down to. So we can continue to have this big Government-oriented approach, big spending, big regulation to our economic concerns out there, or, frankly, in my humble opinion, we can get back to creating a framework and environment that actually is conducive to economic growth, actually fosters job creation in the private sector, and I would argue doesn't create policies that don't create uncertainty out there for the small business owner and the people who actually create jobs.

So my question is a general one to you: what is Congress doing right in fostering a framework and a context for economic growth and job creation to take place in the private sector? What, in fact, is Congress, I mean, I think that we have a lot of things we are doing wrong, but a general question on what we can do to get to the heart of this, because, again, until you have a job it is tough to make a mortgage payment.

Mr. CALABRIA. And I would agree, and I would emphasize and say as well, to touch on the last question, we have certainly seen during this recession that African Americans have been hit harder——

Mr. JORDAN. They sure have.

Mr. CALABRIA [continuing]. In terms of the labor market than anybody else. And certainly this is part of the reason that explains why the denial rates are different because, quite frankly, the

HAMP program does not really help you if you have lost your job, and it does not deal with that as an issue, so I think this needs to be re-thought in that regard.

I would say, as a broad measure, private sector needs to have some certainty to be able to plan, so, despite whatever one might think about any set of rules or legislation, you need to have a set of rules so that the private sector can plan around them. I think many businessmen would probably tell you that even a bad set of rules that they know that they can plan with is better than rules that change off and on.

My own perspective, so what everyone thinks about the recently passed health care, at least it is done. That is something that the private sector can move forward with and plan around.

I do think we need to get our situation in terms of our fiscal situation in order. Any small businessman today has to factor higher taxes into his future plans.

Mr. JORDAN. Yes.

Mr. CALABRIA. That is something that I think we need a credible path going forward on.

I think we also need to find ways to get banks to lend again in a serious way. This is, I think, one of the perverse implications of where monetary policy and fiscal policy have worked against us. Normally, very low record interest rates help create businesses, but in this environment banks are essentially able to borrow at nothing, put it in Treasury bills for 3 or 3½ percent——

Mr. JORDAN. That is a good point.

Mr. CALABRIA. That is a very large interest rate margin for a bank, risk free. If they are doing that, they have no incentive to go out and lend to the private sector because they can really just make great risk-free returns right now.

Part of that is they are trying to make these returns to cover up the losses they have on their balance sheets.

Mr. JORDAN. Right.

Mr. CALABRIA. I think we need to be more aggressive in terms of the bank regulators in making banks actually recognize losses on their balance sheets. We have at least probably half a trillion in probably second lien loans that aren't recognized.

Mr. JORDAN. Let me ask you a question. Do you think we would be better off simply not having the program? Do you think the false hope this program gives to some homeowners, the problems we have seen, the lack of transparency, the lack of a clearly defined goal—everything we have seen over the last year, do you think we would be better off simply letting the market—and letting, as the ranking member pointed out in his opening statement, letting banks work with the homeowner, the servicer work with the homeowner, or the bank and the lending institutions work with the homeowner, and work it out amongst themselves versus the heavy-handed Government coming in?

Mr. CALABRIA. I would say, as an overall short answer, that is, given how few people have actually been helped relative to the universe of it, I think it has probably done more harm than good, in that you have encouraged people to—for instance, a lot of what I hear is sometimes people are encouraged to, in order to get to the front of the line, stop paying your mortgage. That is going to ding

your credit. So I think some of this you are really encouraging probably more harm than good.

I will lay out my bias and my perspective is that I think taking——

Mr. JORDAN. Mr. Taylor is trying to jump in.

Chairman TOWNS. I will yield the gentleman an additional minute.

Mr. JORDAN. God bless you, Mr. Chairman.

Mr. TAYLOR. You are throwing the baby out with the bath water here. I mean, look, to say that it has done more harm than good is just ludicrous. It simply——

Mr. CALABRIA. I disagree with that.

Mr. TAYLOR. It simply hasn't been effective. And also, to start from the premise that, well, the problem is unemployment and lack of equity, as he puts it, that is why we are having these foreclosures is kind of like saying the house is gone. Why is the house gone? Well, it burned down, and then stopping with that level of thinking. Why did it burn down? We have unemployment and lack of equity because of a massive foreclosure, malfeasant lending practices that put people in unsustainable mortgages, and to reverse that we have to address that. First, clean it up, but also understand that 8 million American families are not wrong, Congressman.

Mr. JORDAN. Yes.

Mr. TAYLOR. Eight million American families didn't set out to put themselves in a malfeasant loan or an unsustainable loan.

Mr. JORDAN. I am not saying they did. I am just saying——

Mr. TAYLOR. It certainly sounds like you are saying that.

Mr. JORDAN. I am not saying that at all. I am just saying that a program that lacks the accountability that this one does and extends false hope to the very people we are trying to help is a program that has serious flaws and failures. And while we want to——

Mr. TAYLOR. So make the program work.

Mr. JORDAN. I want to do one last question if I can in my last minute, my extra minute—thank you, Mr. Chairman—to the Inspector General. Why do you think Treasury is reluctant to—one of the suggestions you had in your report, and I asked this, I think, to Mr. Allison in the last hearing we had, reluctant to look at the underlying loan to determine if some of the fraudulent things were there in the original loan. Why is Treasury reluctant to implement that suggestion you had in your last report?

Mr. BAROFSKY. As they have explained it to me, it is sort of akin to a resource issue from their perspective. They believe that tracking the original loan—again, this is the explanation that they provided—that getting the original loan file and the original loan application would be very resource intensive. As you know, these mortgages were sold and resold and resold and resold and resold, and therefore they claim that it would be very difficult to obtain the original mortgage file.

Chairman TOWNS. Thank you. The gentleman's time has expired.

Mr. JORDAN. Thank you.

Chairman TOWNS. I now yield to Ms. Norton of D.C.

Ms. NORTON. Thank you, Mr. Chairman.

I was daunted and amazed by Mr. Calabria's notion in the middle of a crisis, better to have no program than to take a program where we are essentially dealing with a not only unanticipated, but unprecedented crisis, and everybody knows we are learning as we go along because we have never done it before. So the notion of saying, well, so leave everybody out there, as my friend on the other side——

Mr. JORDAN. If I could respond?

Ms. NORTON [continuing]. To negotiate for themselves has blown my mind.

I have a question here about the second lien program, because these are the people——

Mr. JORDAN. Will the gentlelady yield?

Ms. NORTON. The gentlelady will not yield. She has only a few minutes. You had your time.

I am particularly concerned about those at very particular risk in a program that may meet Mr. Calabria's notion of better not have it than have it, because it hasn't done anything, although I do not buy his notion that you should just leave people out there on their own when even Government can't figure out what to do.

This notion about 50 percent of the—we know that 50 percent of the homes in foreclosure had a second lien on them, so now you really have trouble here.

A year ago Treasury announced, OK, we understand, and their learning curve, and they instituted a new component of HAMP to help homeowners with multiple liens on their property. Now, these figures need to be explained. Only three servicers have signed up.

What kept that from happening? No second liens have been modified. That is a year into the program. That is beyond failure, beyond needing fixing. It may need to be totally rethought, although I do not buy into the notion of, all right, throw up your hands and don't do anything.

I want to ask Mr. Barofsky, Mr. Dodaro, and Mr. Taylor, in particular, first to get at the root cause. Why didn't this program get off the ground in the first place as a component of HAMP? And without such a program, is there any way to help these people who have second liens and may be in the greatest need of all?

Mr. Barofsky, why don't we start with you and go to the three gentlemen I asked.

Mr. BAROFSKY. Sure. I think that it is good news that in the last week they have signed up two additional——

Ms. NORTON. What happened in the last week? Somebody got religion there?

Mr. BAROFSKY. Well, we did provide a draft audit of our report about 2 weeks ago, although I think it is something that has been in the works. But we share your frustration. As we detail in our report, in the original draft it was just one, and it is good to see that they have signed up three of the biggest players in the market, but it has been a year since the details of this—the idea of modifying second loans. And it is such an important part of this program.

Ms. NORTON. So is it lack of people signing up that kept it from getting off the ground? Was more needed to make that happen?

Mr. BAROFSKY. Perhaps. I mean, we have not yet audited the second lien program. It is something we wanted to see, let it get off the ground before we did so, but those are very good questions that need to be answered.

Ms. NORTON. Mr. Dodaro.

Mr. DODARO. First of all, Treasury had not established yet a date for when they were going to start the program, and a lot of the program details aren't very clear yet, so it goes to the question of first——

Ms. NORTON. After a year they aren't very clear?

Mr. DODARO. Well, that is the status of it, and that is why we think the program hasn't got off and running. And it goes also to Congressman Issa's question. I mean, really the second lien program I think needs to be established in addition to what they are doing, as well as dealing with negative equity, which is the hardest hit housing fund that they are just now starting to get off the ground in five States.

So you need multiple approaches to deal with this problem, because all the homeowners aren't in the same situation.

Ms. NORTON. Yeah. Some of them are employed, for example, and have a second lien. Some are going down the drain quickly——

Mr. DODARO. Right.

Ms. NORTON [continuing]. But could be caught with the proper kind of net.

Mr. DODARO. Right. And Treasury needs all these different programs to deal with the varied situations of the borrowers, so they need to get up and running. This is why we suggested they look at how many people they had on staff in order to carry out all these programs.

But the basic answer to your question is: until the details are established, the servicers are going to be somewhat reluctant, and understandably, to sign up for the program.

Ms. NORTON. Mr. Taylor.

Mr. TAYLOR. Look, under the HAMP program, all the major lenders have signed up to participate in this program, and within the program there is the permission to do principal write-down as well as interest write-down. The problem is we now know it is really not working, and the fundamental reason it is not working is because it is voluntary.

I mean, you have all these lenders sitting there waiting for you, the U.S. Government, and the taxpayer to bail them out, and they are waiting for the taxpayer to pay for everything here, and what they ought to be doing is at least meeting us halfway. For that to happen, it has to be mandatory. Treasury has to say, OK, we are no longer going to have voluntary participation in this program. Everybody is going to do this. And if we have to use the authority on the top, which allows Treasury to purchase the loans, or the authority under eminent domain, go in and get those loans. That is No. 1.

No. 2, right now, as we sit here, most of the problematic loans are actually already controlled by the Government. Can you say Fannie Mae and Freddie Mac? Those are no longer Government-sponsored enterprises; those are Government enterprises. And that is where the majority of these loans now sit.

Tomorrow they can turn around and refinance millions of these loans, and if they don't they stand to lose somewhere between $400 billion to $600 billion over the course of the next several years if they don't refinance now.

But you have the capability. This Congress, this Government, has the capability to mandate Fannie and Freddie to turn around and fix those loans and mandate these Wall Street and big banks who have taken money from the American taxpayer and from this Congress and tell them that they are going to participate in this program.

It is not that the program design is bad; it is the participation is bad.

Chairman TOWNS. The gentlewoman's time has expired.

I now yield 5 minutes to the gentleman from Utah, Mr. Chaffetz.

Mr. CHAFFETZ. Thank you, Mr. Chairman, and thank you all for being here. I do appreciate it.

Mr. Dodaro, I would like to go back to your July 20th recommendations that were made specific to the personnel. One of the concerns in Treasury is lack of leadership. I just want to make sure I understand this right.

The President goes out and announces this program in February or March, and they did not hire a chief homeownership preservation officer until November; is that right?

Mr. DODARO. Yes, that is correct. Our recommendation, as you point out, was to get the head of that office established.

Mr. CHAFFETZ. I think one of the things that we want to have a response from Treasury on, you have such an important program, you have people bleeding over there. The President stands up before the American people and says this is going to happen. You can't even hire somebody until November?

Now, my understanding was they made a recommendation they needed 36 full-time equivalents into the program, and then they modified that and said, no, we only need 29. We need less resources, not more resources, but still haven't filled all 29 positions. Is that right?

Mr. DODARO. That is correct.

Mr. CHAFFETZ. I just don't understand that. We hear all these complaints about this program. The taxpayers have set aside tens of billions of dollars, and we can't even find 29 people to administer the program. It takes the administration 10 months to hire a leader over there. That is inexcusable, and I hope on both sides of the aisle that we hold the administration accountable for that.

Let me go to the second part of my questioning here. I am hearing a lot of numbers and I am not understanding the math, and clearly the metrics have not been set up at the beginning. We are dealing with a very confused situation, because the leadership was not in place and didn't set these metrics in place.

Help me understand here. We have only spent $58 million of the $75 billion; is that right?

Mr. DODARO. That is correct, because payments aren't made until the trial modifications become permanent, and there is a 1-year anniversary of the trial modifications. Then everybody starts getting paid.

Mr. CHAFFETZ. So then they get paid at that point?

Mr. DODARO. Right.

Mr. CHAFFETZ. OK, because if you kind of do the math backward, there is less than 400—OK. That makes much more sense. I appreciate that.

If staff could put up slide five, if we have that, this is a letter from Timothy Geithner to Chairman Towns showing the overdue trial modifications. There are 536,084 trial modifications that have been active 4 months or more, and 287,881 trial modifications that have been active 6 months or more.

Mr. Barofsky, what is causing this backlog?

Mr. BAROFSKY. Verbal modifications. This is the result of not getting fully documented income verification, full documents at the outset of the mortgage modification process. That decision is what drove up the number in GAO's chart there of the spike of getting a high number of trial modifications, but without getting that documentation up front you see them languishing 5, 6 months because it takes that long for the documentation.

And sometimes the documentation never will come, never could come because the documents won't match up with the verbal numbers. I think that is one of the primary reasons why you see those types of backlog.

Mr. CHAFFETZ. OK. My time is short and we have votes. We obviously need more information to ferret this out more.

Mr. Dodaro, this chart here, I am looking at the source. It says cumulative figures taken from the January 10th HAMP servicer performance report. Monthly figures are GAO calculated using cumulative figures. If it is cumulative, why would trial modifications start to go down? If you could help clarify that for me? I see the permanent modifications continuing to go up, but if they are truly cumulative numbers I don't understand why any number would ever come down.

Mr. DODARO. Those are monthly.

Mr. CHAFFETZ. Monthly figures? OK.

Mr. DODARO. Yes.

Mr. CHAFFETZ. It says cumulative, and I just—you can clarify that for me at some point.

Mr. DODARO. I think it is calculated back from the cumulative figures but it is on a monthly basis so that we could see the path.

Mr. CHAFFETZ. OK.

Mr. DODARO. And I think the point being even though trial modifications are going down slightly because now they have moved back to documenting income up front, you may see a higher percentage of conversions to permanent modifications, but we will have to wait and see.

Mr. CHAFFETZ. And then, finally, there was an assertion here that African Americans are 50 percent less likely. Why is that? What is happening here? Why would that happen? I can't remember who brought that point up in the prior——

Mr. TAYLOR. I did. Do you want me to answer?

Mr. CHAFFETZ. Yes.

Mr. TAYLOR. Look, they started out with disproportionately bad loans that were—the subprime high-cost lenders really targeted African American and Latino neighborhoods, and so they are starting

with just a more difficult problem in terms of having to modify those loans to begin with.

Let me just say on your——

Mr. CHAFFETZ. I would think that the——

Chairman TOWNS. The gentleman's time is expired.

Mr. CHAFFETZ. Understood. Thanks, Mr. Chairman.

Chairman TOWNS. All right.

I now yield to the gentlewoman from California, Congresswoman Watson.

Ms. WATSON. The question just came up about African Americans and what is happening there. I would like to just let you know in my district—I am Los Angeles, 33rd, Los Angeles and Culver City—I have 2,400 cases of foreclosures in my district because of the subprime marketers. They would say, well, how much do you make, and then they said, well, $3,500, well, let's mark it up to $5,000, and then the payments in a few months go up and they can't afford it. Then they lose their job on top of it. They have plagued my district, particularly, the seniors and particularly those at the lowest end of the socio-economic pool, and it is just one of those situations that is almost bordering on the illegal.

So we have a big problem, and particularly in minority communities, because they are the ones that can't find jobs and they lose their jobs first.

Now, with that being said, Mr. Dodaro, according to the GAO's July 2009 report, as of the third quarter of 2009 more than half of all modified loans re-defaulted within 6 months, and I am finding within my district—and this can be documented—we were trying to capitalize the banks too big to fail. They didn't give out. They didn't do the assistance to the homeowners that they should.

However, in the HAMP program, only borrowers with high levels of household debt must agree to obtain debt counseling, and the Treasury Department is not adequately monitoring the requirement, despite the fact that financial literacy is critical to ensuring that the mistakes which led to the current economic crisis are not repeated. And it is not all on the part of the homeowner.

So what are the most common causes of re-default for HAMP borrowers, and what steps is Treasury taking to prevent it? And should there be counseling for the borrower before they sign on the dotted line? Mr. Dodaro.

Mr. DODARO. Yes. First, of the 170,000 permanent modifications that have been made under the first lienholder program in HAMP, 1,473 have re-defaulted so far. Now, on the counseling issue, Treasury requires the borrowers over 55 percent or payment of their monthly income, gross income, have to counseling, but they are not following up and making sure that counseling actually gets conducted.

I am very disappointed in their response to that area. They believe it is not cost effective for them and the servicers to do that. There are ways to do it more cost effectively through followup activities.

I think this is a huge missed opportunity to deal with financial literacy, to deal with consumer education, and I hope that Treasury reconsiders and implements our recommendation.

Ms. WATSON. Let me then address my next comments to Mr. Barofsky and back to you, Mr. Dodaro.

According to Treasury estimates, up to half of all borrowers at the risk of foreclosure have second liens on their property. Since having a second lien can result in much higher foreclosure rates, Treasury announced the second lien program on April 28, 2009; however, only two servicers have enrolled in the program and no second liens have been modified.

Why has the 2MP program not been effective thus far, and what more should the Treasury Department be doing to ensure the program successfully prevents foreclosures?

Mr. DODARO. On the second lien program, we think Treasury needs to make all the specific requirements known so that the servicers know what they are signing up for, and so we think that will help move that program forward once that is done.

Ms. WATSON. You know what is very baffling to me, and I am sure many of my colleagues—I will close with this—is how all of this started. I was sitting here when Paulson and Bernanke came and said, help, help, the house is on fire. What do you do? You call 9–1–1 and you get somebody out there. We are 9–1–1 and we got somebody out there to capitalize them so they could put out the fire and people could save their homes. It has not happened.

I think that Treasury is trying, but we still don't know, and the risks that were taken is being paid for by the taxpayers, and the seniors and the uninformed people are the victims.

Thank you, Mr. Chairman. I yield back.

Chairman TOWNS. I thank the gentlewoman from California.

I now yield to the gentleman from Missouri, Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

As I sit here today we are talking about a program here that is well intentioned but is poorly thought out, thought through, poorly administered, and some of the comments here, Mr. Barofsky: program needed more planning up front. Mr. Dodaro: program needs more stability. Mr. Calabria: program has done more harm than good. Mr. Barofsky again: the voluminous paperwork causes delays.

I think it is indicative of why we are sitting here. We wonder, we asked the Government to come in and help, and yet the Government isn't the one who can solve this problem.

The lady from California talks about the house is on fire you call 9–1–1. That is fine. You talk to the local fire department. You don't ask the Government from Washington, DC, who has to drive plumb across the country to put out a fire. I think we have the wrong people in charge here.

This is frustrating to me.

As we sit here, Mr. Barofsky, in looking at something here, it says that the Treasury has not monitored the requirement that borrowers with high levels of household debt obtain debt counseling. I mean, if we are looking at folks who are going to try to rewrite their mortgages, why are we not doing that? Why is the Treasury not—is there some sort of enforcement provision here that will force them to start doing it now, or is this going to just be blown off and be forgotten about like some of these other things that we are talking about?

Mr. BAROFSKY. I am going to defer to my colleague, because that finding is part of his report.

Mr. LUETKEMEYER. All right.

Mr. DODARO. What Treasury has told us, they have consulted with the servicers and they think it would be too costly to track that provision. I don't buy that as an acceptable answer. I think it should be followed up on. There should be cost-effective ways to find out whether counseling is done or not. I think it is integral and important, particularly if we are looking at trying to reduce the occurrences of re-defaults going forward, and to make sure that the borrowers are empowered with the best information that is available to them to make informed decisions and choices.

So I would hope, as I have said, that Treasury reconsiders, implements our recommendations, and if not, I would encourage the Congress to make it mandatory.

Mr. LUETKEMEYER. Who pays for the debt counseling? Is that something that is included in the charges that the individual pays here, or do we pay for that, does the program pay for that? Who pays for the counseling?

Mr. DODARO. I will have to get back to you with that answer.

Mr. LUETKEMEYER. Mr. Taylor, you look like you know the answer.

Mr. TAYLOR. Yes. Well, HUD pays for HUD-certified counselors. Some of the banks pay for the counseling. I don't know if the program—NeighborWorks, of course, is funded by this Congress. They fund a lot of the organizations.

Mr. LUETKEMEYER. So there are other outside sources that pay for it.

Mr. TAYLOR. They want to help. In fact, under the FTC requirement, whenever a person goes in for a modification they are supposed to be informed of the availability of counseling. The problem is, in the survey we just did, the mystery shopping of 100 servicers, we found out that 80 percent of the time they are not told about it.

Mr. DODARO. Congressman, my staff informs me that HUD pays for the counseling in this program.

Mr. LUETKEMEYER. All right.

Mr. Calabria.

Mr. CALABRIA. My recollection is we probably appropriated $400 million to $500 million over this course of action for counseling, so it is a significant amount of money out there. Despite the characterization of my testimony saying do nothing, my testimony, quite frankly, suggests that one of the things we do need to do is connect counseling to the labor market.

For instance, I talk about in my testimony that mass layoffs have very large effects, disproportionate effects on the housing market because somebody loses their job and there is a big impact on the housing market. One of the things that can be done, for instance, is connecting counselors to the employers so that the last day of work, where you have 50 people on the factory floor, you can give them financial assistance, financial counseling, literacy right then and there, because you know if you lose your job in a mass layoff you are likely 6 months, 9 months down the road to get into financial trouble.

One of the things we are continuing to emphasize, we cannot just sort of wait until horse is out of the barn door. You need to get people on the front end before they get into financial trouble and avoid this to start with.

Mr. LUETKEMEYER. You made a comment about $400,000 per modification. Can you explain that figure.

Mr. CALABRIA. Let me say, as the Congressman pointed out, that was in the assumption of the if—that we spent this $75 billion. I certainly hope that we spend it a whole lot more effectively. That was simply—this is how much we have appropriated, essentially, divided by how many people we were likely to help.

Mr. LUETKEMEYER. That you anticipate helping?

Mr. CALABRIA. That I anticipate helping.

Mr. LUETKEMEYER. It would be cheaper to write them a check, wouldn't it?

Mr. CALABRIA. Cheaper to buy them a house.

Mr. LUETKEMEYER. Imagine that.

Mr. Taylor, you mentioned something a minute ago. You wanted the banks to meet you halfway. Can you explain that comment, please?

Mr. TAYLOR. Sure. So there aren't a lot of clean hands in this whole debacle, and certainly the role that Wall Street played cannot be over-stated. So the solution to this must be a principal write-down program. The answer to resolving this crisis is we have to get the monthly payments down. Interest alone is not working. You heard Representative Issa talk about Bank of America's initiative. I know that CitiBank and some of the other banks, at least in some of their portfolio lending, Wells, on the loans that they have in portfolio, we are beginning to see some principal write-downs. That is what is going to put people in a position, those who are still working, to be able to continue to pay on their mortgage.

So I think without that kind of initiative, I don't see that we are going to make a lot of progress.

Chairman TOWNS. The gentleman's time has expired.

Mr. LUETKEMEYER. Who foots the bill for that?

Mr. TAYLOR. Well, who foots the bill is the folks that kind of created this crisis in the first place, Wall Street and the big banks reduce the principal. And then what the Government can do is step in and act as a guarantor for the balance. But get it down to some reasonable amount where you are going to keep the families in the house, and eventually the equity appreciation over time will bring value back to the homeowner. So it is the industry stepping up and matching, at least, the Government's initiative here.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Chairman TOWNS. The gentleman's time has expired.

I now yield to the gentlewoman from California, Congresswoman Chu.

Ms. CHU. Well, I have a constituent, Daisy Cardale, whose parents are on the brink of losing their home to an auction in less than a week. They applied in the HAMP trial period plan for 3 months and they entered into that with JPMorgan Chase. They submitted their payments timely each month, but during that time period they hardly received any feedback on what was going on, an you status updates or anything. And then finally 5 months later

they received a letter from Chase indicating that they were denied and that their house was going to be auctioned off in 30 days, even though they had faithfully made their payments.

The system has to be better than this. Here they were put on the string for 5 months, and now it is going to be auctioned off almost immediately.

I am concerned about the lack of notice, but also about the lack of an appeal process. While with the introduction of borrower notices on January 1, 2010, homeowners are finally able to see at least a reason for modification denial, but I would like to ask Mr. Taylor, does the introduction of borrower notices do enough to ensure that HAMP-eligible homeowners can appeal an unfair denial?

Mr. TAYLOR. I think it would be helpful. I wouldn't say that it does enough. And I think what you are really getting at, and, interestingly enough, from both sides of the aisle we have heard examples of people who are trying to avoid a foreclosure who are still working, going to the HAMP program, and then being in the process and still not having any success.

So, like the example you just gave, I hate to say it is not very uncommon, but let's really look at where the problem lies. The Treasury would love to see those loans become permanent modifications, but the servicer and the lender has to agree to that.

So if somebody fills out all the applications and submits all the information, applies for the modification, and 3 months go by, 5 months go by, and it looks like everything is fine, and then all the sudden they get a foreclosure notice—and, again, not uncommon—if we can't get the servicer and the bank, itself, to agree to make that modification, Treasury loses as well as the rest of us.

So, again, it is a voluntary participation program. There has to be a mandatory participation so that the lender isn't sitting there going, "well, I will just string this along long enough to see whether maybe equity grows in the property, maybe foreclosure is a better option, and for most banks it isn't, and maybe I will just postpone the foreclosure process on this and see if I have a better deal at the end."

There needs to be, like, I have to do this because it is now mandatory. We will get more folks. Obviously, this doesn't get to the unemployment, but there are solutions for unemployment, including what Barney Frank has offered as—and I really urge members of this committee to take a look at the bill that he has put forward to help people who are on unemployment that will help them temporarily remain in their house, either to find work or to be able to refinance or—sorry, to sell their home.

So I don't think the notification is enough. I think it will be helpful. I think we have to have mandatory participation in this program so that we don't have these 3, 5, 6 months of stringing people along only to find out that they are still going to foreclose anyway.

Ms. CHU. Yes?

Mr. DODARO. Right now there is no formal appeal process. We believe one is needed. There needs to be due process available to people to be able to do it and to have some standards and remedies for people that aren't complying with the requirement. So we are looking at that right now.

Ms. CHU. I appreciate that.

What recourse do homeowners have if they believe they were unfairly denied a trial or a permanent modification before January 1, 2010?

Mr. TAYLOR. Very little.

Ms. CHU. That is it then?

Mr. TAYLOR. Yes.

Ms. CHU. And, Mr. Taylor, can you expand on the unemployed situation? I know in one of your recommendations you talked about the loan program for the unemployed.

Mr. TAYLOR. Right. So Mr. Calabria is right that one of the major——

Mr. CALABRIA. Can you repeat that?

Mr. TAYLOR. I am not going to say that more than once. You will have to watch it on the video. But the fact of the matter is that—I lost my train of thought. I am sorry about that.

Ms. CHU. Loan program for the unemployed.

Mr. TAYLOR. Yes. The fact of the matter is that it is the single-most No. 1 reason now we are seeing most of the foreclosures. There are alternatives. CitiBank, for example, has proposed a 6-month moratorium, what they call unemployment assist, which would actually allow the people who are on unemployment to pay 31 percent of their unemployment check toward their monthly cost for 6 months.

This is a pretty generous, I think, helpful thing that ought to be standard in the industry so that people have time to find work or have time to find a way out of that home, to be able to sell it.

Barney Frank and his committee has proposed—I don't have the bill number in front of me, but essentially a program that is going to assist people financially to be able to stay in their homes for a period of time again where they can either find gainful employment or be able to sell their home. But both of those I think are reasonable, rational solutions to try to deal with a growing contribution that the unemployment problem has to the foreclosure crisis.

Mr. CLAY [presiding]. The gentlewoman's time has expired.

The gentleman from California is recognized.

Mr. BILBRAY. Thank you, Mr. Chairman.

Mr. Calabria, I want to thank you. In a town that we keep hearing people need to be more bipartisan, you were very bipartisan by blaming both the present and the past administration on this item. I just say in the spirit of bipartisanship, I think a lot of this we have to recognize wasn't just, Mr. Taylor, Wall Street, but we are really at fault, too, I think.

The fact that you had bipartisan effort here, you had one side feeling that we are going to push this almost as a social program, that everybody owning their own house was going to be a great social experiment, and those of us on the other side seeing that homeownership is reflected in political activity, a different involvement in community, whatever. I think Democrats and Republicans politically have a fault here.

I guess our fault was the feeling that a good thing pushed too far is not a problem. I think that history has proven, just as the consumer pushed too far, I think the political process and the economic people that say, look, you can make money doing this, by

selling this product to this group, we just keep expanding the market just by lowering the standard and the thresholds.

I think we are all at fault and got pulled into this, and, I think as Greenspan said, who would have thought.

My big question here is no one is talking about a flip side on this. I am hearing in San Diego that there are people out there ready to buy and take these sales, take these loans over, take over the home, but because we are caught in this system that takes so long there are massive amounts of market out there that is not available for the free market to take over these debts.

Anybody got any answers there or any comments on that, because I think that we are not talking about, there is the keep the person in the home, figure out how to make them pay. You pointed out, the greatest threat is jobs. What do you do with somebody who is not going to have the job for the next year? Do you continue to carry this and is this the way to go, or do we also get the other option that the person with the job who doesn't have a home would like to buy, take over the payments, isn't being allowed to access the market because it is basically being frozen by this process.

You had a comment about that?

Mr. CALABRIA. I think what we really need is we essentially need two processes. We need a process for people for who it is sustainable, they hit a bump in the road, we can fix that. But we really need a process—and John mentioned you have people who go through modification, 6 months later it doesn't last. We don't do them any favors keeping them in that situation.

So I would say on one end we actually are better off trying to get that through the process, and certainly lots of places in California, for instance, it is cheaper to rent the comparable home.

Mr. BILBRAY. Absolutely.

Mr. CALABRIA. And I would say it is not just me. Dean Baker, who is a well-known progressive economist, has made this argument that you are better off helping many of these families become renters because they pay twice as much on their home.

So with that said, I do think you need a different process for people who there is no way that they are going to be able to sustain that home and we should stop pretending, and then for people who can, you need to take them on a different track.

I guess I would say, as a general overall, I don't think we are doing the housing market a favor trying to blow the bubble back up. The best thing we could ultimately do is to let prices correct and people will come into that market, because one of the big problems with this is one of the incentives for the bank, for instance, in its present value test, and for the homeowner is not simply house prices today but house prices tomorrow. And even if you did a write-down to where there are the mortgages at the value of the house, well, if the house value declines another 10 percent over the next year, then they are underwater again. So we need to make sure these things actually work the first time rather than continuing to try to chase this.

Mr. BILBRAY. Mr. Taylor.

Mr. TAYLOR. Yes. Thank you. I don't know where to begin on this one, but let me first say we have 11 months of inventory, vacant housing, 11 months of—usually normally in the economy it is 2, 3

months of vacant housing. We are piled full of vacant housing that is available for renting, and I agree that is a viable and sensible option for many people.

But remember when we just say that just let the market correct and put more inventory out there, first off it kills the building industry. That is one thing. That is one of the reasons we have such a high job loss.

But the second thing is, remember that every one of these keys represents a family, a household who thought they were getting into a feasible loan. Less than 10 percent of the people who got these bad loans, less than 10 percent went to people getting new homes. Most of the stuff was refinancing or taking money out——

Mr. BILBRAY. Let me interrupt. You are right. You are absolutely right. A lot of this was the market was sold as a way of making money, too.

Mr. TAYLOR. Yes.

Mr. BILBRAY. It was a way of "this is a great investment." Now, you and I know that doesn't exist within the foreseeable future.

Mr. TAYLOR. Pay off the credit cards. I mean, all these other things.

Mr. BILBRAY. And the big one is, are we politically brave enough to say, look, there is a lot of people that got into this looking to make a profit. That profit is not going to be out there. And the fact is it is much more cost effective for them to rent than to continue to grab for something that will never have the profit that they originally made, and basically cut the losses, move forward, and actually be ahead of they don't continue.

Are we politically brave enough to admit that?

Mr. TAYLOR. I think the political bravery is also to recognize that there are millions of American families who are hard working, blue collar families who simply suffered from, for whatever reason you want to believe, whether you think they bit off too much or whether the market gave them a loan that they shouldn't have gotten, it doesn't matter.

Mr. BILBRAY. I think it is both. I think we can agree that it is probably both.

Mr. TAYLOR. OK. Does it matter that we try to keep as many of these homeowners in their homes as possible? Does it matter to us as people, as Members of Congress? Does it matter to the economy? The answer is absolutely yes. If we continue to watch these foreclosures mount and become more rental properties available, we will continue to watch a devaluation of property values for all Americans' housing and an undermining——

Mr. BILBRAY. Mr. Chairman, I think they missed the point though. I am being told quite openly that there are individuals who would like to get into this market, but because of the way we are dragging this off—and this gets back to this not giving answers, not being able to close, either yes or no in the line, that the other option of being bought out of the hole is not being made available, and it is the government programs' delay that you were talking about, Mr. Taylor, that is leading to this other option we go into, because I think you agree, if it was your children, if it was your friend, you'd say it is better for you in the long run to get out of some of these deals. It is not just an abstract.

Thank you.

Mr. CLAY. The gentleman's time has expired.

The gentlewoman from Ohio, Ms. Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman.

Mr. CLAY. You are welcome.

Ms. KAPTUR. Thank you, Mr. Barofsky and to all of our excellent witnesses today. I have a little statement I want to make, but my question to all of you will be: what would be your top recommendation to President Obama and Secretaries Geithner and Donovan to address stabilization and recovery in our housing market and banking system?

You have made a lot of recommendations. I am asking you to sort through them for me.

But let me just make a comment that those Wall Street speculators who rigged our housing market to earn huge profits for a very long time through securitization have Congress just where they want us. They have us playing with twigs when the forest is burning, and the perpetrators are still making huge profits, taking obscene bonuses, and laughing all the way to their brokers, and I have no doubt laughing at all of us.

Some of our colleagues are trying to make this a partisan issue. I don't look at it that way. I am very critical of the massive Wall Street investment houses in cahoots with the Federal Reserve that led us into this abyss. And our Federal Government was full of top-level appointees over several administrations who came from those very same institutions making all of the money.

This crisis is due to a revolving door of influence peddling of extraordinary proportion. It goes back two decades, regardless of who was President and regardless of who sat in this Congress. Wall Street simply used its power with a vengeance, and they still are.

Mr. Taylor, I want to thank you for your testimony. You speak for the American people who have been harmed. You speak for the people in my district. Your voice is very clear and it is very important.

One of the questions I have of you, and then we will open it up to the other witnesses here, you produced the keys this morning. Let me ask you this: to your knowledge, could each family who had one of those keys, would the institution that financed their loan during a foreclosure proceeding be able to produce the original note in that proceeding, or only a copy or some sort of facsimile of it? And what is your opinion about the legality of that in foreclosure proceedings?

Mr. TAYLOR. Well, of course, the courts have ruled that they do need to produce those documents, several State courts. In several States they have ruled that they need to produce the certificate of ownership, and some of these—many of these financial institutions have had difficulty doing that because here is a loan that New Century made, here is a loan that Option One made, here is a loan that AmeriQuest made, here is a loan that Countrywide made, and it goes on and on and on, all these businesses which no longer exist.

As they sold off these things through this Ponzi scheme involving Wall Street to just move all this paper out from local communities and brokers and lenders, the certificate of ownership did not trail

them. They just kept moving the paper and moving the profits and everybody taking fees along the way.

So generally if you or I were suing somebody for anything and we were claiming that I had the right and the ownership over this, we would have to produce something for the court that, in fact, signifies that, and the fact that they can't ought to stop the proceeding unless and until they are able to do that.

Ms. KAPTUR. Yes. And why aren't our judges doing that across the country? Do they not know the law?

Mr. TAYLOR. Why aren't the judges doing it? Well, some judges are, I am happy to say, in different circuits. But for those States, for Governors and elected officials who are looking to try to prevent the level of foreclosures that continue to rise in their congressional districts, they might want to send a letter to the judges to inform them about this legality.

Ms. KAPTUR. Sir, if I could say, I hope you go address the National Sheriff's Association. I think that there is a job that your organization could do to get this word out, because I think we have to fight back——

Mr. TAYLOR. Yes.

Ms. KAPTUR [continuing]. With every weapon we have. And there isn't much time for the other panelists to answer at this point, but I very much would appreciate the top recommendation that you would say to the President right now to address the concerns that you have brought before us today.

Mr. BAROFSKY. Well, our unadopted recommendation in this report is re-examining the vulnerability of this program to re-default. I do think that is essential, and Treasury has indicated they will not. Without doing so, the program is going to be vulnerable to one where mortgages are, even those that make permanent modifications, may drop out with a total waste of taxpayer money, and even potentially harming some of those homeowners, so I think reassessing and evaluating and coming up with ideas to address the vulnerabilities to re-default very quickly would be the unanswered recommendation in our report.

Ms. KAPTUR. Mr. Barofsky, I would also appreciate from you an evaluation of Franklin Roosevelt's Homeowners Loan Corp. Several Members have sent a letter over to Secretary Geithner asking him to take a look at that. I hear what you are saying to me about the existing program. The existing program is a failure. We have to look at other structures that we need to recommend to the administration, and I would be—your experience, your knowledge would be very valuable to us if you are able to do that within your authority.

Mr. DODARO. I would say, because economic circumstances are different in different parts of the country, borrowers are in different circumstances, top recommendation would be for Treasury is to institute the other facets of their program, the second lien modification, the mortgage alternative program, the hardest hit program which begins to deal with some negative equity and deal with people who have lost their jobs. So you need a range of alternatives. Right now the only one is the second lien, or excuse me first lien program. You need more options.

Mr. CLAY. The gentlewoman's time has expired.

The gentleman from North Carolina is recognized for 5 minutes.

Mr. MCHENRY. Thank you, Mr. Clay. Thank you, Chairman Clay.

Mr. Barofsky, your audit is very forthright. This is a failure. This program is a failure and it is a waste of taxpayer dollars. But there are interesting insights.

What did you discover about this modification program in terms of homeowners who get temporary modifications but then fail to get the permanent workout?

Mr. BAROFSKY. We believe a lot of this is—one of the problems about re-default and the reasons for re-default is that Treasury hasn't yet been collecting data. They are going to be collecting data in 2010. But we believe that one of the primary reasons for this was the absence of documented, fully documented verification of income at the outset of the program.

Treasury is encouraging, in order to meet certain mile posts for trial modifications, was encouraging these verbal modifications, and I think that has fueled a lot of what you are discussing, the reason why they are not being converted and dropping out.

Mr. MCHENRY. So verbal modification. So based——

Mr. BAROFSKY. Don't work.

Mr. MCHENRY [continuing]. Stated income?

Mr. BAROFSKY. Yes.

Mr. MCHENRY. Which is, I believe, from the rhetoric of this administration, which is exactly what got us into this with the subprime marketplaces, how much do you make. Well, whatever you say you make. And so in essence the Government policy has been able to—has been to take private sector subprime loans and make them public sector subprime loans.

Mr. BAROFSKY. There is a similarity to the liar loans that I investigated as a Mortgage Board prosecutor.

Mr. MCHENRY. So very similar?

Mr. BAROFSKY. Similar in entering into the trial portion of the program just on stated income. It didn't work then, it is not working now, and, look, to Treasury's credit they have identified that it is not working and as of April 15th they will no longer be accepting verbal modifications, but it was one of the driving causes of this huge backlog and low numbers of conversions.

Mr. MCHENRY. OK. So your audit also says that those that get a permanent workout have a very high risk of default.

Mr. BAROFSKY. We don't know what the risk is, but we do think that it is vulnerable for re-default. There are several aspects of the program that make it vulnerable to re-default, and that is a real danger of this program for its long-term success.

Mr. MCHENRY. Such as?

Mr. BAROFSKY. Well, for example, negative equity is one of the highest predictors of re-default, and the average HAMP modification, the loan is underwater. Left unaddressed, along with the other factors, the statistics show that negative equity can lead to high areas of re-default.

Also, the amount of whether these payments will ultimately still be affordable, the percentages and amounts don't account for other debt, crushing credit card debt and other debt that may make even a modified payment unaffordable. Also, the structure of the program is that we call them permanent modifications, but they are not permanent. They last for 5 years and then the interest rate

starts to reset, a lot like some of the subprime loans that you were referring to earlier, and we just give one example where within a couple of years at the end of the program the payment can go up as much as 23 percent, which again would put pressure on potential re-default if the income doesn't go up in a commensurate amount.

Mr. MCHENRY. And what did your audit find about the Treasury's pressure on servicers to modify these loans?

Mr. BAROFSKY. Well, we had one servicer who responded that, based on the public pressure that Treasury was exerting outstanding increase trial modifications, that they changed the way that they did business. They went from doing fully documented modifications to verbal.

Mr. Dodaro in his testimony today, in GAO—and again I don't want to speak for GAO. He could speak on this. But they have indicated very similar types of patterns.

I will defer to my colleague to explain that.

Mr. MCHENRY. Certainly.

Mr. DODARO. Yes. Basically, the ratio of high debt to income is a predictor of re-defaults, and part of the requirements in the Treasury was to get those particular borrowers with high ratios like that into counseling to help them understand the situation, and this is one recommendation that we have made to Treasury that they haven't yet implemented. We think it is important and really will help address as best as possible this question of trying to minimize the re-defaults, as well as having this mortgage alternative program available.

So up front, if the decision is made going forward that the trial modification doesn't make sense, there is a smooth exit strategy for short sales or other purchases to help the borrower get reallocated.

Mr. MCHENRY. And that is not a part of current Treasury policy?

Mr. DODARO. That program has been in the works but not yet implemented. That program, the second lien program, and this other one, hardest hit areas fund, are not operational yet and need to be.

Mr. MCHENRY. Thank you, Mr. Chairman. And thank you for your testimony.

Mr. CLAY. Thank you, Mr. McHenry.

We will now recognize Ms. Speier of California for 5 minutes.

Ms. SPEIER. Thank you, Mr. Chairman, and thank you to all of the witnesses for appearing here today.

Listening to this testimony is very discouraging. I think of this program as a program of death by a thousand cuts. It has failed. It has failed miserably. And, unfortunately, we are incapable of saying, "All right, this was an experiment. It didn't work. Let's try something else." And we just start layering more and more regulations, more and more elements to it.

Half of all the foreclosures are negative equity loans right now. Half of them have already re-defaulted. Half of them have second liens. And in this program we don't consider non-mortgage debts as a factor in the modified payment. We are setting ourselves up for failure. The program doesn't work.

Now, on top of everything else, it is voluntary. Let me give you an example from my district. This is a homeowner in Daily City.

He had an Indie-Mac loan of $609,000 with a 6.75 percent interest, a payment of $3,500 a month. He works at FedEx. He has had a steady job there, but they have reduced his hours. He lives and takes care of his 89-year-old mother, lives with her, and his mother is a survivor of three breast cancers. He qualifies for Making Home Affordable and has made all the trial plan payments on time, confirmed delivery, and contacts them bi-weekly to be sure that they have everything they need. And yet they are still not converting his loan to a permanent modification, and they have set a date for sale of that home for April 7th. Now that is a travesty, an absolute travesty.

I am suggesting that we scrap this program, put all of these people who are in foreclosure in a rental status in their homes with the banks, create some kind of lease with option to buy, take that money that we have set aside for this program, subsidize the banks if necessary to keep them in their homes, wait this out for a year or two, and see if we can create a means by which they not only continue to live in their homes but they can re-create some kind of equity in their homes moving forward.

That is just one idea of what there may be many. And my question to all of you is: if this gentleman in Daily City who is doing it right, who is in a trial modification program, who has made the payments on a hefty loan is having his home put up for sale in a matter of weeks, how can we say this program has any positive effect at all? Question to all of you.

Mr. BAROFSKY. I think you hit the nail right on the head that whether this program can be saved or whether a new program needs to be instituted, there has to be a re-evaluation. There has to be some self-reflection. Treasury needs to take a look at why these problems are occurring, where the dangers are, and make informed decisions. That is a lot of what we have been talking about today, whether it is the refusal to re-evaluate for re-default, our recommendation, or something as simple as setting goal posts and meaningful goals and measuring performance against those goals, because if you don't do that you can't have that type of self-reflection, that self-assessing of how to fix it.

So I think that the concerns that you raise are similar to the concerns that we raise, and Treasury is going to need to take a good, hard look at this program, look at these concerns, and decide if they want to continue this program, if it is fixable, or whether to try something in the alternative.

Mr. DODARO. First, you need to explore other alternatives. We agree with that, and we think some of the other alternatives that Treasury has been planning are viable and should be tried, as well. But you have 800,000 people in these active trial modifications right now that need to be dealt with equitably. They entered into this in good faith, and they need to be dealt with. They don't have an appeal process if they are running into difficulty. We think they need an appeal process. There needs to be good communication. There needs to be servicers held for compliance. I mean, we sort of set this in motion. We can't abandon it without properly treating these people in this period. But you need other alternative programs, and certainly that needs to be addressed.

Your idea, among others, needs to be explored.

Ms. SPEIER. Your point about an appeal process is helpful. It would be helpful to this constituent of mine. But, again, the whole system is so arbitrary. It is voluntary, and it is arbitrary, and it is not working. So, I mean, I can see where we need to take care of those who are in some trial modification, but this gentleman is in a trial modification and his house is being sold from out from under him.

Mr. DODARO. All I can say is that is why we made recommendations to the Treasury last July to put these processes in place and to make sure there was a compliance program with the providers. I mean, I am not sure what the specifics are here, obviously, but there needs to be a process in place so people are dealt with in a due process fashion and they get good answers and they have somewhere to go for help.

There is a hotline now they can call, but that hasn't proven to always work effectively.

Mr. CLAY. The gentlewoman's time has expired.

The gentleman from Illinois, Mr. Davis, 5 minutes.

Mr. DAVIS. Thank you very much, Mr. Chairman. I want to thank our witnesses.

Coming from a large midwestern city with much of it being inner city, I can't tell you the number of foreclosures that exist in many of the communities that I represent. But as I have listened to the testimony, I was struck by the recommendations that the gentlelady from California made, and I think she would have been an excellent Secretary of the Treasury, or at the very least the Secretary of Housing and Urban Development. That is because I believe very strongly in the concept that if you start with a faulty premise you are going to arrive at a faulty conclusion.

I think many of the concepts in this program were faulty from the beginning. And so it was inevitable that it becomes the failure that people are expressing or that we are not experiencing any more success with it than what we are experiencing.

I also don't believe that you can defend the indefensible, that you simply are going around and around and around and around in circles.

But let me ask you, Mr. Barofsky, who is the typical HAMP participant? I mean, who is the typical homeowner facing foreclosure who attempts to make use of the program?

Mr. BAROFSKY. I am not able to answer that question, but I think that is a question that many have raised. The congressional oversight panel raised this issue in their October report. It goes to the very question of who is this program designed to help. Is it the homeowner who signed up for a predatory loan with a resetting option ARM that reset to 8 or 9 percent and an increase of $3,000 a month, or is it the hard-working family that perhaps had even a prime fixed rate mortgage but lost their job and are unable to make necessary payments?

But I think it is an important question. We have the median information, how much the median loan and what the median interest rate and the median deduction, but I don't think that is really what your question is asking.

Mr. DAVIS. Are there ceilings or floors? I know people who have mortgages of $350,000 who earn $65,000 or $70,000 a year. Of

course, for the sake of me I couldn't imagine how they managed to acquire that. And the question: is there any salvation for them to salvage whatever it is they have put into this and get out of it? Mr. Taylor, would you respond?

Mr. TAYLOR. Yes. Let me just say that the typical person going through the program is all ethnicities, mostly modest income, disproportionately older, older being 50 and older, and most with families with children.

On your second question——

Mr. DAVIS. The high mortgage individuals.

Mr. TAYLOR. Yes. Sorry. The way the program is designed is to get the housing cost down to the 31 percent of the household income. That is the goal. So the two methods for that to happen is for the servicer or the lender to reduce either interest, principal, or both. The problem is that most of what has occurred has been interest deduction and we now understand we are not going to get very far without principal reduction.

The other alternative for the family you presented is some sort of a patient, non-foreclosure scenario where they have time to be able to either sell their home or to find additional employment, which could ratchet up their income to be able to handle that size of mortgage.

Those are the two methods that are available, or should be available.

Mr. DAVIS. When the crisis hit, one of the recommendations that some of the community groups and people really attempting to deal made was that you try and keep people in a property because if you actually foreclose on it everybody loses in that transaction.

Mr. TAYLOR. That is right.

Mr. DAVIS. That is the property loses its value, whatever value it had, in a relatively short period of time. In many of the communities that I represent, if somebody moves out of one, in 2 weeks it is decimated. I mean, whatever was there is gone. So this question of working out agreements where people might be able to rent until they reach the point where they can actually pay a mortgage, or if there is a possibility of not only salvaging what they have put in, but the property, the asset, itself, how does that idea approach?

Mr. TAYLOR. I think you are absolutely right. I think we are all impacted by continuing mounting foreclosures. We all lose. People who are paying on their mortgage who have a prime mortgage, have no problem paying their mortgage, they watch their household value, their house value continue to deteriorate every time there is a foreclosure within a block of their house. Then, when you have multiple foreclosures, there is a rapid decline in value.

So we are all losing, as I said earlier. Roughly $7 trillion in home equity has been lost by the American public. So I don't agree with the Congresswoman from California about let's just let them all fail and a year later we will sort of pick up the pieces. Let's find some rental situations. I think if we allow another 8 million homes to go into foreclosure it will have a devastating, devastating effect on our economy and the job losses will continue to rise.

Mr. CLAY. The gentleman's time——

Mr. DAVIS. Let me thank you, Mr. Chairman. I agree with you because I believe that wherever there is a will, there is a way, and

that if we would have the courage to make the kind of decisions that need to be made, we could, in fact, salvage many of these properties, turn them around, and salvage everything that people have put into them. So I thank you for this hearing, Mr. Chairman, and I yield back the balance of my time.

Mr. CLAY. I thank the gentleman.

Every day I hear from constituents who are among the over 4 million Americans who are going through foreclosure, and are facing pending foreclosure and suffering with underwater home values. Just this month foreclosure rates hit an all-time record high in St. Louis and my home town.

Mr. Taylor, just this week the National Urban League reported that Blacks and other people of color are suffering from the housing crisis at far higher rates than Whites, and yet, according to your research, you report racial disparities in that minority borrowers are less likely than Whites to receive trial and permanent modifications.

Can you explain your methods and these findings further?

Mr. TAYLOR. Yes. Essentially, we have a dual system of mortgage finance in this country, one for Whites and one for Blacks, and it is really unfair. If most people really understood just how unfair it is, most Americans would really think we should not tolerate it.

I mean, make no mistake about it, Black and brown communities were targeted by subprime high-cost lenders after the banks had left and abandoned those neighborhoods and closed their branches, so that—and let's face it, when we are talking about minority, whether it is Black or brown, we are still talking about people who are working and people, perhaps their income isn't as high, but they are people who are working. They have families. They have all the same hopes and dreams of any other family in America. But the available basic banking services for that population are payday lenders, check cashers, and pawn shops. That is a disgrace.

The available mortgage lenders are these fly by-night options or fly by-night, independent companies that set up their little shops and advertise low rates and whatever and tease people in with these rates, only to give them loans that are totally inappropriate, that they know are unsustainable. That is what really happened.

Now people are trying to get out of those situations. Even now, under the mortgage modification programs that are available, are still even now being disproportionately treated along racial lines.

Mr. CLAY. And can you surmise that from this data, from the steering that occurred, steering people of color into subprime and predatory loans contributed to the housing crisis that we are experiencing now?

Mr. TAYLOR. Yes. I mean, a typical neighborhood 7 years ago in America would see 1 or 2 percent subprime loans. But you would go into African American and Hispanic communities and you would see—I am not exaggerating—30, 40, 50, 60 percent of the mortgages made on those neighborhoods were high-cost, subprime, unsustainable loans.

Mr. CLAY. And I see it in middle class neighborhoods in my district in north St. Louis County.

Mr. TAYLOR. Yes.

Mr. CLAY. I see that, and these people are pretty much middle income earners.

Mr. TAYLOR. Yes.

Mr. CLAY. Do you have any suggestions as to how we close the racial gap?

Mr. TAYLOR. Well, first off, there is nothing like sunshine to show what is occurring and being very crystal clear about the difference in treatment and who is getting what and who is not getting what, who is being offered the types of loans, so there is no question that the ability to produce data has elevated the conversation and the ability to make assessments in this area, but a lot more needs to be done.

Even in the HAMP and the HARP programs, it is very difficult to get data from these people, which drives me crazy because these are Government agencies and there is no proprietary stuff about this. Why aren't they sharing this data with this committee and with everybody else, the GAO and everybody else, so we can really analyze what is going on? That is one of the things that ought to happen.

But the recommendation that I would make, first, we really need to revisit the issue of judicial modification to protect people from losing their homes. Second, take away the voluntary aspect of HAMP, make it mandatory, lenders have to participate, there has to be principal write-down and interest write-down. Instruct Fannie and Freddie tomorrow to refinance the millions of loans that they have on their books, that they have the capability and authority to do right now, to refinance those loans into workable, sustainable loans.

Mr. CLAY. Those subprime and predatory loans?

Mr. TAYLOR. Yes.

Mr. CLAY. OK.

Mr. TAYLOR. Of which the estimates that they have somewhere between $400 billion to $600 billion worth of those loans, or $400 to $500 million. Use all these vacant houses as a job creation program. All these foreclosures begin to train people to become carpenters, plumbers, electricians, sheet metal workers, roofers, and so on, to rehabilitate a lot of these homes which, as somebody pointed out earlier, become abandoned, become a stress on the local government and local community. Train people to rehabilitate and bring up to code and even weatherize these homes. That will create jobs, and at the same time create decent, affordable housing, and affordable rental housing.

The Consumer Finance Protection Bureau, which has been offered—I mean, this House passed a bill and I applaud it for its version, but unfortunately the Senate has undermined your initiative by taking the Consumer Finance Protection Bureau and putting it in the Federal Reserve, and then putting oversight of the bank regulators, the very people who failed to enforce all the laws and regulations we had to prevent this kind of calamity are now going to be the oversight board and be able to veto and control what comes out of that board.

I hope you guys really fight in this Conference Committee, when the Senate is done weakening this legislation, that you really fight to create a meaningful Consumer Finance Protection Board.

Mr. CLAY. Yes. It is going to be interesting to see it publicized on television and to see just who is shilling for whom.

Thank you, Mr. Taylor.

This panel is dismissed.

Chairman TOWNS [presiding]. I would welcome our distinguished witnesses for the second panel.

As with the first panel, it is committee policy that all witnesses are sworn in. If you would be kind enough to stand and raise your right hand?

[Witness sworn.]

Chairman TOWNS. Let the record reflect that he answered in the affirmative.

Let me again thank you so much for being here.

The Honorable Herbert Allison is the Assistant Secretary of Financial Stability at the U.S. Department of the Treasury. He is responsible for developing and overseeing Treasury's policies on financial stability, including the Troubled Asset Relief Program [TARP], under which HAMP was established.

Assistant Secretary, again, welcome. Of course, your opening statement will be included in the entire record, if you have a written statement, but in the meantime you can proceed. We are not going to put the light on you. We are so anxious and eager to hear what you have to say, we are not even going to time you. That is unusual for this committee. Here in this committee we have a trap door, and after 5 minutes we push the button and the witness disappears. But with you, you take as much time as you like, OK? Thank you very much.

You may begin.

Mr. BILBRAY. The Chair is only being that brave because you are not a Member of Congress. [Laughter.]

STATEMENT OF HERBERT M. ALLISON, JR., ASSISTANT SECRETARY FOR FINANCIAL STABILITY, DEPARTMENT OF TREASURY

Mr. ALLISON. Thank you very much, Mr. Chairman and members of the committee. Thank you for the opportunity to testify today about the progress and impact of Treasury's efforts to prevent avoidable foreclosures.

We have implemented a historic program designed to address an unprecedented problem. Ultimately, a ground-breaking program of this scale will have challenges; however, in the year since launching the Home Affordable Modification Program [HAMP], we are on track toward the original goal of providing trial modifications for up to 3 to 4 million homeowners by 2012.

By the end of last month, over 1 million homeowners were benefiting from substantial reductions in their mortgage payments. More than 170,000 homeowners now have permanent modifications, and an additional 91,000 have been offered permanent modifications subject only to their signatures.

Homeowners in permanent modifications are typically saving $500 a month. HAMP helps homeowners facing financial hardship. Nearly 60 percent of homeowners in permanent modifications have experienced a reduction in income such as lower wages or unemployment of a spouse. We understand the stress caused by possibly

losing one's home, so we work to make the modification process quicker and more efficient. For example, we will soon have homeowners provide a simple, standard set of documents before entering into a trial period. This way, homeowners should spend less time exchanging documents with their servicers and waiting for a decision on a permanent modification.

We have also announced new protections for homeowners facing foreclosure. From now on, servicers may not refer to foreclosure any homeowner who is potentially eligible for HAMP until the homeowner has been evaluated for the program.

Servicers will be required to pre-screen every homeowner who has missed two or more payments to determine eligibility for HAMP. If the person is eligible, the servicer must inform the homeowner about the program. Homeowners in the foreclosure process must be provided with clear, written explanation of the often simultaneous processes of referral for foreclosure and evaluation for HAMP.

The new guidelines will make clear that if a homeowner enters into a fully verified trial plan, all pending foreclosure actions must be stopped. Additionally, homeowners in bankruptcy can request to be considered for a HAMP modification and servicers must comply.

We believe that these new guidelines will empower homeowners with more information and greater opportunity to receive help before they face foreclosure. Inevitably, some homeowners will not be offered a permanent modification; however, they may still receive assistance in avoiding a foreclosure sale.

In April, Treasury will initiate a program that can enable homeowners not receiving a permanent modification to transition to more affordable housing. Foreclosure alternatives may include a short sale, a transfer of a deed in lieu of foreclosure, or a modification outside of HAMP. This program will provide helpful options for homeowners facing foreclosure.

Though these enhancements will improve the experience of homeowners using HAMP, we know that more work needs to be done. We share your goal of helping to stabilize communities by preventing avoidable foreclosures. The administration has been keenly focused on finding ways of expanding eligibility for HAMP and related programs so that some additional homeowners struggling with unemployment and underwater mortgages can qualify for assistance. We and our colleagues in HUD look forward to briefing you on these ideas in the very near future.

With that, thank you. I will be glad to take your questions.

[The prepared statement of Mr. Allison follows:]

March 25, 2010

Testimony of Herbert M. Allison
Assistant Secretary for Financial Stability
U.S. Department of the Treasury

Before the House Committee on Oversight and Government Reform

"Foreclosure Prevention: Is the Home Affordable Modification Program Preserving Homeownership?"

Chairman Towns, Ranking Member Issa and members of the Committee, thank you for the opportunity to testify today on the Administration's comprehensive initiatives to stabilize the U.S. housing market and support homeowners.

The Home Affordable Modification Program is Promoting Affordability
As the Obama Administration came into office last year, the country faced extraordinary economic and housing market conditions that required the rapid introduction of unprecedented housing policies designed to stabilize the housing market. On February 18, 2009, President Obama announced a comprehensive Homeowner Affordability and Stability Plan, which sought to address the issue of mortgage affordability for millions of struggling homeowners in America.

The Home Affordable Modification Program (HAMP) is a critical piece of this plan. When it was announced last year, the President said the program would "enable as many as 3 to 4 million homeowners to modify the terms of their mortgages" over the four-year life of the program, enabling these homeowners to modify their mortgages and helping them avoid foreclosure. Now, just a year after program guidelines were first put forward, 1.1 million homeowners have entered into a trial period plan that comes with real and immediate relief in the form of lower mortgage payments. For most of the period since June 2009, approximately 20,000 to 25,000 new homeowners began a trial plan each week. At this rate, HAMP is on track to have actual trial modifications for up to 3 to 4 million homeowners by 2012.

Since the programs began, the Administration has consistently strived to not only offer assistance to struggling homeowners but to translate this initial help into sustainable outcomes for borrowers that allow families to remain in their homes or avoid foreclosure. In many cases, the best sustainable outcome for a homeowner is in the form of a permanent HAMP modification, though some borrowers may be better suited for a modification outside our program, or a dignified transition to other housing through alternatives such as the Home Affordable Foreclosure Alternatives Program (HAFA). We believe that the most significant measures of success are not just how many borrowers start trial modifications or even permanent modifications, but whether families are able to avoid foreclosure and how effective the program is in stabilizing the housing market. The Administration has made substantial progress in implementation and has seen initial signs of housing stability, but a number of critical challenges remain.

The Administration's Response Addresses the Major Components of the Housing Crisis
The Administration has taken a broad set of aggressive actions to stabilize the housing market and help American homeowners. These efforts are having an impact on our housing markets and we are seeing signs of stabilization. Looking back to over a year ago, stress in the financial system had severely reduced the supply of mortgage credit, limiting the ability of Americans to buy homes or refinance mortgages. Millions of responsible families who make their monthly payments and fulfill their obligations saw their property values fall, and found themselves unable to refinance at lower mortgage rates.

In response to the dire state of the housing market, the Administration announced a comprehensive set of programs to strengthen the housing market and provide relief to struggling homeowners:

Actions Supporting Market Stability and Access to Affordable Mortgage Credit

- Provided strong support to Fannie Mae and Freddie Mac to ensure continued access to affordable mortgage credit across the market;
- Together, the Treasury and the Federal Reserve mortgage-backed securities (MBS) purchase programs have purchased over $1.4 trillion in agency MBS helping to keep interest rates at historic lows so homeowners can access credit to purchase new homes and refinance into more affordable monthly payments; and
- The Federal Housing Administration (FHA) has played an important counter-cyclical role, providing liquidity for housing purchases at a time when private lending declined.

Actions Helping Homeowners Purchase Homes, Refinance and Modify Mortgages to More Affordable Payments, Prevent Foreclosures and Stabilize Communities

- Launched a modification initiative to help homeowners reduce mortgage payments to affordable levels and prevent avoidable foreclosures;
- Supported extending the temporary loan limits of $729,750 for Government Sponsored Enterprise (GSE) loans and FHA loans;
- Expanded refinancing flexibilities for the GSEs, particularly for borrowers with negative equity, to allow more Americans to refinance;
- Launched a $23.5 billion Housing Finance Agencies Initiative which is helping over 90 state and local housing finance agencies across 49 states provide sustainable homeownership and rental resources for American families;
- Supported the First Time Homebuyer Tax Credit that has helped hundreds of thousands of responsible Americans purchase homes;
- The Recovery Act is providing over $5 billion in support for affordable rental housing through low income housing tax credit programs and $2 billion in support for the Neighborhood Stabilization Program to restore neighborhoods hardest hit by concentrated foreclosures; and
- On February 19, 2010, the Administration announced the $1.5 billion Hardest Hit Fund for state housing finance agencies in the nation's hardest hit housing markets to design innovative, locally targeted foreclosure prevention programs.

Historically low interest rates along with expanded refinancing flexibilities for Fannie Mae and Freddie Mac conforming and GSE loans have helped over four million American homeowners with Fannie Mae and Freddie Mac loans to refinance, saving each homeowner an estimated $150 per month on average and more than $7 billion in total. HAMP has provided over 1 million struggling homeowners a second chance to stay in their homes. Furthermore, each homeowner in a HAMP modification receives a median payment reduction of around $500 per month.

HAMP Is Helping Struggling Homeowners Today

HAMP is providing immediate relief in the lives of homeowners who are affected by the mortgage crisis. The prospect of losing one's home is extremely emotional and personal. And we recognize that HAMP, designed to keep eligible homeowners in their homes with long-term affordable mortgages, took a while to ramp up and adapt to borrower needs. As the first program of this scope and complexity, implementation could not happen overnight.

Servicers have had to ramp up capacity and make significant changes to their businesses to implement the program. The servicing industry has been profoundly transformed. Previously, servicers were essentially operations to process payments and perform loss mitigation for a small number of their borrowers. Today, the financial crisis and the HAMP program have pushed them to modify mortgages, offer customer service at an unprecedented scale, and consider other alternative approaches to keeping borrowers out of foreclosure. Throughout this process, Treasury has issued guidance and clarifications designed to streamline the modification process and to improve the borrower experience. Yesterday, Treasury released additional guidance to further improve borrowers' experience by setting standards around servicer solicitation, evaluation of borrowers in bankruptcy, and clarifying the foreclosure process around HAMP-eligible borrowers.

HAMP is a Critical Component of the Administration's Broader Stability Initiatives

Whom Does HAMP Help?

HAMP has been designed for homeowners who are at risk of foreclosure and can benefit from a reduced monthly mortgage payment. HAMP was not designed to help every borrower. Borrowers who purchase investment properties, second homes or vacation homes, for example, we never intended to be assisted under this program.

To be eligible for HAMP, borrowers must meet these criteria:

- own and occupy the home as their primary residence,
- have a loan balance less than $729,750,
- received their mortgage on or before January 1, 2009,
- have a contractual mortgage payment greater than 31 percent of their gross monthly income,
- can afford to make the payment on a modified mortgage, and
- want to remain in their homes and are willing to stay current on their payments and comply with program terms.

Participating servicers are required to evaluate for HAMP every eligible seriously delinquent loan, defined as 60 days late. Part of this evaluation includes using a standard Net Present Value

(NPV) test to determine if the modification – including any government incentive – is economical from the lender's perspective. Every loan that tests NPV positive for a modification is required to be modified. This requirement both ensures that modifications are economically beneficial and ensures that every at-risk borrower gets a fair evaluation for a modification.

How Do Borrowers Benefit from HAMP?
HAMP supports meaningful modifications with payments to servicers, investors and homeowners. Every modification under the program must lower the borrower's monthly mortgage payment to 31 percent of the borrower's monthly gross income. The borrower's modified monthly payment of 31 percent debt to income (DTI) will remain in place for five years, provided the borrower remains current. After the first five years, the interest rate gradually steps up to the prevailing Primary Mortgage Market Survey rate in place at the time of permanent modification, locking in a rate that is currently historically low – around 5 percent - for the life of the loan. Borrowers in permanent modifications are experiencing median payment reductions of over $500 per month, or over $30,000 over the first five years, plus up to $5,000 in homeowner incentives for on-time payment performance that reduce the principal balance.

How Does HAMP Protect Taxpayers?
HAMP protects taxpayers with an innovative pay-for-success framework. While trial modifications provide the borrower an immediate reduction in payments to a sustainable level at 31percent of income, the taxpayer doesn't pay a penny for trial modifications where the borrower doesn't complete the trial. After the trial period, the payment of servicer, investor and homeowner incentive payments are contingent on continued performance in the modification.

HAMP is Transforming the Mortgage Servicing Industry
HAMP is the first national, standardized modification program—one that has led the way in setting an industry standard for affordable and sustainable mortgage modification. HAMP has been a catalyst for change by incentivizing servicers to develop the capacity and resources necessary to execute modifications on a large scale. HAMP defines a standard for an affordable and sustainable modification across the industry, set at 31 percent of gross monthly income. Until HAMP, the industry did not have a standard process for mortgage modifications, an affordability standard, or standard timelines by which modifications would be processed. HAMP has begun to systematize across servicers the method and process for modifying loans by setting affordability standards, requiring sound underwriting guidelines, and establishing a specific modification protocol and a defined timeframe for responding to modification requests. This has brought more efficiency and transparency to modifications, though challenges clearly remain.

Understanding HAMP's Impact on Foreclosures
There is a great deal of confusion around whether and how HAMP is helping borrowers avoid foreclosure. The first step in resolving this confusion is clearly defining foreclosure and the process of foreclosure referral.

We seek to minimize the number of eligible homeowners who lose their homes in a completed foreclosure process. Although all stages of foreclosure are unpleasant, forced sale through

foreclosure is the stage of the process that dislocates the family, disrupts the community, and destabilizes the local housing market.

Importantly, this measure is rarely the focus of public discussion. Most attention is given to the number of foreclosure "starts" or to the total number of foreclosure referral notices sent to borrowers. In any given year, foreclosure starts greatly outnumber foreclosure sales. HOPE Now data indicates that between April 2009 – the beginning of HAMP – and November 2009, over 1.9 million loans started the foreclosure process but significantly fewer – 666,476 loans – completed the foreclosure sale process.

In the context of current policy, which focuses foreclosure avoidance efforts along the entire foreclosure process even if the foreclosure process has begun, foreclosure starts have become less relevant predictors of future foreclosure sales. Though foreclosure starts may remain a useful indicator of housing market and economic stress, evaluating the HAMP program against its goals of helping eligible homeowners avoid foreclosure requires that we focus on completed foreclosure sales within the eligible population. While it is early in this process, we believe that HAMP is, in fact, effectively reducing the number of foreclosure sales.

HAMP-participating servicers have reported informally that, since April 2009, the overwhelming majority of their foreclosure sales were borrowers who failed to respond to solicitations and loans that HAMP was not designed to address —properties that were vacant, investor or vacation homes, and loans that were originated very recently or were excessively large. Though information from HAMP servicers alone does not capture the entire universe of foreclosures, it does provide some useful insights into the characteristics of loans going to foreclosure sale among HAMP servicers.

As the conversion process continues, we expect that the number of borrowers who do not successfully transition to permanent modifications and who ultimately transition to other forms of assistance will grow. Even for this population, we expect that HAMP can continue to successfully assist homeowners avoid foreclosures by requiring servicers to consider borrowers with cancelled trial modifications for other foreclosure prevention options. The Home Affordable Foreclosure Alternatives program will be a critical component of this effort.

HAMP Performance in Context

At the time we launched HAMP in March 2009, President Obama said that the program would "enable as many as 3 to 4 million homeowners to modify the terms of their mortgages." Since the way we get to the 3 to 4 million homeowners by the end of 2012 has generated some confusion, let me offer the following points:

- The count applies to the modifications in both the TARP-funded first lien program and the companion GSE programs.
- The President's statement about "enabling" modifications is the reason that we have continued to report offers of trial modifications - the offer is when a homeowner is able to get a modification, and 1.4 millions offers have been extended in the first twelve months.

- A very similar picture of progress arises from the number of actual trial modifications begun, over 1.1 million in twelve months. Actual trial modifications are the point at which homeowners begin a lower mortgage payment -- an average reduction of around $500 per month.

- In a program scheduled to last nearly four years (March 2009 until the end of 2012), either the 1.1 million or 1.4 million in the first year places the program well on schedule to the goal announced by President Obama.

- The Administration has never said that the program would implement 3 to 4 million permanent modifications, which take place only after the homeowner has been offered a trial modification, has performed for at least three months in a trial modification, and has met the full documentation requirements for the permanent modification. One important reason for having permanent modifications in the first place was a recognition that not all trial modifications would become permanent, such as when a borrower does not make the three payments needed to receive a permanent modification.

- For lending involving borrowers who were already at risk of default, we have also always understood that loan modifications have redefaults. Even for permanent modifications, a significant number will redefault, so it is clear that our goal was never to see who would make every payment for the life of the mortgage. The President's announced goal -- to enable modifications for 3 to 4 million homeowners -- clearly addresses the modification process rather than the smaller number of those who never experience subsequent difficulties. In fact, we designed our program specifically to protect the taxpayer in cases where redefault occurs -- payments to servicers, investors, and borrowers are based on actual performance over time.

- The projection was based on our best estimate, at the time, of the number of HAMP-eligible households that were likely to require assistance during the four-year program. The number of households that actually require assistance from HAMP during the remaining three years may diverge from our expectations if economic conditions or home prices evolve differently than projected.

HAMP is on track toward its goals: 1.1 million borrowers have started HAMP modifications… Nearly 1.4 million borrowers have been extended a modification offer, with 1.1 million of these approved offers resulting in modification trials. For most of the period since June, the run rate of eligible borrowers approved for and starting modifications has been approximately 20,000 to 25,000 per week. The 1.1 million homeowners who have started modifications have had their payments reduced substantially. Even for those borrowers who do not obtain a permanent modification (for example, those who do not complete a trial modification but instead pursue a foreclosure alternative such as a short sale), they still benefit from reduced payments during the trial phase.

As of the end of February 2010, 822,000 homeowners had been in the trial phase of the modification process for more than three months and could be eligible for conversion subject to submitting all necessary documents, remaining current on payments and meeting other technical requirements. Of those homeowners, 32 percent had received permanent modifications or had

been approved for permanent modification (170,000 permanent and another almost 92,000 approved for permanent). This conversion rate from trial to permanent modifications has been improving but is still below desired or anticipated program levels. The overall number of borrowers in permanent modifications has been rising substantially in recent months and should continue to do so. In February alone, 53,000 borrowers in modifications received permanent status. However, the conversion rate and overall number of conversions remain a critical focus of attention.

.... Yet conversions remain a challenge

The process of converting trial modifications to permanent has been much more challenging than officials originally anticipated. This is due to several factors, including insufficient capacity and execution at most servicers, a lack of willingness or ability to provide necessary documentation on the part of some borrowers, frequent inconsistencies between verbal and verified income that result in a borrower being deemed ineligible for the program, and a process that has proven more complex administratively than originally conceived. At the start of the program, servicers were provided flexibility to approve borrowers for trial modifications based on what fit best with their existing business practices – either starting a trial modification and then collecting documentation or collecting documentation upfront before the trial modification started. When the program launched, there were a large number of borrowers who needed immediate relief and could not wait for servicers to fully ramp up. This created a substantial backlog for servicers to process when borrowers reached the end of their trial period. To address many of these challenges, the Administration recently issued new guidance requiring servicers to begin offering trial modifications based on verified documentation at the front end of the process.

On November 30, 2009, Treasury launched a comprehensive conversion campaign focused on reaching homeowners who are eligible for permanent mortgage modifications. We required the seven largest HAMP servicers to submit conversion plans and required all HAMP servicers to submit their strategy for obtaining documentation from borrowers. We also enhanced communication tools for borrowers on our website to make conversion easier, including an instructional video, links to all of the required documents, and an income verification checklist, and a conversion guide for borrowers. As a result of these efforts, the number of borrowers entering into permanent modifications almost quadrupled from just over 30,000 at the beginning of December to over 170,000 permanent modifications and 91,000 pending permanent modifications at the end of February.

Program Improvements

Enhancing Borrower Protections

Yesterday, Treasury released guidance (Supplemental Directive 10-02) that will provide borrowers with a number of new protections in the HAMP evaluation process to help address some of the confusion and anxiety that some borrowers reported surrounding their rights during the evaluation process

The guidance addresses borrower solicitation, borrower response timelines, the foreclosure process, and bankruptcy changes. Supplemental Directive 10-02 requires and defines reasonable outreach efforts to homeowners by servicers and establishes a timeframe for borrowers to

respond to these efforts. This guidance also clarifies that servicers must consider borrowers in active bankruptcy for HAMP if a request for modification is received.

Supplemental Directive 10-02 also addresses the HAMP evaluation process with respect to foreclosure. Currently, servicers may not refer a mortgage to foreclosure if the borrower is in a trial modification. The guidance would prohibit foreclosure referral for all potentially eligible loans unless the borrower does not respond to solicitation, was not approved for HAMP, or failed to make their trial modification payments. Servicers will be required to provide borrowers with clear written communications explaining the concurrent foreclosure/modification processes and stating that a foreclosure sale will not take place during the trial period. If a borrower is found ineligible for HAMP, a foreclosure sale cannot be scheduled sooner than 30 days after the date of a Non-Approval Notice so that the borrower has a chance to respond. Servicers must also certify to their foreclosure attorneys that a borrower is not eligible for HAMP before a sale may be conducted.

Addressing Second Liens

The Second Lien Modification Program creates a comprehensive solution to help borrowers achieve greater affordability by lowering payments on both first lien and second lien mortgage loans. In addition to providing the basis for lien holders to share the cost of modifications, this program also supports efforts to reduce total borrower indebtedness by providing the option for second lien holders to receive lump sum payments to extinguish liens entirely. To date, Bank of America, Citi, JPMorgan Chase and Wells Fargo Bank have committed to participate in the program. Together, these four servicers account for just over half of second lien loans and we expect more servicer participation in the future.

Foreclosure Alternatives: For Those Borrowers Unable to Complete a Modification

The Administration is in the final stages of implementation of the HAFA program which will help to prevent costly foreclosures. As noted, the Administration has recognized from the start that not all homeowners can be successfully reached through a HAMP modification or another modification offered by the servicer. A short sale or a deed-in-lieu under HAFA helps borrowers avoid foreclosure, and transition to other sustainable housing in a more dignified way. The Administration expects that many homeowners will avoid foreclosures through HAFA, including borrowers who originally were helped through a trial modification. We also anticipate that HAFA could help establish standard practices that will ease the use of short sales, which are often much better for a family than a foreclosure sale, just as HAMP has helped establish standards for mortgage modifications. HAFA is critical to helping families maintain mobility in the labor force, which has broader economic benefits as well.

Transparency & Servicer Accountability

Over the past year, the Administration has refined the HAMP program to address new challenges.

First, Treasury has taken steps through its compliance activities (on-site field reviews, loan file reviews and targeted reviews) to identify areas of improvement for servicers. We instituted a number of measures to ensure that servicers were improving their responsiveness with homeowners, including a streamlined evaluation process and Borrower Notices for those

borrowers who were not approved for a HAMP modification. While servicers have substantially improved their capacity and implementation since program launch and measures of borrower issues like the percentage of servicer-related complaints to the Homeowner's HOPE Hotline have dropped materially, the Administration is still working hard to improve the program in this area.

Second, the Administration continues to augment its reporting to provide meaningful information to the public about the program. In addition to the monthly report, which continues to expand with every installment (e.g., the addition of conversion metrics, eligibility estimates, modification characteristics, geographical data), the Administration recently issued a summary report on HAMP call center activity and will continue to do so quarterly. Treasury will also begin issuing reports on compliance activities in the near future. The Administration will continue to enhance reporting, while balancing the need to protect confidential information and provide only statistically reliable data.

Understanding HAMP Expenditures and Budget

Treasury set aside $50 billion in TARP funds for HAMP. We remain committed to stabilizing the housing market and using the full $50 billion budget to reach and assist at-risk homeowners. The $50 billion allocation included budgets for first-lien HAMP modifications, including Home Price Decline Payments, second lien modifications, HAFA, and other program elements. As the program progresses, we will re-evaluate whether expenditures in these categories are likely to meet the original budget targets. As we determine we can implement productive innovation, we will move aggressively to implement program changes and expansions to assist at-risk homeowners both inside and outside the HAMP program.

Despite the rapidly expanding number of trial modifications and conversions to permanent modifications, so far, HAMP has paid a very small share of long-term expected program costs. HAMP is designed to protect taxpayers with an innovative pay-for-success framework, which means that the taxpayer doesn't pay a penny for trial modifications where the borrower doesn't complete the trial and even after the trial period, continued servicer, investor and homeowner incentive payments are contingent on continued borrower payment performance over the 5 year modification.

As a result of this back-loaded payment structure, to date, only a small amount of incentives has been paid to servicers and investors. To understand how the pay-for-success structure results in back-loaded expenditures, consider expenditures paid to date on permanent modifications. Through February, expenditures were only $57 million, primarily representing up-front servicer payments. However, over the five-year life of these *same* modifications, we will pay out up to $775 million in additional homeowner, investor and servicer incentives.

As discussed, we have made important progress in converting additional modifications to permanent modification over the past few months and we are confident that the number of permanent modifications will continue to increase.

Conclusion

HAMP is the largest mortgage modification program our nation has seen, in size, scope and impact on affordability. In addition to the relief it provides directly, it has impacted the broader industry by forcing mortgage servicers to build up systems to meet unprecedented demand and streamlining and standardizing modification processes across the industry. While significant progress has been made in the first year of program implementation, the Administration continues to work closely with homeowners, mortgage servicers, housing counselors, elected officials, and other key stakeholders to strengthen program implementation and broaden the program's impact.

In addition to the program improvements outlined here, the Administration remains committed to the many other housing market stabilization efforts that work in concert with HAMP, including substantial support for the housing markets through support of Fannie Mae and Freddie Mac to help keep mortgage rates affordable; refinancing opportunities that have allowed more than 4 million borrowers to refinance since the launch of HAMP; an initiative to provide support and financing to state and local housing finance agencies which in turn provide tens of thousands of affordable mortgages to first-time homebuyers and help develop tens of thousands of affordable rental units for working families, including those displaced by the housing crisis and foreclosures.

The Administration is on track to meet the stated program goals and – most importantly – to help prevent avoidable foreclosures for as many eligible American families as possible.

Substantial progress has been made in implementation but the Administration recognizes that real and complex challenges to achieving these important goals remain. For HAMP to reach its potential, implementation must continue to be improved, servicers must recommit to a better borrower experience and outcomes, and program enhancements must continue.

Chairman TOWNS. Thank you very much, Mr. Allison, for your testimony.

Let me make certain that I have some things clear here. I thought the most interesting part of your testimony was your announcement that yesterday Treasury issued a new directive that, in effect, requires giving people a chance to have their loans modified before they are foreclosed on, as you just said.

Mr. ALLISON. Right.

Chairman TOWNS. If that is correct, that is a big change from today where borrowers have to track down the lenders, rather than the other way around. I listened this morning in terms of, I think it was Mr. Dodaro who indicated that there is a problem in terms of a bottleneck in terms of people not being called back, losing papers, and all of that. I mean, you see that being changed or being turned around, because this is a life or death situation with people.

I guess the reason it is on my mind so much is that a lady who had two jobs, and of course she lost one of her jobs, and the company moved away, and now she has the one job, and she is just having difficulty paying her mortgage. She went in for modification, and the things that she was telling me in terms of how she is not even able to get anybody on the line to talk to her about her modification, will this change, or do you need more resources? I mean, what is the problem, because up to this point there have been some problems. I am hoping that this moving forward, that maybe it would be better for people, because I don't know whether you were here at the time, but we had a bunch of keys that we showed.

Mr. ALLISON. Right.

Chairman TOWNS. Those keys represent people who have lost their homes, and that barrel is going to get bigger and fuller, and this is going to continue if we do not have a program that really works.

Mr. ALLISON. Yes, sir.

Chairman TOWNS. Now, I must admit your statement is very, very encouraging. Do you think that we are really going to be able to implement this, or here we go again type of thing?

Mr. ALLISON. Yes. Thank you for that question. I think certainly we have seen a lot of frustration with this program since its inception. People who are facing the prospect of losing their homes have been anxious. They have been calling servicers. In many cases they haven't gotten the answers that they needed in a timely fashion. There have been instances of losing documents, for example.

I would like to give you though some background on what has been happening, some of the reasons for it, what we have done about it.

If you go back to a year ago when this program was designed, there was no standard approach to modifying mortgages, and servicers didn't provide service. What servicers did was collect payments every month and then foreclose on people who couldn't pay.

What this program has done is to require them, first of all, to do something totally new, which was to deliver modifications that produce real reductions in monthly payments. Until this program was designed, most modifications actually increased payments that people had to make every month. So what this program has been

designed to do is to increase affordability for many people throughout the country who are under stress right now.

So the first change was they had to go back, redesign their processes, redesign their systems, learn how to engage with homeowners in real conversations and conduct tailored modifications of those mortgages for thousands and thousands of people. This they had never had to do before.

I think for a while they were in a state of denial, frankly, about the challenges that lay ahead.

Last summer we called the servicers together. We pointed out the importance of outreach as rapidly as possible to these millions of people who could benefit from a modification over the next few years, and what we saw was a gradual and then accelerating increase in outreach. In fact, we set a goal for doing 500,000 trial modifications by November 1st. We were able to achieve that goal about a month early.

But during the meantime, servicers had to increase capacity. That means they had to hire more people, train those people, and, frankly, along the way there were lapses in training and in capacity.

Last fall, as the outreach was ramping up and we were doing more trial modifications, we began to see that conversions through final modifications would represent a challenge, so again we engaged the servicers, and late last fall we had our people and Fannie Mae's people in the shops of the leading servicers all day every day working with them, giving us reports twice a day on the progress, and converting trial modifications into permanent.

One of the issues with these conversions has been that last summer, because of the huge numbers of people who were desperate for modifications, we allowed modifications to take place on the basis of stated income instead of verifiable documents up front. Otherwise, we couldn't reach enough people rapidly because it would take them a while to get their documents together.

Then the servicers had to reconcile the stated income with the documents that eventually were provided, and what they found in some cases was that there were discrepancies between the stated income and the actual documents, so reconciling the statements with the actual documents has been a challenge. That is one of the reasons why this has been slow.

Another is purely capacity of the servicers. We have been pushing them very hard to increase capacity, and they have been doing so.

Now, to take stock of where we are today, we estimate, and we have estimated consistently since last year, there are about 1.8 million homeowners who would be eligible for this program. We have reached with offers of modifications 1.4 million. We have 1 million people in active modifications today saving many hundreds of dollars a month, on average. I think if you talk to those people, those million homeowners, they would tell you this program has been a success for them.

So we already have modifications for most of the people who we think are eligible today. Now the challenge is to convert as many of those modifications rapidly as possible to final modifications.

We estimate that right today, if you take the homeowners who have been in the modification program for at least 3 months and have made their payments and therefore are eligible for a final modification, about a third of those have either received a final modification and it is in place or they have a final modification offer that was sent to them and only requires their signature to be affected. So about a third of the people eligible for a final modification today have one either in place or available if they just sign.

We have more to do. We have about another half a million people who are waiting for their modification to be decided upon. Frankly, they have had to wait too long. We have kept this open to allow more time for them to gather their documents and for the servicers to review them. We expect that backlog will be decided by the end of May, and as a result of that many more people are going to be in final modifications and we will have essentially removed the backlog and the servicers then will be able to be much more current in dealing with new applicants.

We still have a goal, it has not changed since the beginning, of providing opportunities for 3 to 4 million homeowners to have trial modifications of their mortgages, and we expect that many of those will be converted to final.

Chairman TOWNS. Right. My time has long expired, so I now yield to the gentleman from California, Congressman Bilbray.

Mr. BILBRAY. Thank you, Mr. Chairman.

Mr. Secretary, you are saying the goal is 3 to 4 million homeowners. As of February, there are 170,207 permanent mortgage modifications. That equals about 6 percent of 3 million, right? When we talk about this, your number, 3 million or 4 million, are we talking permanent modifications? Is that a goal of 3 or 4 million, or is permanent modifications not the goal but just to maintain temporary?

Mr. ALLISON. There is a lot of thought or a lot of questions about what the goal is, and the goal at the time it was announced was 3 to 4 million trial modification offers. That is in a report by the GAO that was filed last summer.

Mr. BILBRAY. Let me interrupt.

Mr. ALLISON. Yes, sir.

Mr. BILBRAY. So just a temporary hold is your measurement, not how many we are able to get out of the system and get over to a permanent answer rather than—I am just worried about a standard that sounds very good until you read into the words, listen to the words that are being used that basically temporary modification is a goal unto itself, and thus being in the system is a success, not getting people through the system and back out the other end where they have a permanent stability.

Mr. ALLISON. I fully understand your question and the reason behind it, so let me just explain.

Mr. BILBRAY. Go ahead.

Mr. ALLISON. We are trying to reach as many people as possible to make this offer. Right? We want to convert as many of those as possible to final modifications. We estimate right now about 1.8 million people are eligible. We believe that over the 4-year period there will be 3 to 4 million people who are eligible.

I think the fair way to look at this is to look at the—if you are looking only at final modifications, let's look at the percentage of the final modifications to the people who are eligible for a final modification at this point. That is about one-third. It is not yet adequate by any means. We are working very hard to make it so.

We also have to recognize—and we did at the outset when this program was designed—that not everybody who gets a trial modification is going to be able to—and then receives a final modification is going to be able to continue.

What we have learned in this process, and what was not expected, I think, when we started out, is the difficulty that many people would have either producing the documents or maintaining their payments. We have seen people who are unable to produce documents that reconcile. We have also seen people drop out of the program because they are not paying.

Let me point out that the taxpayers pay nothing during a trial modification period. The taxpayers only start paying when the modification is final, and that is to protect taxpayers' interests, as well.

People who cannot continue in this program will have the opportunity for another method of foreclosure avoidance. All of us want to see these people be able to avoid foreclosure, and so we are instituting the short sale program, the deed in lieu program to provide a dignified way for people who cannot——

Mr. BILBRAY. Excuse me. You say you are——

Mr. ALLISON. Yes.

Mr. BILBRAY [continuing]. Initiating that?

Mr. ALLISON. Right.

Mr. BILBRAY. When is that initiation?

Mr. ALLISON. Next month.

Mr. BILBRAY. Next month?

Mr. ALLISON. Yes, sir.

Mr. BILBRAY. How long have we been looking? Why has that initiation been so slow?

Mr. ALLISON. Well, because we have had to work with the servicers in developing the program and in designing the program. As you know, this is a voluntary program. We have had to work with the servicers on that, as well as on the second lien program. And second liens, as was testified to before, are an extremely important factor in people's ability to stay in their homes.

Mr. BILBRAY. Well, let me say, as the chairman pointed out quite appropriately, there is a degree of urgency here, and that urgency was not just to those that had the loan problems or those who had given out the loan problems. There was a general urgency in the community across the board, and this seems to have dragged on to a point where that just being in the process was a great success. Now you tell me that we even got the situation where people just need to put their name on a document.

Mr. ALLISON. Right.

Mr. BILBRAY. How many of those do we have hanging out there of just getting people to bother to sign a document?

Mr. ALLISON. Right now we have about 91,000.

Mr. BILBRAY. 91,000?

Mr. ALLISON. That is right. And we are also reaching out to them to urge them to sign that document and get it back to us.

Now, there are some things that we cannot control. We can't control entirely people's ability to pay. We are trying to make the offer. We are trying to give them every opportunity to put their documents together and that is why we have extended the trial period as we have, to give more people a chance to qualify.

This program is all about reaching out to and enabling as many people as possible, hopefully 3 to 4 million, to get into this program as rapidly as possible.

Mr. BILBRAY. I appreciate that, but there needs to be a frankness, too, of just telling people flat off, like you would a family member, that, look, your overhead, everything we see here just says that we will give you this much hope over here, but be frank and up front. I think that one of the ways we got into this is people in and out of the Government giving people false hope, telling them they can bite off more than they can chew, they can carry more than they can bear, and then sitting there wondering how we get into this.

I hope that in this program we are not committing the same crime by not being frank and open with somebody that needs to have hard, cold facts given to them.

Mr. ALLISON. Yes. Well, and as I mentioned before, we are going to resolve the backlog of undecided trial modifications, we expect, through the servicers by the end of May, so that time is coming up rapidly, and we are pushing very hard for those decisions to be made.

I think we have to keep in mind that this crisis has been going on almost 3 years. It began the middle of 2007. For the first 18 months of that, virtually nothing was done to help these homeowners. We have ramped up this program. Even SIGTARP says in his report it was ramped up extremely rapidly. And we have also had to put in proper controls to protect taxpayers, conduct outreach to millions of people.

By the way, we reached out to 3.6 million people, with increase, asking them if they would be interested in taking a modification. Again, that is twice the number we estimate are eligible today.

So we are trying to educate as many people as possible about this opportunity and we are giving them a chance to get in. We have taken time, because of the urgency of this program and because it was new and we were learning along the way, to give people a chance to stay in while we would have time through the servicers to evaluate them. That period is rapidly drawing to a close, and we will be able to move on, we believe now, with adequate capacity. We think this program is up to a level it can sustain itself and provide more rapid decisions to people who need them.

Mr. BILBRAY. Well, thank you very much, Mr. Chairman. I think we all agree 6 percent is something that we should hope to improve that number to some degree.

Chairman TOWNS. No question about it. And I yield to the gentleman from Maryland, Mr. Cummings.

Mr. CUMMINGS. Mr. Allison, I have listened to you very, very carefully, and I want you to understand this is not an attack on

you or the Department, but I have a feeling—I have just listened to every syllable you have said, and I have a feeling that you have done a lot but not enough. Just like in the shock trauma business they say you have a golden hour, a golden hour to keep somebody alive, I think we have a golden hour here to make a difference, and I really do thank our chairman for bringing us here today.

The reason why I say this, I know so much about this stuff because I deal with these people every day. I deal with them every day.

Mr. ALLISON. Right.

Mr. CUMMINGS. And there are some problems that still, even in what you have come up with, there is still going to be some problems.

Let me give you an example. There is a prohibition against referral to foreclosure until either a borrower has been evaluated and determined to be ineligible for HAMP or reasonable solicitation efforts have failed.

Mr. ALLISON. Yes.

Mr. CUMMINGS. The problem here is the process of evaluating. In the real life story, the person comes, they have the papers. I tell you, I have seen this happen many times. The papers are submitted and they may qualify, but maybe they don't, but the problem is a lot of times those papers are lost.

Mr. ALLISON. Yes.

Mr. CUMMINGS. Are you following me?

Mr. ALLISON. Yes.

Mr. CUMMINGS. I have actually seen situations where my office has taken people's papers and we fax them from my office to the servicer and they still got lost.

Mr. ALLISON. Right.

Mr. CUMMINGS. So here I have somebody who is losing their home, and so I am trying to figure out if they are losing it from a Congressman's office then that is—and the clock starts ticking at what point? And the reason why I am going to that is because what we found is that a lot of people—and I know one of the reasons why you have this new rule here is because a lot of people were being foreclosed upon in the process of just trying to get in the process.

Mr. ALLISON. Yes.

Mr. CUMMINGS. That is a problem. And the reason why I talked about the golden hour is I don't want us to be just repeating over and over again, and then when the chairman brings you back here in 3 or 4 months or whatever and he asks the question, what kind of progress have we made, you will come up possibly with the same numbers. But the problem is the pain is still there. The people have been thrown out of their houses.

Mr. ALLISON. Yes.

Mr. CUMMINGS. So I am just trying to figure out how do you deal with that?

Mr. ALLISON. Congressman, you make a great point and we understand that issue.

Now let me tell you what we have done to help people like that. First of all, any person like the individual you mentioned can call 888–995-HOPE. That is our hotline that has been set up, manned

every day to take people's concerns and help them deal with this process. So if they call us we will contact the servicer, we will find out what is going on and help that person.

Second, they can go to our Web site, makinghomeaffordable.gov, and they can download forms. They can contact counselors through that Web site, as well, who can help them.

Mr. CUMMINGS. Now, do you have enough personnel?

Mr. ALLISON. Yes.

Mr. CUMMINGS. Because there was testimony earlier that you didn't have enough personnel.

Mr. ALLISON. We have personnel in the call center to handle those calls. We also monitor the volume of calls, the reasons for the calls, the number of complaints, the number of people who need their case escalated within the servicer, and we help them escalate the case to a higher person in management in the servicer so they can have their case dealt with.

Chairman TOWNS. Would the gentleman yield?

Mr. CUMMINGS. Of course, Mr. Chairman.

Chairman TOWNS. What is the problem then, because there is a problem. I am sure you will acknowledge that.

Mr. ALLISON. We acknowledge that. Absolutely we do.

Chairman TOWNS. But if you have enough employees, then I don't understand why this is not working.

Mr. ALLISON. This is a vast program. We are reaching out to millions of people. There are cases, and fortunately the complaints are declining these days. We monitor that very closely. We still get complaints. There still are problems. I fully agree with that.

And so we also have other processes through Freddie Mac. They are auditing whether people who are eligible for this program and in the servicers are getting modifications, what is the service quality. We are going to be reporting more and more publicly on the service quality of each servicer, and our reports now run 10 pages every month. People can look at a variety of information about service quality, the servicer's performance, etc. We are adding to that.

We are going to be providing more information in the coming months on the time it takes servicers to answer the calls, to measure the quality of service, the number of modifications that they are doing, and the auditors look over the quality of those modifications.

If people are being denied a modification unfairly, the auditors will find it, but in the first place we want the individual to get in touch through the telephone number I gave or through our Web site or directly to their servicer and get help. We have set up mechanisms for them to get help. We don't want anybody to miss an opportunity to get one of these modifications.

I think we have to understand, we have been changing the entire servicing industry. This is all new to servicers. I am not cutting them any slack, but they have had to get up to speed, as well. They have had teething problems along the way. We have worked with them constantly to improve their service.

So I think we are going to still see some complaints. That is why I am making this appeal to people who may be watching this testi-

mony to get in touch with us—888–995-HOPE—and get help right now and get their questions answered.

There is also a lot of misinformation about this program, and it is important that people understand how it works. That is why we created this outreach program and the complaints system and the information on our Web site, so that people can find out the real facts about this program and how to get help.

Mr. CUMMINGS. Mr. Chairman, may I continue?

Chairman TOWNS. I yield you an additional minute.

Mr. CUMMINGS. Thank you very much.

You said there are 91,000 people that have letters in their hand and they haven't agreed to it?

Mr. ALLISON. That is right.

Mr. CUMMINGS. Perhaps is that because the rate may be higher than what it was before? In other words, their monthly payment?

Mr. ALLISON. Oh, no. The people who get into a trial modification, Congressman, get a reduction immediately.

Mr. CUMMINGS. OK.

Mr. ALLISON. And from day one we believe that in the trial modifications, as well, approximately around $500 a month of savings. But we know for a fact in final modifications it is over $500 a month.

Mr. CUMMINGS. Last question. The Bank of America offer, I am asking you, you think that is a good thing, right, the Bank of America, where they are going to reduce principal; is that right?

Mr. ALLISON. I do. Yes.

Mr. CUMMINGS. I am asking you and Secretary Geithner to try to get other banks to do the same thing. Are you all planning to do that?

Mr. ALLISON. I couldn't agree with you more.

Mr. CUMMINGS. Because it is so important.

Mr. ALLISON. In fact, we have been in dialogs not just with Bank of America going back some time about ideas just like this, but with others, and we are going to continue that.

Now let me make a couple of points. First of all, we applaud Bank of America for rolling out that program that they announced yesterday. To put it in perspective, that program will help, as they announced, about 45,000 people, or about 5 percent of the homeowners who are behind in their payments by 2 months or more at Bank of America, alone.

As happy as we are about that initiative, Bank of America has today offered modifications to about 24 percent of the people who are eligible who at least are 60 days plus delinquent at Bank of America. They rank 14th out of the top 24 servicers. They have probably the largest book of loans in the country. We want them to do better. They are striving to do better, but they have a long way to go, as do others.

We are not slacking off one bit with any of these banks. We are working closely with them. We appreciate their efforts, which have been huge, to transform their servicing business to meet this great challenge, but all of us know we have more to do, they have more to do.

We appreciate the input from many of you on this panel and others in Congress. We have come up with, we think, some interesting

ideas, as I alluded to in my testimony, to enable some additional people to participate in this program who may be unemployed or who need principal reduction.

We look forward to speaking with you very, very soon about these ideas and to moving forward with them.

Mr. CUMMINGS. My time has expired. Thank you, Mr. Chairman. Thank you very much.

Chairman TOWNS. I thank the gentleman from Maryland.

The gentleman from Ohio, Congressman Kucinich.

Mr. KUCINICH. Thank you for being here, Mr. Allison. As you know, I come from Cleveland, OH, and coming from there I saw the danger perhaps earlier than some that the housing financial crisis would pose for the Nation, because the foreclosure crisis' first victims were in places like Cleveland, OH.

Mr. ALLISON. Right.

Mr. KUCINICH. That was back in 2004 and 2005, where there were entire neighborhoods where many of the homes in the neighborhoods had been foreclosed. There were blocks where most of the houses on a block were foreclosed in my district, and even more so in the district of my sister next door, Congresswoman Fudge.

My Domestic Policy Subcommittee took up the issue as soon as I received the gavel in 2007, and we focused on the foreclosures, and we have been at it ever since. I know and everyone at this dias knows that the administration inherited this mess. I know it because my Domestic Policy Subcommittee had investigated and exposed the Bush administration's Treasury Department's apparent unwillingness, to us, anyway, to do foreclosure mitigation back in October 2008.

We have held 10 hearings on the problem of foreclosure and solutions; 10 hearings. With the new administration having taken office, we had your Chief of Home Preservation testify twice. We have had the Nation's experts testify, including I might add the Michigan Law Professor who would later be named Assistant Secretary for Financial Institutions. My staff culled various approaches to show you how you could encourage principal reduction, principal reduction on a large scale, and we sent up to Treasury the best concepts.

My staff and I met repeatedly with top people at Treasury and at HUD about the need for principal reductions. We pushed, we prodded, and we pressed. Over 3 years after I held my first hearing about foreclosure, we really haven't seen any bold, new initiatives coming out of Treasury to address the underlying problem of underwater mortgages. What are we doing to help those people who owe more on their homes than the home is worth?

In the meantime, we have heard from experts who have studied this crisis and their empirical research shows that loan modifications which include principal reduction have the lowest re-default risk, especially in States with the steepest price declines and the highest foreclosure rates. But now we have heard from Mr. Barofsky that HAMP as it currently stands may actually deincentivize principal reduction.

Every day the crisis continues the tragedy of foreclosures continues as thousands of homeowners are receiving foreclosure notices,

and the delinquency rate is the highest ever recorded. Whole neighborhoods in Cleveland hollowed out by this foreclosure crisis.

So time is running out to make any meaningful difference, Mr. Allison. Half of the foreclosures are borrowers with negative equity in their homes, and I am concerned about our Government being responsive. We need to show Americans that Government can work for them. We need to show Americans that Government can help save their homes.

Does the administration get that, Mr. Allison? Does the administration understand that a meaningful solution to the astronomical level of foreclosures would be an aggressive and broad principal reduction initiative? Tell me, Mr. Allison, what else do we have to do to get Treasury to act, Mr. Allison?

Mr. ALLISON. Yes, sir. You touch on an extremely important issue, and that is the principal reduction question. Let me give you a couple of responses to that.

The first is that for people who are seriously underwater, usually a second lien accounts for about half of that amount. And we have been working since last summer to create a second lien program, and finally we have the top four banks who have joined that program, and those are JPMorgan, Bank of America, Wells Fargo, and just yesterday CitiGroup. So we are pleased that finally the four banks that account for about half of the second liens in America have joined this program.

So now we are in a position to start to move forward to address the second lien program, especially for those who qualify for the HAMP program, so we have what is called the 2MP program, which is our second lien effort, and we think that can play a meaningful role in reducing principal for distressed homeowners.

Now, within the HAMP program, itself, since the beginning the HAMP program has allowed principal forbearance, and about a quarter of the participants in HAMP are receiving principal forbearance. Very few though, on your point, have received actual principal reduction.

For many months we have been looking, along with HUD and others in the administration, at the problem of underwater mortgages. This crisis has changed somewhat over the past year from what was primarily a subprime crisis at the beginning to what today is unemployment and underwater mortgages have come to the floor as two of the major issues.

In this effort to examine the principal reduction problem, we have been mindful, first of all, of the potential cost of such a program; second, of the fairness of doing principal reduction for some people; and, third, of the moral hazard issue.

Getting back to the cost, we estimate that the amount of the underwater portions of mortgages in the United States is $500 billion to $700 billion. Those underwater mortgages are heavily concentrated in five States. California and Florida account for about half of all of the underwater mortgages in the United States, and then three other States account for about 25 percent more, so about three-fourths of the underwater mortgages are in five States.

We are working to address that through the help for the Hardest Hit Areas program, which was announced some weeks ago, and that is underway. It is possible we are looking at possibly expand-

ing that program because it has been extremely well received. That program should help to address the underwater mortgage problem and the unemployment problem for those hard-hit States.

We also are going to learn from the innovative approaches that those States may take through their housing finance agencies, and that may help better inform other States as well as ourselves.

Last, we have been looking at ways of perhaps modifying our own HAMP program so that we might be able to make this available to more people, some additional people whose mortgages are underwater or who are unemployed. We want to be talking with you about that in the next few days as we continue to try to improve our programs.

If I may go on just for a second, I know that the question was raised about the number of changes we have made to HAMP since it began. There are a couple of reasons for this. First of all, we have been learning as we went along. We want to continue to improve this program so we can meet that objective of helping 3 to 4 million people avoid foreclosure over the next 3 years to go.

Second, the servicers only had so much capacity to absorb change. We didn't want to slow them down by putting too much burden on them to make massive changes all at once. We think we have a much stronger program today, and we are going to continue to strengthen it in ways that I just mentioned.

Chairman TOWNS. Thank you very much. The gentleman's time has expired.

I now yield 5 minutes to the gentleman from California, the ranking member of the committee, Congressman Issa.

Mr. ISSA. Thank you, Mr. Chairman. I apologize for my absence, but I will brief you later. It was well worthwhile for the committee.

Mr. Allison, earlier we heard basically about a program that is under-achieving and delaying. Did you ever envision that curve, a curve showing, if you will, justice has been so delayed and therefore denied, would exist when you began this program?

Mr. ALLISON. I think it is fair to say, Mr. Issa, that when we started this program we did not fully envision the challenges that we would encounter, first of all in people being able to provide us with the documents that they need in order for us to give them a final modification. Another was the amount of change——

Mr. ISSA. I am going to stop you to followup on that.

Mr. ALLISON. Yes, sir. Please go ahead.

Mr. ISSA. As I said in my opening statement and in the questions earlier, today I can go to any bank in America and I can make application for a pre-qualified loan and I can expect to have an answer in a matter of days or weeks at the most.

Why in the world, when Government gets in the middle of it, narrows the amount of people that you allow to do these loan modifications, can then that self-inflicted wound that they don't have time to quickly provide the same service that is routinely processed, at the height was being processed in far more loans than you are ever dreaming of dealing with now?

Mr. ALLISON. Well, they had a business for many years of generating new loans, and——

Mr. ISSA. These are new loans.

Mr. ALLISON. Well, actually, what we are doing is—what they have had to learn how to do is to transform tailor-make modifications for individuals to suit certain standards of affordability, and also to make sure that these are people who are owning their own home that is being modified. We are not helping investors who may have bought houses and expected to flip them and make profits, so——

Mr. ISSA. I appreciate the due diligence, but——

Mr. ALLISON [continuing]. But what has had to happen, if I may——

Mr. ISSA. Sure.

Mr. ALLISON [continuing]. Is for the servicers to generate the capacity to serve individuals one by one on a mass scale to modify their mortgages, and they were not equipped. As I mentioned earlier, servicers didn't provide service. They collected money every month and they foreclosed on people who didn't pay. So we had to engage these people.

Mr. ISSA. Now that you are where you are, let's talk about how we get from failure to success.

Mr. ALLISON. Yes.

Mr. ISSA. Why wouldn't you allow a set of the newest criteria to be placed out there for any reputable—let's start with FDIC approved banks, even if they use a servicer or somebody else, ultimately they put their name on it when they submit it? Why wouldn't you allow them to go through the process, not of getting someone into loan modification, but doing the entire paperwork to provide affidavit of ownership and residence, the critical information about real ability to pay both their—and I believe it should include their other debts——

Mr. ALLISON. Yes.

Mr. ISSA [continuing]. And an independent appraisal of the home they want to keep, and have that package ultimately then, through whatever processor, come prepared? Why wouldn't we switch from a pre-process that gives hope and then dashes those hopes through delay? Why wouldn't we change this to a process that says, "Look, almost anybody in the loan business can put together these packages. They are not that exotic." Ultimately, the loan modification details, I appreciate that they are individual, that you have to have a fairly skilled group that says, OK, now we are going to give you your package.

Mr. ALLISON. Right.

Mr. ISSA. But most of that, absence of anything, has to do with simply people putting in, if you will, a next generation of liar loans, which you allowed for a long time just tell me you have so much income, and then you changed the rules, thankfully, to, "No, you have to actually show you have the income because we don't want to waste time with people who will re-default," and so on.

Why in the world wouldn't we get out of this pre-qualification that leaves people in limbo and get to the idea that 30 days from the time a package is submitted from anybody, if it is complete, people should be in the process of negotiating a final qualify, and those who aren't qualified get turned away after they pay a de minimis fee for qualification through a long list of qualified institutions so that these sham operations are excluded?

Mr. ALLISON. Well, actually, what we are doing by now requiring that the documents be provided before the trial modification is granted, I think that will go a long way toward speeding this process up. Now, that begs again the question, well, why didn't they do that in the first place? And the reason was we had a huge backlog of people who were waiting for relief, and we felt it was more important to bring them into this program rapidly. It hasn't cost the taxpayers a dime if people drop out because their stated income doesn't match eventually the documents they provide. Only the people who get into the final modifications—and that is where the taxpayers' payments come in—can get a——

Mr. ISSA. On our side of the aisle it looks more like politics to put people in to make sure something was working when, in fact, you are hurting, not helping, those people. On both sides of the aisle we are concerned that at the end of, call it a year, very soon, that we don't have a million people, if there are a million people, qualified and delivered.

If the chairman will indulge me for just a moment, I am probably one of the strongest advocates of keeping the moral hazard there, but I will tell you, as you look at the other programs that you are looking at, if somebody has a building, a home that they purchased for $400,000, it is now worth $250,000, and the bank will sell it for no more than $250,000, if the existing person who has a no-recourse loan, as they do in California, Florida, and most States, can walk away and the bank has $250,000, that is not a cram-down. That is a competitive process.

If the homeowner is qualified and able to be the high bidder, if you will, or an acceptable bidder, even if it a straw man type bidding, there is not a moral hazard. That is why Bank of America has made a decision to reach out to 49,000 people that they believe qualify for that and abate some of the principal over time, because ultimately they don't want to take back a house and sell it, get no more money, and go through all the other costs. That is good business.

I hope that on both sides of the aisle we are sending you a clear message that moral hazard is your subsidizing continued bad behavior or extending people the ability to stay in a home that they should make plans to get out of. If a bank would get no more money, then getting to that point so the bank is made whole, you folks at Treasury can be confident that banks are writing to their correct value, all of that is what both sides of the aisle thought TARP was going to do.

Thank you, Mr. Chairman.

Chairman TOWNS. Thank you.

Mr. ALLISON. May I respond, Representative Issa?

Mr. ISSA. Of course. I didn't mean to cut you off.

Mr. ALLISON. First of all, there is nothing that prevents a bank right now from writing down the value of that mortgage that is on its books and helping that person stay in their home, because in most cases, as we are finding, there is a higher present value to keeping that person in the home than foreclosing, which is painful for everybody, not just the homeowner but the bank. But they in some cases have been slow to do that.

I applaud what Bank of America is doing. It is time for other banks to recognize reality and help people, writing down second liens as well as first liens. Right? So we are very mindful in our programs of not engendering moral hazard and causing people to default on purpose in order to get their principal reduced if they can afford to pay.

So we are looking at ways of balancing concerns about taxpayer funds being used as part of a principal reduction effort, the moral hazard of strategic default, and fairness of one person who may have put down 30 percent for a mortgage and the next door person put down zero and took a second lien, and making sure that we are being fair to everyone as possible while still trying to promote financial stability and keep neighborhoods whole.

Back to your question about the time that this has taken and your chart across here.

Mr. ISSA. Excuse me. That is GAO's chart.

Mr. ALLISON. Fine. GAO's chart. It does show that it has taken a while to get the final modification program up and running. People were in the trial modifications. We extended that period for a while to give more people the chance to qualify, but now it is picking up very rapidly.

We have about a third of the people who are eligible for a final modification today. They have completed the 3-months, already have one, or one is on their desk to be signed. We are rapidly catching up in that area. I think you are going to see final modifications rising quite rapidly over the next few months as the backlog is cleared and people know where they stand.

I am very hopeful that many of the people awaiting a decision are going to get a final modification.

Mr. ISSA. I certainly hope so.

Thank you, Mr. Chairman.

Chairman TOWNS. The gentleman's time has expired.

I really hope that by the next time we have a hearing, that the results would really be different. I am hoping that the program works, because a lot of people out there are really losing their homes and the pain and the suffering around it is something that we really have to do something about.

I now yield to the gentlewoman from California, Ms. Chu.

Ms. CHU. Secretary Allison, I raised this issue of my constituent earlier, but I want to hear what you have to say. This comes from this long letter that a constituent wrote to me, and I met with her and she was in tears. She and her parents are on the brink of losing their home to an auction in less than 1 week, and they have been in that home since 1993. They applied to the HAMP trial period plan for 3 months with JPMorgan Chase, and faithfully paid the amounts that were required. They submitted their payments, in fact, timely.

As they went through this process, they hardly received any information or status updates on their modification applications, verbally or in writing. About 5 months later, her parents finally received a letter from Chase indicating that they had been denied and that their house was going to be auctioned off in 30 days, even though they had successfully made these five trial period payments.

So I find this horrifying. The Cardale family had to jump through their hoops for 5 months and they played by the rules, only to end up being told that they were losing their home and that they had to get out within days of notification. I thought that they were really strung along here.

The way I see it, first of all, there is the lack of responsiveness and timely updates from the loan servicers. We even hear other horrifying stories about lost paperwork.

Second, there is no appeals process in place whatsoever.

Third, there isn't a sufficient notification process before people are being notified that they are being kicked out of their homes.

So what is the Treasury doing about these three issues? When can we expect that a fair and just appeals process will be put in place so that homeowners can at least find out what the question was and see whether it was justified? And shouldn't families be given more notice and time to prepare and find alternative housing in a case such as this family's case where their home is being put on auction immediately?

Mr. ALLISON. Yes. Thank you very much for your question. First of all, we will be glad to look at that particular case for you and contact JPMorgan Chase about it.

But more broadly, because other people may have the same situation, as I mentioned in my testimony, we issued a new supplemental directive which provides that people cannot be put in foreclosure while their decision on a modification is being made. We already have requirements that the homeowner is entitled to understand the reasons for a denial and they can phone in and appeal a denial.

We have a phone number—again, it is 888–995-HOPE—that the homeowners can call to see—if they have an issue with their servicer, they can escalate that through our call center to more senior people in the servicer to deal with it.

We also have an auditing function which will go and check on the performance of servicers in making sure that people who qualify for this program are getting a modification. Therefore, I think there are a number of ways that the person you mentioned could get help, but I want to accelerate that on her behalf, so if you can give me the information after the hearing I will be glad to find out what is happening with that program case.

Ms. CHU. Are you saying that the appeals process is in place right now?

Mr. ALLISON. We have an escalation process, and have for some time. I think we have to do more to get the word out, frankly, and that is all they have to do is telephone that phone number or they can get on makinghomeaffordable.gov. They can get in touch with counselors. They can get in touch with their servicer. They can also get documents. If they are having trouble with the servicer not handling the documents or they don't know what the documents are, they can get the documents on our Web site. So there are a lot of ways people can get help, and I think people are still struggling with getting the right information about this program.

We have many outreach events. We have had over 20 events last year around the country, and especially in the hard-hit areas, to bring in individuals along with the servicers, have them get to-

gether and directly try to work out a modification of a loan. We are conducting more of those events around the country this year, as well.

We are also going to have a public service campaign. That is already underway. We are going through thousands of media outlets to try to communicate even more how the program works and how to get help.

Ms. CHU. You said that there should not be a foreclosure during the trial process.

Mr. ALLISON. Yes.

Ms. CHU. But in this case she had no input, and then finally was denied, and now is immediately being foreclosed upon.

Mr. ALLISON. Yes. Well, she should also be offered, first of all, a chance to understand what happened, and that is where I think we have to get involved in that particular case. And there are going to be people who don't qualify for a final modification, for one reason or another, and in that case we also have programs to avoid foreclosure, such as a short sale or a deed in lieu, and we provide allowances for people if they need to relocate, so if they have to leave their home they can do so in dignity.

But first of all we want to try to prevent as many foreclosures or people having to leave their home as possible. That is why I think it is important to get the word out early so people understand the process, and if, indeed, they are not going to qualify for a modification, they have had time to look at alternate solutions.

Ms. CHU. My time is up, but I would just say that I just don't want them to be given false hope if they actually don't qualify.

Mr. ALLISON. Yes. I completely agree, and we will certainly work on your suggestion, as well, and see how we can make this program better in that regard.

Thank you.

Chairman TOWNS. The gentlewoman's time has expired.

Ms. CHU. Thank you.

Chairman TOWNS. The gentleman from Illinois, Congressman Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman, and thank you, Mr. Secretary, for being here.

Were you in when the first panel was engaged in discussion?

Mr. ALLISON. Yes. I was, first of all, listening to it, and then I was here at the latter part of it. Yes.

Mr. DAVIS. The whole question of disparities have crept into the program and into the conversation.

Mr. ALLISON. Right.

Mr. DAVIS. The National Community Reinvestment Coalition has done a study, and their survey showed that 57 percent of African Americans who were eligible for the HAMP program were denied, 41 percent of Whites who were eligible were denied. I am sure that Treasury is aware of that, and what are you doing or what do you perceive there to be that can try and help rectify this disparity?

Mr. ALLISON. Yes. Thank you, sir. We are very concerned that no one be denied access to these modifications because of race or gender, and so therefore we have been requiring the servicers to follow the fair housing laws as they consider modifications, and the fair lending requirements, and also we have been collecting information

around race and gender and ethnicity, and we are going to be having that data available for publication in June. As soon as we have enough statistically valid data, we are going to be publishing it like we publish many other aspects of this program.

By the way, we do publish a report every month. We have been expanding the amount of data, and also people can access that information on our Web site, makinghomeaffordable.gov.

I think that this is an area we are very concerned about. That is why we are gathering the data. And if we find any type of discrimination, we are going to take action. We also have our auditors, who will be looking at this. That is an aspect of the program, as well.

Mr. DAVIS. On an individual base, is there any kind of resource that, I guess, individuals who feel that somehow or another they were treated unfairly, that they can make use of to try and rectify or to express their feelings and get some action?

Mr. ALLISON. Yes. They can, for instance, again, they can call our hotline and make an inquiry that way, and we will take it up. They can get in touch with us through our Web site, again makinghomeaffordable.gov. They can then contact through that Web site local counselors who may be able to help them, as well. So there are many ways to get help. I think we have to get the word out. It is important that people understand that they don't have to go through this process alone.

Chairman TOWNS. Would the gentleman yield just for 30 seconds?

Mr. DAVIS. Yes.

Chairman TOWNS. You mentioned that you would take action. What kind of action?

Mr. ALLISON. Well, when we find that, for instance, a servicer has been violating the rules of this program—and we can do that through audits that are conducted by Freddie Mac, and at the beginning we set up an audit process for this program because we have to make sure that these rules are being followed. So if they discover that there are violations of our policies and procedures, we confront the servicer with that and we work with them to make corrections. And if it is found that, for instance, people did not get a modification who deserved one under our rules, we go back and rectify that.

Mr. DAVIS. Of course we know that many people are actually hard pressed in terms of being unemployed, don't have much equity in properties, and from a banking transaction or lending transaction, mortgage transaction, doesn't look like they could really make it, are there any other activities that might be able to help these individuals to remain in their homes?

Mr. ALLISON. Yes. Well, for example, there is the Neighborhood Stabilization Program, which is, I think, a powerful force in many communities around the country, especially low-income communities. We have the Housing Finance Agencies who are providing more support for them, as well. And our program for the hardest hit areas I think will be very helpful in creating innovative ways, especially to provide assistance to people who are unemployed, who are maybe deeply underwater, or who are low income.

Mr. DAVIS. Thank you very much. Thank you, Mr. Chairman. I yield back.

Chairman TOWNS. I thank the gentleman for yielding.

I now yield to the gentleman from Missouri, Congressman Clay.

Mr. CLAY. Thank you very much, Mr. Chairman.

Mr. Allison, like my friend from Illinois, I, too, found it extremely disturbing to hear about the racial disparities that Mr. Taylor testified to on the previous panel. And along the same lines of Mr. Davis' questioning, what can the Department do to try to address the concerns raised by Mr. Taylor and the members of this committee on the whole racial insensitivity of the mortgage industry, of the plight of the people who are now underwater, in the process of foreclosure. What programs can the Treasury put in place as our Government to help repair the damage, to help repair this wanton onward aggression that was displayed toward a class of people? What can happen?

Mr. ALLISON. Well, as you point out, there was widespread predatory lending practices during the mid-part of this decade, and they caused tremendous damage around the country.

One reason why the Secretary of the Treasury has been pressing so hard, and the President, for financial reform is to be able to establish a stronger Consumer Protection Agency to help prevent abuses like this from occurring again.

Now, the damage already exists, and we want to make sure that in our program there is not ongoing discrimination as people are considered for modifications, and that is why we are collecting that information. We look forward to publishing the first data around the distribution of modifications by race, ethnicity, so forth, and gender, and with that I think we will have a tool to confront servicers and mortgage modification practices if, indeed, they are showing discrimination.

Mr. CLAY. It is going to take some aggressive actions on the part of the Treasury to really crack down on these abuses and to discourage it and eliminate it from the marketplace.

Now let me move on to HAMP. To my understanding, HAMP was modeled after the FDIC's Indie Mac Program, which only had a borrower response rate of 50 percent during its most successful run. Let me ask you, Why did you choose to model HAMP after a program that was only moderately successful?

Mr. ALLISON. Actually, we think HAMP is quite an innovative program. It is the first large program of its type that has required substantial reductions in people's monthly mortgage payments. And as you look back at other modification programs in the past, many of which were abject failures, had either they modified very few loans or there was a very large re-default rate. It is because in almost all those cases they didn't meaningfully reduce people's monthly payments.

So there is really not much data to go on with this program other than what we see so far, and I think it is still too early to make final judgments, but during the trial modification process the rate of people dropping out of the program has been somewhat lower than we would have expected. The rate of people who are unable to make the payments is somewhat lower than we expected.

Again, we are making further improvements in this program, with a view toward assuring that it is affordable and bringing in more people who can get help.

Mr. CLAY. Any idea of how many people have opted to remain in the home and rent from the new owner, or has that developed yet, or are we far enough down the path to see those trends?

Mr. ALLISON. I really don't have that information, but I will be happy to try to get it for you.

Mr. CLAY. Would you?

Mr. ALLISON. Thank you. Yes, sir.

Mr. CLAY. Thank you.

Mr. ALLISON. I certainly will.

Mr. CLAY. I yield back.

Chairman TOWNS. I thank the gentleman from Missouri for yielding.

Let me say that I am happy that you were able to hear the testimony earlier today. The one thing that really still sort of stands out and sticks with me is the inconsistency of the servicers. This was a point that was made today. What can Treasury do about these kind of things from an enforcement standpoint?

Mr. ALLISON. Well, again, we are——

Chairman TOWNS. If you have a servicer that—and I am actually responding to this whole thing in terms of disparities—if you have a servicer that, for some reason, is not performing or for some reason feels that they don't have to process, what happens, because I am sure there must be a way that you could look at how many people they have actually processed?

Mr. ALLISON. Oh, yes. In fact, we publish that data every month, and what we are showing is, in addition to simply how many 60-day-plus delinquent loans each servicer has, how many trial modifications have been made, how many final modifications. We are going to have much more information about the quality of their service.

But, most importantly, I think, from the standpoint of the question you are asking, we have an audit capability. We can look at their actual performance, and we then engage them on ways that they can improve, and by also publishing the information we are shining the public light on them, and that is a powerful incentive for them to improve their performance.

I would say that where we have engaged servicers, where we are finding discrepancies between their operations and what we think the proper standards ought to be, they have been making improvements. And we have to continue working closely with them until we reach a standard that we think is uniform and satisfactory. We still have a lot of work to do, I must say.

But I think we also have to keep in mind this is a relatively new program. It was announced just over a year ago. It didn't really get running until last May, and in less than a year we have seen over a million homeowners get real relief, which is continuing today.

Again, we have a lot more work to do to reach that 3 to 4 million target over the next several years, but I think we have—the servicers have much more capacity today. I think they are functioning better. Fortunately, the rate of complaints has been reduced, but it is still too high from our standpoint.

So we want this program to continue maturing as rapidly as possible to provide the kind of service that we ought to expect from them.

Chairman TOWNS. Right. Let me say that I had to reorganize my office to be able to try to help people through this process because there are sections in my area where people are just losing their homes in tremendous numbers. Are you doing anything to sort of advertise the fact that these services are going on and these programs are in existence? I mean, what is Treasury doing to advertise, to get the word out that this is going on and what you can do? I mean, are you spending any time doing any advertising?

Mr. ALLISON. Yes, we are, Mr. Chairman. In fact, you touch on a very important point. Outreach all along has been extremely important to acquaint people with the existence of this program and then how to navigate through it to get a modification. And we have been conducting, as I mentioned before, events around the country, especially in cities, major cities where there are a lot of people who need relief, in order to acquaint them with the program, how it works, and to put them in direct touch at these events with the servicers who can help them.

Second, we are launching already a public service campaign which is going to be more active in the coming weeks, and will run through thousands of outlets around the country to make sure people are saturated with information, if we can, about this program.

Chairman TOWNS. Right. Let me say this, and then I will yield to the gentleman from Maryland.

I had an opportunity to look at the Urban League program in terms of—and their success. I am saying that maybe that might be another thing you want to consider is to let them expand their program, because for some reason or another they are able to sort of get people processed, get answers, and I don't know in terms of how or why their situation is so different, but their success is amazing when you compare it with what else is going on. So you might want to consider looking at what they are doing or expanding what they are doing——

Mr. ALLISON. Yes.

Chairman TOWNS [continuing]. Because I think that if we are talking about keeping people in their homes, I think we need to have a program that is successful.

Mr. ALLISON. Yes. We applaud what the Urban League is doing, and many other, by the way, community groups and counseling groups around the country which we have linked up with. But let me go back and we will engage the Urban League and see whether we can learn more.

Thank you.

Chairman TOWNS. Thank you.

I yield to the gentleman from Maryland.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I will be very brief, and I thank you. Just two things, going to what you just talked about, Mr. Chairman.

I think the reason why the Urban League is so good is because it is intense and they actually get to the servicers, which is very significant, and I just have two concerns. One, because there are

a lot of people, before we see you again, a lot of people may be losing their homes, and I want to make sure we are real clear.

Once a person gets in the process, how do we make sure—I mean, let's say somebody from Mr. Towns' district comes in. They finally get hold of the servicer, they are working out the deal, they are working out stuff, they are submitting their papers, and then the servicer is taking too much time and the next thing you know they face foreclosure. And, as you know, when they face foreclosure it is like quicksand, because what happens is all those legal fees start coming in and the next thing you know they don't have a house. It is sort of like death. It is done. Over.

So the question is: how do you enforce making sure that people are not foreclosed upon, let's say even if they are going through the process? How do you make sure that does not happen? Are you following my question?

Mr. ALLISON. Yes, sir, I am.

Mr. CUMMINGS. Go ahead. And who does the enforcing?

Mr. ALLISON. You very powerfully just explained the reason why we have issued this supplemental directive I described before, so that servicers are not allowed to foreclose on people while they are still under consideration for a modification, and then not for some time afterwards, if a decision——

Mr. CUMMINGS. So everybody is watching this. That means that when that person starts the process, gets in his paperwork, and starts the process, when does the stop sign up that you cannot foreclose upon this person, because I am worried that the servicers are not going to—the chairman alluded to some of this. Let's say the servicer is not cooperating. The next thing you know, our constituent is out of a house.

Mr. ALLISON. Right. Once they have submitted verifiable information, as required by the program, to the servicer, under this directive they cannot be foreclosed on until after a decision about the modification has been made.

Now, one thing that is important is a lot of people, when they receive a referral notice, they get very frightened, and they think I am going to get foreclosed on. Some people might even give up on a modification and start making plans to move out. We want to make sure that they are informed, and this is a massive outreach we have to make. It is not just enough to issue a directive to these servicers. We have to get the word out.

I think Members of Congress and their staffs can help, as well as counseling groups. We have a public service campaign going. We have all these events. We have our Web site. We have our phone. And we want the word to get out that this is a natural process. That is what these servicers do. They will start a foreclosure process while they are considering people for modifications. We have to make sure people understand you are not going to be foreclosed upon until after a decision is made, as long as you have given us verifiable documentation.

Mr. CUMMINGS. And last but not least, Mr. Chairman, I would ask if we could get copies of these audits conducted by Freddie Mac or Treasury for compliance, because that area that sounds like—given some of the things that you mentioned, Mr. Chairman, that might help us to try to protect our constituents.

Chairman TOWNS. Without objection, so ordered.

Mr. CUMMINGS. Thank you, Mr. Chairman.

Chairman TOWNS. Let me say, first of all, Mr. Allison, I appreciate your coming and listening to the other witnesses, because I think it is just so important for you to hear from them, and that is the reason why I rearranged it. I really wanted them to go first and let you hear from them, because ordinarily I would have put you first.

This is a very serious issue, and I really want to try to do whatever we can to be able to keep people in their homes, and I want to be able, when people are able to ask me, I want to be able to say I did everything I could to try to be helpful during this very difficult time, and recognizing the fact that it is difficult. I listen to people all the time.

A lady was on the phone 2 days ago who had two jobs, and of course the company moved, and of course now she is having difficulty paying her mortgage and she is trying to get a modification. I mean, it just goes on and on and on in terms of situations that people now find themselves in.

But I am reminded today how effective it can be to have a hearing. Within the last 24 hours the Department issued a new directive that, as I understand it, would prohibit foreclosure on all HAMP-eligible loans until the borrower has had a chance to apply for help from the making home affordable program. I think that is just remarkable, and I applaud you for that. That is the kind of thinking I think that has to go into making certain that people are able to sort of stay in their homes.

I know some will not be able to, but I think that we can do a whole lot better than what we are doing, and this should help with one of the biggest complaints borrowers have: that they have been unable to contact their lenders, that their paperwork is lost over and over again, and that I can't get anybody on the phone and nobody will talk to me, and that they have not been given the opportunity to otherwise participate in HAMP.

Also, over the last 24 hours the biggest mortgage lender in the country, Bank of America, announced that it was adopting a mortgage reduction program for severely underwater homeowners—I think that is remarkable—under which a significant part of the principal will be forgiven.

I hope that in your position you can encourage other banks to take a very serious look at this, and I think this would help a lot of people, and maybe Bank of America can lead the way and others will be able to join in it.

Reducing the amount owed on a mortgage strikes me as a very effective way to preserve homeownership while giving homeowners a realistic way to get their heads above the water again.

Again, I strongly urge the Treasury Department to give serious consideration to a similar improvement to the HAMP program, but it should not stop there. I am asking the Treasury Department to expand that idea, to include more borrowers, and more lenders. The time to stem the home foreclosure crisis is now.

I think that being creative, I really do believe that we can do a whole lot better than what we are doing in being able to keep people in their homes.

This is a very sad and serious situation when you have young children concerned about the fact they have to move out of their home, they have to move out and move to another neighborhood, go to another school, only because their mother and father are having difficulty paying the mortgage. And in many instances they have been in the house for several years. To me, I think there must be a way that we can deal with it.

So I want to thank you, Mr. Allison, for coming and staying the entire time.

On this note, the committee stands adjourned.

Mr. ALLISON. Thank you.

Chairman TOWNS. Reserving the right to do object, the record will be kept open for 7 days, so that Members may submit information for the record.

[Whereupon, at 1:51 p.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Diane E. Watson and additional information submitted for the hearing record follow:]

Opening Statement
Of
Congresswoman Diane E. Watson

"Foreclosure Prevention: Is the Home Affordable Modification Program Preserving Homeownership?"

Full Committee on
Oversight and Government Reform Committee

Thursday, March 25, 2010
2154 Rayburn HOB
10:00 A.M.

Thank you Mr. Chairman for holding today's important hearing on the Administration's response to the ongoing foreclosure crisis. Each and every day too many American families are seeing the dream of home-ownership disappear, to be replaced with fear, loss, and heartbreaking uncertainty.

In 2009, 2.8 million households received notice of foreclosure. In that same year, my state of California was one of the worst hit by this crisis with the highest number of foreclosures of any state. In 2010 an estimated 2.4 million additional borrowers will lose their homes, while millions more home-owners who continue to pay their mortgages will still be "under water."

In response to this crisis, which began during the previous administration, the Obama Administration

instituted various foreclosure prevention programs including HAMP- the Home Affordable Modification Program.

A thorough investigation of the HAMP program has shown that, while the program has yet to be fully implemented, by most accounts the plan does not sufficiently affect the rate of foreclosures. As of February 2010 the HAMP program has only resulted in 200,000 permanent loan modifications. While it is heartening that through these efforts some Americans are seeing relief, this number is far too small in light of the fact that one in ten homeowners nationwide are 90 or more days delinquent on their mortgage payments or are already in foreclosure proceedings. Clearly, more needs to be done.

While millions of Americans struggle to keep their jobs and homes, many are justifiably infuriated to see Wall Street Banks repeatedly receive large bailouts while paying themselves enormous bonuses. It seems that too often Wall Street receives faster and better help than average Americans. I look forward to hearing the testimony of today's witnesses so that we might come to a consensus on the steps that are needed to keep people in their homes. I believe that we can and should do better.

Thank you, Mr. Chairman; I yield back the balance of my time.

Committee on Oversight and Government Reform
Questions for the Record
Hearing: March 25, 2010 – "Foreclosure Prevention: Is the Home Affordable Modification Program Preserving Homeownership?"

Questions For the Honorable Neil M. Barofsky, Special Inspector General for the Troubled Assets Relief Program

By Representative Elijah Cummings:

1. Other than the GAO and SIGTARP, where is the oversight for HAMP?

2. As we know, Freddie Mac is the compliance agent for HAMP. Has Freddie Mac met its responsibilities in this capacity?

3. Have sufficient resources been allocated within Treasury to effectively administer and monitor HAMP and associated foreclosure prevention programs?

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HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

QUESTIONS FOR THE RECORD FROM NEIL BAROFSKY

SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM

FROM MARCH 25, 2010, HEARING

May 4, 2010

QUESTION FOR MR. BAROFSKY

By Representative Elijah Cummings:

1. Other than the GAO and SIGTARP, where is the oversight for HAMP?

   Answer: HAMP is a large and complex program involving numerous Government agencies, and there are many oversight bodies that could potentially have an oversight role.

   Oversight for HAMP should begin, first and foremost, with the Government agencies that manage HAMP activities, primarily Treasury's Homeownership Preservation Office within the Office of Financial Stability, which is primarily responsible for compliance and monitoring activities associated with its HAMP efforts. In addition, because Treasury has engaged the Government-Sponsored Enterprises ("GSEs") to act as its agents -- Fannie Mae to conduct much of the administrative function and Freddie Mac to perform comliance functions -- the GSE's regulator, FHFA, also has oversight responsibility over aspects of the program. Recent changes to the program also involve FHA and thus implicate the oversight of the HUD inspector general. Finally, like all TARP programs (with GAO and SIGTARP), the Congressional Oversight Panel also has oversight responsibility.

2. As we know, Freddie Mac is the compliance agent for HAMP. Has Freddie Mac met its responsibilities in this capacity?

   Answer: SIGTARP is in the process of planning future audit work that will specifically examine HAMP compliance activities, including Freddie Mac's performance.

3. Have sufficient resources been allocated within Treasury to effectively administer and monitor HAMP and associated foreclosure prevention programs?

   Answer: GAO has issued a report and testimony in which it questioned whether Treasury had adequate staffing to govern HAMP effectively. In a March 25, 2010, testimony, GAO stated, "[w]hile the Chief of the Homeownership Preservation Office (HPO)—the office within Treasury that is responsible for administering HAMP—consulted with staff and reduced staffing levels from 36 to 29 full-time positions, Treasury has not yet formally assessed whether HPO has staff with the skills needed to govern the program effectively."

   SIGTARP did not explicitly make a finding in our audit that Treasury's lack of adequate staffing was a direct cause of the problems in the program, but whether Treasury has adequate staffing levels to manage HAMP's compliance function effectively will be one of the examined in SIGTARP's future HAMP audit work.

Committee on Oversight and Government Reform
Questions for the Record
Hearing: March 25, 2010 – "Foreclosure Prevention: Is the Home Affordable Modification Program Preserving Homeownership?"

Questions For Mr. Gene Dodaro, Acting Comptroller General, U.S. Government Accountability Office

By Representative Elijah Cummings:

1. Other than the GAO and SIGTARP, where is the oversight for HAMP?

2. As we know, Freddie Mac is the compliance agent for HAMP. Has Freddie Mac met its responsibilities in this capacity?

3. Have sufficient resources been allocated within Treasury to effectively administer and monitor HAMP and associated foreclosure prevention programs?

United States Government Accountability Office
Washington, DC 20548

June 30, 2010

The Honorable Elijah Cummings
Member
Committee on Oversight and
Government Reform
House of Representatives

Dear Honorable Elijah Cummings:

I am pleased to provide the following answers in response to questions that you posed to Mr. Gene Dodaro, the Acting Comptroller General, in conjunction with the hearing entitled, "Foreclosure Prevention: Is the Home Affordable Modification Program Preserving Homeownership?" held by the Committee on Oversight and Government Reform on Thursday, March 25, 2010. Please do not hesitate to contact me at (202) 512-8678 or sciremj@gao.go if you have additional questions or want further information.

Sincerely yours,

Mathew J. Scirè
Director
Financial Markets and
Community Investment

Enclosure

cc: cc list

Enclosure

1) Other than the GAO and SIGTARP, where is the oversight for HAMP?

The Emergency Economic Stabilization Act (EESA) established several oversight mechanisms for the Troubled Asset Relief Program (TARP) that include coverage of HAMP-related activities:

- The act created the Financial Stability Oversight Board (FinSOB), which is comprised of the Chairman of the Board of Governors of the Federal Reserve System, Secretary of the Treasury, Director of the Federal Housing Finance Agency, Chairman of the Securities and Exchange Commission, and Secretary of the Housing and Urban Development. FinSOB is required to report quarterly to Congress on Treasury's actions to implement TARP and the effect of these actions in preserving homeownership, stabilizing financial markets, and protecting taxpayers. The most recent quarterly report covered the quarter ending on December 31, 2009.[1]

- The act also created the five-member Congressional Oversight Panel (COP). The Speaker of the House of Representatives, the minority leader of the House of Representatives, the majority leader of the Senate, and the minority leader of the Senate, each appoint one member, and the fifth member is a joint selection of each of the aforementioned Congressional leaders. COP is required to issue reports every 30 days on Treasury's use of its TARP authorities, including the effectiveness of the Treasury's foreclosure mitigation efforts. The most recent COP report on Treasury's foreclosure mitigation efforts was issued on April 14, 2010.[2]

- The Special Inspector General for the Troubled Asset Relief Program (SIGTARP) is appointed by the President with the advice and consent of the Senate. SIGTARP is responsible for conducting audits and investigations of Treasury's implementation of TARP and is required to issue reports to Congress summarizing Treasury's TARP-related activities on a quarterly basis. The most recent quarterly report was issued on April 20, 2010, and included a discussion of HAMP.[3] In addition, SIGTARP issued an audit report on March 25, 2010, that focused on Treasury's implementation of HAMP.[4]

- The act also mandated that GAO conduct ongoing oversight of the activities and performance of TARP in meeting the purposes of the act, which include protecting home values, preserving homeownership, and restoring liquidity and stability to the financial system, among other things. GAO is required to report to Congress every 60 days. Prior GAO reports have covered Treasury's implementation of HAMP as part of our 60-day reports on

[1] See FinSOB: Quarterly Report to Congress (Washington, D.C.: Dec. 31, 2009).
[2] See COP: Evaluating Progress on TARP Foreclosure Mitigation Programs (Washington, D.C.: April 14, 2010).
[3] See SIGTARP: Quarterly Report to Congress, (Washington, D.C.: April 20, 2010).
[4] See SIGTARP: Factors Affecting Implementation of the Home Affordable Modification Program, SIGTARP 10-005 (Washington, D.C.: March 25, 2010).

Enclosure

Treasury's overall implementation of TARP and as the specific focus of a report issued in July 2009.[5]

In addition to the above named entities and individuals, EESA calls for Treasury to prepare and submit a number of reports to Congress (including audited financial statements) to enable the Congress and taxpayers to exercise oversight of Treasury's implementation of TARP, which includes HAMP as a subcomponent.

2) As we know, Freddie Mac is the compliance agent for HAMP. Has Freddie Mac met its responsibilities in this capacity?

Freddie Mac has had mixed results as a compliance agent to date. Freddie Mac entered into an agreement with Treasury to act as the compliance agent for HAMP in February 2009. According to Treasury and SIGTARP, Freddie Mac has had difficulty meeting the deadlines of its planned audits and delivering key compliance reports as expected since the inception of the program. In late August, Treasury assessed the first servicer performance reviews that were completed by Freddie Mac and had several areas of concern, including the quality of staff used to perform audits, trouble using statistical sampling to reach general results, inability to take a "risk-based" approach, inconsistent and incomplete audit workpapers, and difficulty adapting to an "ever-evolving" HAMP. Treasury subsequently met with Freddie Mac senior officials to review these problem areas. Freddie Mac was then taken offline to develop and implement a detailed remediation plan. Freddie Mac resumed its onsite servicer performance reviews during the latter part of 2009. GAO plans to review the performance of Freddie Mac in its capacity as the compliance agent for HAMP as part of its ongoing oversight of Treasury's implementation of HAMP.

3) Have sufficient resources been allocated within Treasury to effectively administer and monitor HAMP and associated foreclosure prevention programs?

Treasury has not fully assessed the resources needed to administer and monitor HAMP. In our July 2009 report, GAO noted that although Treasury created the Homeownership Preservation Office (HPO) in November 2008 and established its current structure in March 2009, some of HPO's positions continued to be filled with temporary detailees from other offices or agencies, and many positions remained vacant—including the position of Chief of HPO. Because HAMP is a new and untested program involving significant outlays of taxpayer dollars to privately owned companies (servicers) and mortgage holders/investors, GAO noted that it was important for Treasury to continue to regularly evaluate the number of HPO staff and their competencies to ensure that it has the resources needed to effectively govern the program. As such, GAO

[5] See GAO: Troubled Asset Relief Program: One Year Later, Actions Are Needed to Address Remaining Transparency and Accountability Challenges, GAO-10-16 (Washington, D.C.: Oct. 8, 2009) and 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).

recommended that Treasury place a high priority on fully staffing vacant positions in HPO—including filling the position of Chief of Homeownership Preservation 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. A permanent Chief Homeownership Preservation Officer was hired on November 9, 2009. According to Treasury, staffing levels for HPO have been revised from 36 full time equivalent positions to 29, two of which remained unfilled as of March 2010. Treasury has not yet formally assessed whether HPO has the necessary staffing and skills to effectively fulfill its responsibilities. In addition, since the staffing levels were reduced, Treasury has announced additional HAMP components and homeowner assistance programs that will be administered by HPO, and it remains unclear what staffing levels and skills will be needed for designing, implementing, and monitoring these additional efforts.

Committee on Oversight and Government Reform
Questions for the Record
Hearing: March 25, 2010 – "Foreclosure Prevention: Is the Home Affordable Modification Program Preserving Homeownership?"

Questions For the Honorable Herbert Allison, Jr., Assistant Secretary of the Treasury for Financial Stability

By Representative Elijah Cummings:

1) The recently released Supplemental Directive 10-02 will hopefully address some of the problems our constituents have faced in the HAMP process. However, the GAO and others have cited the constantly evolving guidelines as one reason that servicers have not responded uniformly or have been slow to meet HAMP standards. I urge you to get this Directive out to servicers quickly, and aggressively ensure that they are following it.

   a) Please describe the outreach efforts that you are going to utilize to ensure that these necessary changes are made clear to lenders and servicers, and implemented quickly for the benefit of borrowers.

   b) Please describe the enforcement mechanism in place to ensure that servicers and lenders comply with the Directive.

2) The GAO, SIGTARP, and others, have noted that HAMP has deficits in both compliance enforcement and accountability. Please clearly explain what the roles of Freddie Mac and Treasury are as far as compliance and enforcement, and whether these two entities are properly carrying out their responsibilities.

3) Last month, when the Domestic Policy subcommittee met to discuss this issue, one witness, Mr. Ronald Faris, of Ocwen Financial, argued that HAMP needs to adopt a flexible Residual Income Approach to determine what exactly an "affordable adjusted mortgage payment" is. Mr. Faris argued for a 28% debt-to-income threshold. Would a change like this be either effective or efficient?

4) The Federal Reserve has injected tremendous amounts of capital into the market to buy up mortgage backed securities. It has led to historically low interest rates, and created a modicum of stability in the housing sector. However, the Federal Reserve has announced that it intends to end these purchases at the end of March 2010.

   a) Please discuss any impact that the assistance in the secondary market has had on foreclosures.

   b) Has the Federal Reserve purchases of Mortgage Backed Securities stemmed any of the loss in home values (and resulting negative homeowner equity)?

   c) Does Treasury intend to adjust internal programs to account for the scaling-back of MBS purchases by the Federal Reserve?

Questions for the Record

U. S. House of Representatives

Committee on Oversight and Government Reform

"Foreclosure Prevention: Is the Home Affordable Modification Program Preserving Homeownership?"

Treasury Assistant Secretary for the Office of Financial Stability

Herbert M. Allison, Jr.

March 25, 2010

Questions from Representative Elijah Cummings (D-MD)

1. **The recently released Supplemental Directive 10-02 will hopefully address some of the problems our constituents have faced in the HAMP process. However, the GAO and others have cited the constantly evolving guidelines as one reason that servicers have not responded uniformly or have been slow to meet HAMP standards. I urge you to get this Directive out to servicers quickly, and aggressively ensure that they are following it.**

   a. **Please describe the outreach efforts that you are going to utilize to ensure that these necessary changes are made clear to lenders and servicers, and implemented quickly for the benefit of borrowers.**

   Treasury previewed these changes with large servicers over the last several months, and, on March 26, all participating servicers were automatically notified when the guidelines were available on www.hmpadmin.com. Treasury also conducted a Home Affordable Modification Program (HAMP) leadership call for all participating servicers and reviewed the changes in detail. As program administrator, Fannie Mae discusses these changes with individual servicers on an ongoing basis, assisting with implementation and addressing concerns.

   b. **Please describe the enforcement mechanism in place to ensure that servicers and lenders comply with the Directive.**

   The HAMP Compliance Program is designed to ensure that servicers are satisfying their obligations under the HAMP Servicer Participation Agreements (SPAs) and all supplemental guidance, including Supplemental Directive 10-02. Freddie Mac, in its role as Treasury's Compliance Agent for HAMP, has established a separate and independent division to conduct its compliance activities, named MHA-C. As part of its responsibilities, MHA-C conducts reviews of servicers' quality control activities, anti-fraud programs and other internal controls specific to HAMP.

   There are several concrete measures by which MHA-C can assess servicers' compliance with Supplemental Directive 10-02 specifically:

   1. Satisfying Solicitation Responsibilities – Servicers have always been required to use *reasonable efforts* to contact homeowners and determine their eligibility for the program before referring them to foreclosure. Supplemental Directive 10-02 helps to clarify these responsibilities by defining a minimum number (six) of proactive solicitation steps, including at least four telephone calls and two written notices. Because servicers are required to document these concrete steps in homeowners' loan files, MHA-C will be able to more accurately and efficiently assess whether servicers have satisfactorily reached out to homeowners before deeming them ineligible for HAMP and referring them to foreclosure.

2. Certifying that a Foreclosure Sale Can Proceed – To help prevent foreclosure sales from occurring before all loss mitigation options have been considered, servicers must certify that the homeowner is not eligible or no longer eligible for HAMP and that all other available loss mitigation options have been exhausted and a non-foreclosure outcome could not be reached. By requiring servicers to create a paper trail confirming homeowner ineligibility and exhaustive loss mitigation measures on the part of the servicer, MHA-C will more easily determine whether a foreclosure sale could have been avoided.

   MHA-C will identify systemic issues of non-compliance in its assessments of servicer activities, which are detailed in the question below.

2. The GAO, SIGTARP, and others, have noted that HAMP has deficits in both compliance enforcement and accountability. Please clearly explain what the roles of Freddie Mac and Treasury are as far as compliance and enforcement, and whether these two entities are properly carrying out their responsibilities.

As described above, the HAMP Compliance Program is designed to ensure that servicers are satisfying their obligations under the HAMP Servicer Participation Agreements (SPAs). Freddie Mac, as Treasury's Compliance Agent for HAMP, conducts compliance activities through MHA-C. Treasury works closely with MHA-C to design and refine the compliance program and conducts quality assessments of the activities performed by MHA-C. Four major activities comprise the compliance program, which are conducted by MHA-C using an integrated and risk-based approach. The four activities include:

- On-site Reviews – These reviews consist of assessing servicers' internal controls and processes associated with the implementation of HAMP requirements.

- Loan file Reviews – These reviews are conducted on-site or off-site with the purpose of:
  - Assessing whether the documentation in the loan file supports the servicers' conclusion regarding HAMP eligibility; and
  - Comparing selected information in the loan files with data in the servicers' systems and *IR2*, the database containing HAMP loan-level information.

- NPV testing and assessments – These assessments consist of testing servicers' proprietary systems to determine if HAMP NPV requirements were appropriately implemented. Because NPV calculations are a key component to eligibility, Treasury requires servicers to participate in NPV testing with MHA-C before using the servicers' own applications. MHA-C has created a pre-implementation testing mechanism as well as a post-implementation compliance regime to help ensure servicers' NPV calculations and processes meet HAMP requirements.

- Targeted Reviews – These reviews focus on one or more specific processes or types of reviews listed above based on compliance trends, risk analysis or actual compliance activities results.

MHA-C has reported in servicer reviews that quality control activities, anti-fraud programs and other internal controls specific to HAMP continue to develop as the servicers' HAMP-related processes mature during their implementation of the program.

Generally, MHA-C has found that servicers are following HAMP guidelines. Where anomalies occur, Treasury assesses the severity based on information provided by MHA-C as well as other sources and determines further courses of action.

Testing of each servicer's NPV process before implementation requires the servicers' results to be within strict thresholds of NPV processes. In addition, Freddie Mac conducts post-implementation NPV process reviews. These reviews have found some anomalies at servicers. Based on the anomalies, servicers are required to revert to the NPV tool available through the HAMP portal to ensure homeowners are not disadvantaged.

3. **Last month, when the Domestic Policy subcommittee met to discuss this issue, one witness, Mr. Ronald Faris, of Ocwen Financial, argued that HAMP needs to adopt a flexible Residual Income Approach to determine what exactly an "affordable adjusted mortgage payment" is. Mr. Faris argued for a 28% debt-to-income threshold. Would a change like this be either effective or efficient?**

Servicers have always had the flexibility to reduce payments below the 31 percent target monthly mortgage payment ratio. Though every modification under the program must lower the homeowner's monthly mortgage payment as close as possible to 31 percent of the homeowner's monthly gross income, servicers are not precluded under HAMP from tailoring a modification to meet an individual's financial circumstances in this way. They may agree to a modification that reduces the homeowner's monthly mortgage payment ratio below 31 percent as long as the modification otherwise complies with the HAMP requirements. However, homeowner, servicer and investor incentive payments for these modifications will be paid based on modification terms that reflect the target monthly mortgage payment ratio and standard modification terms.

Assigning incentives to a flexible income approach raises critical issues of fairness. Treasury continues to believe that, when taxpayer dollars are at stake, homeowners should feel assured that servicers are working with borrowers according to clear rules.

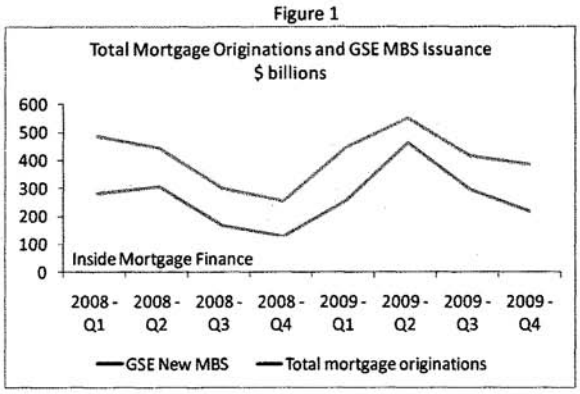
4. **(a.) Please discuss any impact that the assistance in the secondary market has had on foreclosures.**

Following the disruption in housing and financial markets, secondary mortgage markets have been supported by Fannie Mae and Freddie Mac, assisted by Treasury and Federal Reserve Board programs to support the market for mortgage backed securities (MBS). Over the last two years, total mortgage originations have closely tracked issuance of new agency MBS, i.e., MBS guaranteed by Fannie Mae or Freddie Mac (Figure 1).

One of the key factors contributing to higher default rates and foreclosures has been declining home values and the increasing number of underwater mortgages. Assisting

secondary markets helps to mitigate foreclosures by making mortgage credit available at reasonable cost and bolstering market demand for housing, which shores up housing prices generally and increases the stability of the housing market.

Figure 1



During 2009 the number of foreclosure notices issued each month continued at an elevated level, but the rate of increase moderated somewhat over the year earlier period. One contributing factor was the imposition of foreclosure moratoria at the state level; however, the ability of secondary markets to perform their necessary functions was also a factor. Secondary market liquidity and the continuing functions of the GSEs have allowed consumers to refinance their loans at lower rates, reducing their monthly payments and thereby lowering their risk of default and foreclosure.

4. (b.) Has the Federal Reserve purchases of Mortgage Backed Securities stemmed any of the loss in home values (and resulting negative homeowner equity)?

The goal of the Federal Reserve's agency MBS purchase program was to provide support to mortgage and housing markets and to foster improved conditions in financial markets more generally. In total, the Fed purchased $1.25 trillion worth of securities in the agency MBS market between January 2009 and termination of the program at the end of March 2010.

It is likely that the MBS purchase program helped moderate the decline in home values between January 2008 and January 2009 when the program began. The Case-Shiller 20 city composite index fell by almost 20%. Between January 2009 and January 2010, the index fell by less than 1%. Many industry observers view the Federal Reserve's program as a significant contributing factor to this moderation.

4. (c.) Does the Treasury intend to adjust internal programs to account for the scaling-back of MBS purchases by the Federal Reserve?

Treasury does not currently plan to adjust its programs in response to the termination of the Federal Reserve MBS purchase program. As part of the Administration's ongoing commitment to continuously improve housing relief efforts, on March 26, the Administration announced adjustments to the HAMP and to the Federal Housing Administration (FHA) programs. These program adjustments will better assist responsible homeowners who have been affected by the economic crisis by giving mortgage servicers and originators increased flexibility to assist more unemployed homeowners and help more people who owe more on their mortgage than their home is worth. These program changes would have been undertaken irrespective of the termination of the Federal Reserve's MBS purchase program.

The market was informed that the MBS purchase program would end for some time prior to its termination. As a result, no severe market disruptions have occurred and private sector demand appears to have returned. It is also possible that the size of the market will stabilize at a lower level than was seen prior to the crisis.

The Federal Reserve has indicated that it will continue to evaluate its purchases of securities in light of the evolving economic outlook and conditions in financial markets.

Exhibit Book

March 25, 2010 Hearing on
"Foreclosure Prevention: Is the Home Affordable Modification Program Preserving Homeownership?"

Committee on Oversight & Government Reform
U.S. House of Representatives

TABLE OF CONTENTS

1. Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), Factors Affecting Implementation of the Home Affordable Modification Program. March 25, 2010.
2. Making Home Affordable Help for America's Homeowners, Home affordable Modification Program Base Net Present (NPV) Model Specifications. Updated: June 11, 2009.
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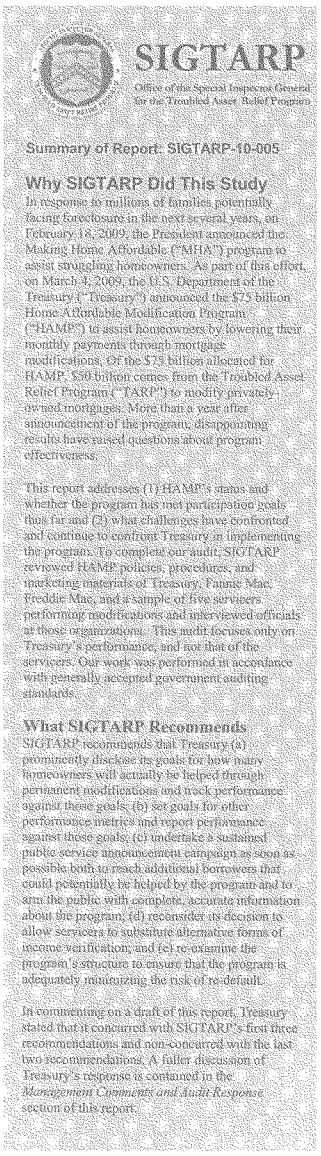
Factors Affecting Implementation of the Home Affordable Modification Program

SIGTARP-10-005
March 25, 2010



SIGTARP

Office of the Special Inspector General for the Troubled Asset Relief Program

Summary of Report: SIGTARP-10-005

Why SIGTARP Did This Study

In response to millions of families potentially facing foreclosure in the next several years, on February 18, 2009, the President announced the Making Home Affordable ("MHA") program to assist struggling homeowners. As part of this effort, on March 4, 2009, the U.S. Department of the Treasury ("Treasury") announced the $75 billion Home Affordable Modification Program ("HAMP") to assist homeowners by lowering their monthly payments through mortgage modifications. Of the $75 billion allocated for HAMP, $50 billion comes from the Troubled Asset Relief Program ("TARP") to modify privately-owned mortgages. More than a year after announcement of the program, disappointing results have raised questions about program effectiveness.

This report addresses (1) HAMP's status and whether the program has met participation goals thus far and (2) what challenges have confronted and continue to confront Treasury in implementing the program. To complete our audit, SIGTARP reviewed HAMP policies, procedures, and marketing materials of Treasury, Fannie Mae, Freddie Mac, and a sample of five servicers performing modifications and interviewed officials at those organizations. This audit focuses only on Treasury's performance, and not that of the servicers. Our work was performed in accordance with generally accepted government auditing standards.

What SIGTARP Recommends

SIGTARP recommends that Treasury (a) prominently disclose its goals for how many homeowners will actually be helped through permanent modifications and track performance against those goals; (b) set goals for other performance metrics and report performance against those goals; (c) undertake a sustained public service announcement campaign as soon as possible both to reach additional borrowers that could potentially be helped by the program and to arm the public with complete, accurate information about the program; (d) reconsider its decision to allow servicers to substitute alternative forms of income verification; and (e) re-examine the program's structure to ensure that the program is adequately minimizing the risk of re-default.

In commenting on a draft of this report, Treasury stated that it concurred with SIGTARP's first three recommendations and non-concurred with the last two recommendations. A fuller discussion of Treasury's response is contained in the *Management Comments and Audit Response* section of this report.

March 25, 2010

Factors Affecting Implementation of the Home Affordable Modification Program

What SIGTARP Found

When HAMP was launched in the first few months of 2009, Treasury justified the program by stating that it would "help up to 3 to 4 million at-risk homeowners avoid foreclosure," and that it would do so "by reducing monthly payments to sustainable levels." Notwithstanding this laudable aspiration that the program would *actually help* 3 to 4 million homeowners avoid foreclosure, Treasury has stated its 3 to 4 million homeowner goal is not tied to how many homeowners actually receive sustainable relief and avoid foreclosure, but rather that 3 to 4 million homeowners will receive *offers* for a trial modification. Measuring trial modification offers, or even actual trial modifications, for that matter, is simply not particularly meaningful. The goal that should be developed and tracked is how many people are helped to avoid foreclosure and stay in their homes through permanent modifications. Transparency and accountability demand that Treasury establish goals that are meaningful, and that it report its progress in meeting such meaningful goals on a monthly basis. Continuing to frame HAMP's success around the number of "offers" extended is simply not sufficient.

A year into the program, although more than a million trial modifications have been initiated, the number of permanent modifications thus far, 168,708, has been, even according to Treasury, "disappointing." One Treasury official's current estimate for how many permanent modifications will result from HAMP — 1.5 to 2 million over the course of the four-year program — may be only a small fraction of the total number of foreclosures that will occur during that period. It is the current projected estimate of permanent modifications (and not Treasury's still repeated 3 to 4 million figure) that should inform the debate on whether HAMP is worth the resources being expended or whether the program needs to be re-vamped to actually help more borrowers.

There are several reasons that have been identified for the disappointing results: (a) program rules had not been fully developed by the time the program began, and Treasury has had to revise guidelines repeatedly, causing confusion and delay; (b) Treasury's decision to permit servicers to start trial modifications before receiving supporting documentation has been counterproductive, creating a large backlog of trial modifications, of which many will never become permanent; and (c) Treasury's marketing efforts thus far have been limited, with an inexplicable absence of its own television public service announcements a year into the program.

Looking forward, even if HAMP results in the estimated 1.5 to 2 million permanent modifications, the program will not be a long-term success if large amounts of borrowers simply re-default and end up facing foreclosure anyway. Several aspects of HAMP's design make it particularly vulnerable to re-defaults. First, a borrower's non-mortgage debts (which could prevent a homeowner from staying current on even modified mortgage payments) are neither factored into the modified payment calculation nor will they exclude borrowers from participating in HAMP. Second, borrowers may be unable to meet the increasing monthly payments if their income has not increased commensurate with the interest rate adjustments that begin once the five-year modification period is concluded. Third, even if borrowers receive a HAMP permanent modification on their first lien, for the estimated 50 percent of at-risk borrowers, the total monthly mortgage payments might still be unaffordable if the second lien is not also modified or extinguished; only recently has Treasury been able to sign up servicers to Treasury's second lien program. Finally, given the prevalence of negative equity in mortgages eligible for modification, re-defaults resulting from negative equity, including strategic defaults, may be a factor as borrowers decide that it makes more economic sense for them to walk away from their mortgages notwithstanding the lower payments.

Table of Contents

Introduction	1
The Number of Permanent Modifications Entered Into During HAMP's First Year Has Been Below Expectations	8
Several Issues Relating to HAMP Implementation Have Posed Challenges to HAMP Participation, in Particular to Converting Trial Modifications into Permanent Modifications	18
Conclusions and Recommendations	29
Management Comments and Audit Response	35
Appendices	
A. Scope and Methodology	36
B. HAMP Stakeholders	39
C. Net Present Value Test Guidance	42
D. Acronyms	46
E. Audit Team Members	47
F. Treasury's Comments	48

FACTORS AFFECTING IMPLEMENTATION OF THE HOME AFFORDABLE MODIFICATION PROGRAM

SIGTARP REPORT 10-005 **MARCH 25, 2010**

Introduction

Home foreclosures can have a devastating impact not only on the families losing their homes, but also on the communities affected and on mortgage lenders. Families can potentially face economic challenges and homelessness after losing what is typically their most important asset and investment; communities suffer from the downward drag on property values that vacant, foreclosed-upon houses represent; and mortgage lenders and investors not only lose their receipt of monthly house payments but are often left with the difficult choice of selling the home at fire sale prices or incurring substantial maintenance expenses. Unfortunately, these negative effects have been widely felt during the current financial crisis, with foreclosures in many areas of the country reaching historic proportions. More than two million homeowners received foreclosure filings in 2008; nearly 2.8 million homeowners received foreclosure filings in 2009, and millions more are expected in 2010, with some estimates predicting that the number will eclipse the already staggering 2009 number.

With the foreclosure crisis as background, Congress made foreclosure mitigation an express part of the Emergency Economic Stabilization Act of 2008 ("EESA"), the statute that created the Troubled Asset Relief Program ("TARP"). Among other things, preserving homeownership is an explicit purpose of EESA, and "the need to help families keep their homes and to stabilize communities" is one of the considerations that the Secretary of the Treasury must take into consideration in exercising his authorities under EESA.

In February 2009, the United States Department of the Treasury ("Treasury") announced several home preservation initiatives under the broad Making Home Affordable ("MHA") program, including the Home Affordable Modification Program ("HAMP"). HAMP is a $75 billion program that includes $50 billion from TARP for the modification of privately-owned mortgage loans. More than a year has now passed since HAMP was announced, and this audit examines the program's status and limited successes thus far. This report is a review of the actions Treasury has taken to implement HAMP and is not an audit of servicers. The information garnered from our conversations with servicing officials was used as supplemental information to further inform our assessment of HAMP's status and challenges.

Objectives

The objectives of this audit are to determine the status of HAMP and what challenges have been faced in HAMP's implementation. Specifically, we will answer the following questions:

What is the status of HAMP, and has the program met its goals for participation thus far?

What challenges have confronted and continue to confront Treasury in implementing the program?

SIGTARP will issue separate reports on HAMP's internal controls and on servicers' compliance with Treasury's net present value test, and will soon announce additional audit work on HAMP's compliance program.

For a discussion of the audit scope and methodology and a summary of prior coverage, see Appendix A. For a description of HAMP stakeholders' roles and responsibilities, see Appendix B. For a description of how the HAMP net present value test model has changed over the course of the program, see Appendix C. For definitions of acronyms used in this report, see Appendix D. For a list of audit team members, see Appendix E. For management comments, see Appendix F.

Background

HAMP is designed to encourage loan servicers to modify eligible mortgages so that the monthly payments of homeowners who are currently in default or are in imminent risk of default will be reduced to affordable levels. Loan servicers are not required to participate in the program, but HAMP encourages servicers to make such modifications by sharing some of the costs associated with the modification and by making incentive payments based upon successful modifications. Once servicers sign a Servicer Participation Agreement, servicers are required to offer HAMP modifications to all eligible borrowers.

Treasury signed fiscal agent agreements with the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") to act as Administrative Agent and Compliance Agent, respectively, for HAMP. In addition, Fannie Mae and Freddie Mac are required to modify eligible mortgages that they own or guarantee. The Administration estimated, at the time HAMP was announced in February 2009, that the cost to Fannie Mae and Freddie Mac of modifications of loans they own or guarantee could be up to $25 billion.

Actual execution of the program lies in large part with participating mortgage servicers whose employees are responsible for the offering and processing of modifications. As of the end of January 2010, 110 servicers signed agreements to participate in the privately-owned mortgage portion of HAMP with servicer success and performance varying. Other entities have additional roles and responsibilities for implementing HAMP. See Appendix B for the key HAMP stakeholders and descriptions of their roles and responsibilities.

This background section briefly describes (a) HAMP's eligibility requirements, (b) the basic structure of how the terms of modifications are determined, (c) the incentive payment structure, and (d) other programs that facilitate or operate in lieu of HAMP modifications.

HAMP Eligibility

One financial eligibility requirement under HAMP is that a borrower must either be in default of his or her loan — 60 or more days late on their mortgage payments — or be at risk of imminent default. Risk of imminent default is defined as a borrower who is current on his or her mortgage payments, or is less than 60 days delinquent but faces the possibility of future default because of a change in financial circumstances, such as through an interest rate reset, unemployment, or some other reason that has made it difficult for the homeowner to continue meeting his or her monthly payments at the existing level. In addition to meeting these criteria, a borrower's mortgage must meet other eligibility criteria to receive a HAMP modification on his first lien.[1] Table 1 lists the additional eligibility criteria. Mortgages that have been securitized[2] may require modifications to be approved by investors and, as discussed briefly below, a separate program has been initiated to deal with second liens. Although not an eligibility criterion, any foreclosure action will be suspended during a trial period or during consideration for foreclosure alternatives. Foreclosure may resume if a modification effort fails.

Table 1—Additional Criteria Used to Determine if a Mortgage is Eligible for a HAMP Modification

Origination Date	Mortgage must have originated on or before January 1, 2009.
Qualification Terms	The home must be owner occupied and a single family 1-4 unit property with a maximum unpaid principal balance of: • 1 unit – $729,750 • 2 unit – $934,200 • 3 unit - $1,129,250 • 4 unit - $1,403,400 The home must be the borrower's primary residence. The home may not be investor-owned. The home may not be vacant or condemned. Borrowers in bankruptcy are not automatically eliminated from consideration. Borrowers in active litigation regarding the mortgage may qualify without waiving their legal rights.

Source: Home Affordable Modification Program Guidelines, March 4, 2009.

If a mortgage meets these eligibility criteria, the servicer will undertake a "net present value test" to determine whether it will modify the mortgage, seek a foreclosure alternative, or pursue

[1] A lien is a form of security interest granted over an item of property to secure the payment of a debt or performance of some other obligation. The first lien takes priority over all other encumbrances over the same property.

[2] Securitization is a process where financial assets are packaged together into securities that are sold to investors. A mortgage pooling and servicing agreement describes how pooled loans will be serviced and dictates how proceeds and losses will be distributed among bondholders. Some agreements limit or prevent servicers from making modifications to mortgages. For a more detailed description of securitization, see SIGTARP's April 21, 2009 Quarterly Report to Congress, with the discussion beginning on page 92.

foreclosure. Several loan characteristics are input into Treasury's net present value model, with a resulting positive or negative numeric value. These inputs include the location of the home, the value of the mortgage, the homeowner's credit score, the homeowner's front-end debt-to-income ratio, and the loan's delinquency status. Participating servicers are required to offer a HAMP modification to a borrower qualifying for a modification based on the other program criteria if the model generates a positive value, which indicates that it is economically advantageous to modify the loan; *i.e.*, the modification will cause less loss to the owner of the mortgage than proceeding with foreclosure.[3]

Modification Terms

Treasury made the decision, based on certain industry standards, that an affordable mortgage would have a mortgage debt-to-income ratio of 31 percent, meaning that the total monthly mortgage payment will be no more than 31 percent of the homeowner's monthly gross income. If a borrower meets the eligibility criteria and the net present value model yields a positive value, the servicer follows HAMP's "waterfall" (shown in table 2) in order to design a modification that will result in a debt-to-income ratio of 31 percent. Servicers apply the modification steps in the stated order until the borrower's debt-to-income ratio is reduced as closely as possible to 31 percent without going below.[4]

Table 2—HAMP's Waterfall Steps

Step One	Capitalize all outstanding interest, escrow advances, and third-party fees. Late fees are to be waived for a borrower who satisfied conditions for a trial modification.
Step Two	Reduce the mortgage interest rate in increments of 0.125 percent with a floor of two percent. If the loan is a fixed rate or adjustable-rate mortgage, the current interest rate is used as starting point. If the mortgage is a resetting adjustable-rate mortgage, the starting point will be the reset interest rate.
Step Three	The term of the mortgage can be extended to 480 months from the modification effective date. If the pooling and servicing agreement does not allow an extension, the mortgage may be re-amortized based upon 480 months with a balloon payment due at maturity. Negative amortization is prohibited after the effective date of the modification.
Step Four	Provide non-interest bearing and non-amortizing principal forbearance.

[3] Loans that are owned or guaranteed by the government sponsored enterprises, on the other hand, are modified if the net present value model results are equal to or greater than a negative $5,000.

[4] Servicers are not precluded under HAMP from agreeing to a modification that reduces the borrower's monthly mortgage payment ratio below 31 percent as long as the modification otherwise complies with the HAMP requirements. Similarly, and where permitted by the applicable servicing agreement or contract, servicers are not precluded from agreeing to a modification where the interest rate does not step up after five years, or where additional principal forbearance is substituted for extending the term as needed to achieve the target monthly mortgage payment ratio of 31 percent.

	This forbearance amount will result in a balloon payment fully due upon maturity of the loan, upon payoff of the interest bearing portion of loan, or the transfer of the property to another party. Principal forgiveness is not required under HAMP; however, servicers may forgive principal to achieve the debt-to-income ratio goal of 31 percent on a standalone basis or before any of the previous steps. If principal is forgiven before step one through three, no subsequent step in the waterfall may be skipped. If the interest rate is not reduced after principal forgiveness, the existing rate will be fixed and treated as the modified interest rate.

Source: Treasury, Supplemental Directive 09-01, April 6, 2009.

After April 15, 2010, borrowers who fully qualify for a modification and submit the required documentation enter a trial period. Before then, trial modifications could be made without documentation. The trial period lasts 90 days[5] and includes three modified mortgage payments, but can last longer if necessary to comply with investor contractual obligations. If the borrower is current at the end of the trial period and all documents have been received by the servicer, the borrower will be offered a permanent modification.

Incentive Payments

To encourage participation in the program, Treasury pays incentives using TARP funds. First, Treasury shares some of the economic cost of the modification. If a servicer makes modifications to get a homeowner down to a 38 percent mortgage debt-to-income ratio, Treasury will provide 50 percent of the costs of modification to get the loan from 38 percent to the target 31 percent debt-to-income ratio. Such payments are made once the modification becomes permanent and lasts for up to five years or until the loan is paid off, whichever is earlier.

Second, Treasury makes incentive payments for successful modifications. These incentives are targeted toward the three main participants in the mortgage modification process — the homeowners who stay current on their mortgages after a modification, the mortgage servicers who establish successful modifications, and the investors who own the mortgage loans. Table 3 describes incentive payments made for successful HAMP modifications.

[5] On August 26, 2009, Treasury announced a temporary waiver to allow an extension of up to two months for all trial periods so borrowers could submit all required documentation. A second two-month extension occurred on November 18, 2009, and then a third for one month with the conversion campaign detailed in Supplemental Directive 09-10 on December 23, 2009. This waiver was later amended to provide for an extension through December 31, 2009.

Table 3—HAMP Incentive Payments

Servicer Incentive Payments and Pay for Success Fees	Servicers will receive an up-front incentive payment of $1,000 for each permanent modification. They will also receive pay for success payments — as long as the borrower stays in the program — of up to $1,000 each year for up to three years.
Borrower Pay-for-Performance Success Payments	Borrowers are eligible to receive a pay-for-performance success payment that goes straight towards reducing the principal balance on the mortgage loan as long as the borrower is current on his or her monthly payments. Borrowers can receive up to $1,000 of success payments each year for up to five years.
Current Borrower One-Time Bonus Incentive	One-time bonus incentive payments of $1,500 to investors and $500 to servicers will be provided for modifications made while a borrower is still current on mortgage payments, but in danger of imminent default. The servicer will be required to maintain records and documentation evidencing that the trial period payment arrangements were agreed to while the borrower was less than 30 days delinquent.
Investor Incentives	This compensation equals one-half of the dollar difference between the borrower's monthly payment at 31 percent and the lesser of (i) what the borrower's monthly payment would be at a 38 percent; or (ii) the borrower's pre-modification monthly payment. This incentive lasts up to five years.

Note: No funds have been allocated for the borrower pay-for-performance success incentive as the required 12 months have not yet transpired since the first trial period started.

Source: Treasury, Home Affordable Modification Program Guidelines, March 4, 2009.

Complementary Programs

HAMP's first lien program, described above, is just one of the programs under the broader MHA efforts designed to assist struggling homeowners. Some of the other programs are designed to work in conjunction with HAMP; others are intended to provide alternative forms of relief to homeowners. These other programs are as follows:

- The Home Affordable Refinance Program is intended to provide access to low-cost refinancing for homeowners suffering from falling home prices and whose mortgages are owned or backed by Fannie Mae or Freddie Mac. Treasury does not administer the Home Affordable Refinance Program; the government-sponsored enterprises ("GSE") administer the Home Affordable Refinance Program themselves, under the supervision of their regulator and conservator, the Federal Housing Finance Agency.

- The Second Lien Modification Program includes homeowner relief for those facing default or foreclosure with second mortgages. The program is intended to work within the framework of HAMP to offer a more complete relief package for homeowners with second liens. A homeowner cannot qualify for the Second Lien Modification Program unless his or her first loan has been modified under HAMP.

- The Home Price Decline Protection Incentives are intended to encourage additional investor participation and HAMP modifications in areas with recent price declines by

providing additional payments to investors in areas that have suffered a decline in home prices.

- The Home Affordable Foreclosure Alternatives are intended to enable servicers and borrowers to pursue short sales and deeds-in-lieu of foreclosure for HAMP-eligible borrowers in cases where the borrower is unable or unwilling to modify his or her mortgage.

For more detailed descriptions of these programs, see SIGTARP's July 2009 Quarterly Report to Congress, pages 114-116; October 2009 Quarterly Report to Congress, page 97; and January 2010 Quarterly Report to Congress, page 98.

The Number of Permanent Modifications Entered Into During HAMP's First Year Has Been Below Expectations

This section addresses what Treasury's participation goals for HAMP are and examines whether those goals have been met during the program's first year. The next section will examine the challenges that have confronted and continue to confront Treasury in implementing HAMP.

Treasury states that its goal for HAMP is that the program will *offer* trial modifications to 3 to 4 million borrowers at risk from its inception through its expiration at the end of 2012. This section first examines how Treasury has articulated its goals for HAMP and notes that Treasury's initial statements about the program indicated that HAMP was originally intended to result in 3 to 4 million permanent modifications — a level that simply will not be met absent an unanticipated and dramatic increase in participation. Irrespective of how the goal is defined, although Treasury has made progress in developing the administrative backbone of the program and in getting the program started rapidly — meeting targets for servicer participation and a goal for early trial modifications — the rate of permanent modifications thus far has been slow. From HAMP's inception through February 2010, only 168,708 mortgages have been permanently modified.[6]

Treasury's HAMP Participation Goal

In its discussions with SIGTARP during the course of this audit, Treasury has insisted that its participation goal for HAMP is — and has been from the program's inception — that 3 to 4 million borrowers will be *offered* trial mortgage modifications over the four years of the program. In other words, Treasury's stated goal is not tied to how many borrowers are actually helped by entering permanent modifications, but rather how many had the opportunity to enter trial modifications by receiving offers.

What the anticipated benefits of a program are and how a program's success or failure is defined are important to provide a reference point for discussions about whether a program is worth the resources devoted to it and whether the program is functioning as it should. An examination of how Treasury has articulated its HAMP participation goal over time demonstrates that Treasury has been less than consistent about how it has justified the program's costs or defined what success in the program would mean. Many of Treasury's prior statements about the program

[6] Treasury reports 1,499 of the 170,207 permanent modifications started have been cancelled, resulting in 168,708 active permanent modifications as of February 2010.

have strongly suggested that HAMP would result in 3 to 4 million permanent modifications, not merely offers for trial modifications. For example:

- When the outlines of MHA and HAMP were developed in early 2009 by a working group of officials from Treasury, the Department of Housing and Urban Development ("HUD") and the White House, they advocated that the refinance and modification programs should "have a scale that can have a real impact on turning the housing problems around in this country."

- When HAMP was announced in February 2009, the Administration announced that the program's goal was to "enable as many as 3 to 4 million homeowners to modify the terms of their mortgage to avoid foreclosure."

- In a summary sheet describing HAMP guidelines released on March 4, 2009, Treasury stated that HAMP "will help up to 3 to 4 million at-risk homeowners avoid foreclosure by reducing monthly mortgage payments."

- In its first supplemental directive concerning program guidelines, dated April 6, 2009, Treasury described HAMP as a "national modification program aimed at helping 3 to 4 million at-risk homeowners — both those who are in default and those who are at imminent risk of default — by reducing monthly payments to sustainable levels."

- Treasury's Web site still states that HAMP was created as "a $75 billion loan modification program to help up to 4 million families avoid foreclosure."

In sum, Treasury has repeatedly given the distinct impression that HAMP will help 3 to 4 million homeowners actually avoid foreclosure by reducing their monthly mortgage payments to a level that they can afford over the long term; those positive results can only occur with permanent modifications. Although Treasury has, at times, noted that the goal was tied to offers and not actual modifications,[7] in its discussions with SIGTARP in connection with this audit, Treasury has conceded that its use of language in describing HAMP's participation goals has been "confusing" and that it has not been "crisp" in defining its goals. Although SIGTARP is skeptical, as discussed below, about whether Treasury's goal of giving *offers* for trial modifications is a meaningful one, for purposes of this discussion at least, SIGTARP accepts Treasury's assertion that its goal has always been offers and not permanent modifications.

[7] In a March 4, 2009 MHA program description, Treasury stated that they were "creating a comprehensive stability initiative to offer reduced monthly payments for up to 3 to 4 million at-risk homeowners..." In testimony on July 24, 2009, before the House Financial Services Committee, Treasury Secretary Geithner stated that "3 to 4 million homeowners will be offered trial loan modifications under the Administration's program." In testimony before the Congressional Oversight Panel on September 10, 2009, Treasury Secretary Geithner stated that HAMP was "designed to allow 3 to 4 million families the chance to stay in their homes." The MHA Monthly Program Report, for October 2009 and each month thereafter, has stated that HAMP has a "goal of offering 3 to 4 million homeowners lower mortgage payments through a modification over three years."

In any event, during the course of this audit, a Treasury official estimated that under HAMP a total of approximately 3 million trial modifications will be initiated and between 1.5 and 2 million of those will become permanent modifications.

Status of Participation in HAMP

Treasury has made substantial progress during the year since the announcement of HAMP in attaining servicer participation. HAMP goals were developed based on a projection that servicer participation would be 90 percent as measured by coverage of all privately-owned mortgages. In its first publicly available monthly HAMP status report, which covered activity through July 2009, Treasury reported that 38 servicers had signed agreements to modify mortgages, with those servicers covering approximately 85 percent of eligible mortgage debt outstanding. By January 2010, 110 servicers of privately-owned mortgages were participating in HAMP, with approximately 89 percent of all potentially eligible mortgage debt outstanding covered by those servicers. Servicer participation levels, therefore, are very close to projected levels.

The program's experience of attaining borrower participation, however, has been mixed. The first batch of servicers entered into agreements enabling them to start trial modifications in April 2009. Through July, Treasury reported there were 235,247 trial modifications, but Treasury recognized that much more had to be done to help homeowners. In July, Treasury and HUD took steps to accelerate this pace. On July 9, 2009, Treasury Secretary Geithner and HUD Secretary Shaun Donovan wrote the Chief Executive Officers of participating servicers calling upon them to redouble their efforts to increase staffing and improve borrower response times. On July 28, 2009, Treasury, HUD and other government officials met with senior officials from servicers participating in HAMP to discuss ways in which to accelerate the program. At that meeting, three steps were announced to improve the program's performance: (a) performance on a servicer-by-servicer basis would be publicly reported, (b) performance metrics would be developed, and (c) Freddie Mac, in its role as the program's compliance agent, would take a "second-look" at a sample population of modifications. At that time, it was also announced that the Administration had instituted a goal to reach 500,000 trial modifications by November 1, 2009.

The goal of 500,000 trial modifications was met by early October; indeed, Treasury reported a total of nearly 700,000 trial modifications by November 1, 2009. At the same time, however, Treasury had not disclosed the number of permanent modifications in its monthly Servicer Performance Report through November 1, 2009. The slow pace of conversions from trial to permanent modifications prompted Treasury and HUD, in November 2009, to undertake a "conversion drive." According to public statements by Treasury, through that point, servicers had "not done a good enough job of bringing people a permanent modification solution" and needed "to do better."[8] One Treasury official told the press that "some of the firms ought to be embarrassed, and they will be." The conversion drive included:

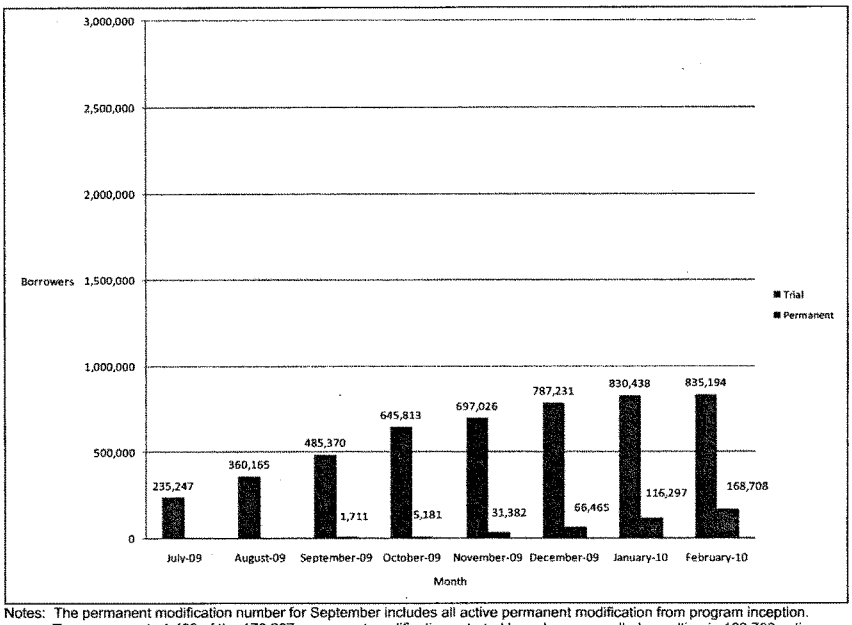
[8] For their part, servicers stated that a lack of guidance from Treasury and constantly changing program guidelines were challenges to implementing HAMP. These issues are discussed in more detail in the next section.

- public reporting of conversion rates by servicer
- regular communications with the servicers and reporting by the servicers on conversions
- the deployment of conversion "SWAT" teams to assist the largest servicers
- engagement with key state and local groups in an outreach campaign

During the conversion drive, Treasury identified approximately 375,000 of the nearly 700,000 borrowers in modifications were eligible to convert to permanent modifications by December 31, 2009. According to the Chief Homeownership Preservation Officer, of this group of borrowers, approximately one-third was simply awaiting a decision from their servicers as to whether they qualified for a permanent modification; about 37 percent had submitted some, but not all, documents necessary; and more than 20 percent had submitted no documents at all to their servicers.

Approximately 31,000 mortgages were moved into permanent modifications through November 2009; the total number of permanent modifications was approximately 66,000 through December (a monthly increase of 35,000) and 116,000 through January 2010 (a monthly increase of 50,000). In total, through February 2010, approximately 1,000,000 cumulative mortgages were actively in HAMP modifications (168,708 cumulative active permanent modifications and 835,194 cumulative active trial modifications). Figure 1 shows the number of cumulative trial and permanent modifications completed through each month from July 2009 through February 2010.

Figure 1—Growth in Active Modifications (Cumulative Data from July 2009 through February 2010)



Notes: The permanent modification number for September includes all active permanent modification from program inception. Treasury reports 1,499 of the 170,207 permanent modifications started have been cancelled, resulting in 168,708 active permanent modifications as of February 2010.

Source: Treasury, Making Home Affordable Servicer Performance Reports, July 2009 through January 2010.

The Pace of Modifications Has Not Met Expectations Thus Far

Conversions from trial modifications to permanent modifications have been slow thus far: only 15 percent or 168,708 mortgages of the total 1,094,064 trial modifications started are still in active permanent status. Monthly conversions to permanent status from October through February have been 3,000; 26,000; 35,000; 50,000; and 52,000.[9] Unfortunately, a Treasury official has indicated that even this modest pace of permanent modifications will not be sustainable and that the number of cancellations will likely increase.

[9] There were nearly 2,000 conversions to permanent modification from the beginning of the program through the end of September 2009.

Treasury faces two significant hurdles in converting the current substantial backlog of trial modifications into permanent status. The first relates to verbal modifications. On or prior to April 15, 2010, servicers are permitted to start a borrower's trial modification with stated income, or verbal financial information, which is inherently less reliable than documented information. As of December 21, 2009, Treasury reported 18 HAMP servicers, including four of the five largest HAMP servicers, had used stated income when determining initial HAMP eligibility. This documentation is required to be collected before the trial modification ends. One of the servicers SIGTARP visited expressed concern for the resulting "disproportionate time and expense" required to narrow down those homeowners who will actually transition to a final modification among those who received verbal trial modifications. Identifying and removing from the program ineligible borrowers who already started trial modifications as a result of inaccurate, verbal income information is an additional strain on a servicer's already limited resources. Although use of verbal financial information certainly helped Treasury meet its interim target of achieving 500,000 trial modifications by November 2009; because of this diversion of resources, allowing verbal modifications was arguably counterproductive to attaining permanent modifications.[10] Treasury has since recognized the limits of relying on unverified financial information before commencing trial modifications and issued a policy on January 28, 2010, ending this practice for all trial periods initiated after April 15, 2010. Although this tightening of the standards makes sense, it presumably will reduce the already declining number of trial modifications coming into the system, providing further reason to question whether the flow of trial modifications into the system is sufficient, as discussed below.

The second issue affecting conversion relates to when payments are due during the trial period. On or prior to April 15, 2010, after the borrower makes the first trial modification payment during the initial month in which the trial modification becomes effective, he or she has the full length of the trial period to satisfy further trial payment requirements. The borrower can thus make the remaining two payments (or three payments for borrowers at imminent risk of defaulting)[11] on the last day of the final trial period month. As such, a borrower's likelihood for default is concealed during the trial period and borrowers may have an incentive to delay entering into permanent modifications. About 25 percent of homeowners who received trial loan modifications and were targeted for the conversion campaign failed to keep up with their new reduced payments, and at least 93,750 borrowers have missed required payments. Accordingly, the backlog of trial modifications may be heavily populated by homeowners who are unable or unwilling to make the required trial modification payments but who have been able to forestall foreclosure (and live effectively rent free) during the term of the trial modification. Several of the servicers interviewed reported concerns about homeowners trying to game the system in this fashion. Treasury changed these payment requirements so that after April 15, 2010, a borrower must make monthly payments to be considered current.

In addition to potential problems in converting the backlog of trial modifications to permanent modifications, recent data suggests that it might prove to be difficult to bring sufficient new trial modifications into the program. Since October, new trial modifications have only averaged

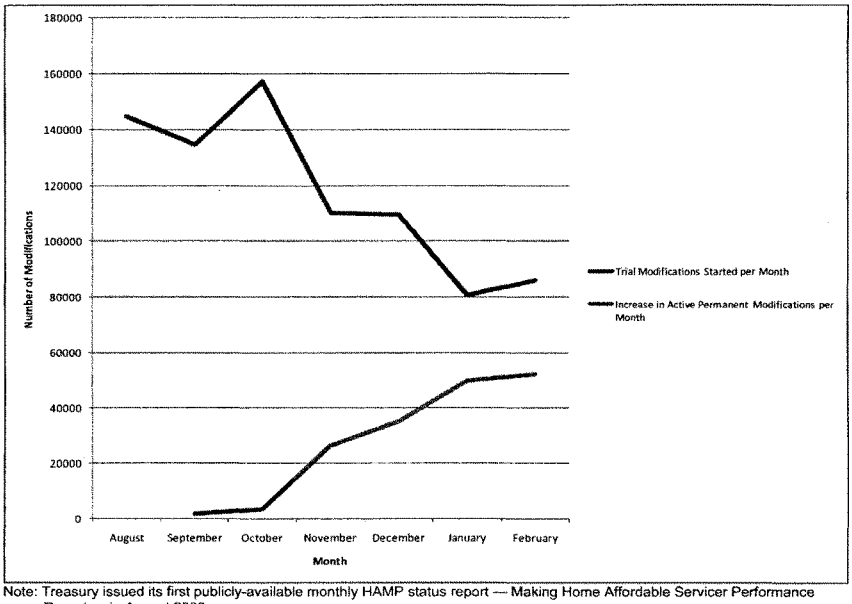
[10] In providing recommendations on HAMP program design, SIGTARP warned against such reliance on unverified information. See SIGTARP's Quarterly Report to Congress dated October 21, 2009, beginning on page 158.

[11] Non-defaulted borrowers facing a financial hardship are considered at imminent risk of defaulting. This category of borrowers has a four-month HAMP trial period.

about 96,000 per month (approximately 110,000 in November; 110,000 in December; 80,000 in January; and 85,000 in February). It is clear, however, that a certain percentage of homeowners who enter trial modifications will fall out of the program before successfully entering a permanent modification due to, for example, re-default during the trial period. A Treasury official estimated that 50 percent to 66 percent of trial modifications will become permanent,[12] and indeed, the Assistant Secretary for Financial Stability has testified before the Congressional Oversight Panel that past experience would suggest that a 50 percent conversion rate would be the minimum expected and that a 75 percent conversion rate would make it "quite a successful program."

Figure 2 shows monthly borrower participation in both trial and permanent modifications since August 2009.

Figure 2—Modifications Started Per Month (Non-Cumulative Data for August 2009 through February 2010)



Note: Treasury issued its first publicly-available monthly HAMP status report — Making Home Affordable Servicer Performance Report — in August 2009.

Source: Treasury, Making Home Affordable Servicer Performance Reports, July 2009 through February 2010.

[12] During the audit, a Treasury official estimated that there will be a total of 3 million trial modifications, of which 1.5 to 2 million will convert to permanent modification status.

Other Factors That Could Impede HAMP's Long-Term Success

Before discussing HAMP implementation issues in more detail, other factors that could impede HAMP's long-term success, irrespective of whether Treasury's articulation of its intended goals, should be noted. These issues are discussed briefly below.

- **Re-defaults** – In the modeling it conducted in connection with HAMP, Treasury used a 40 percent re-default rate. In other words, Treasury has estimated that, for every 10 mortgages that enter into HAMP modifications (trial and permanent), four of those homeowners will re-default and potentially be in danger of losing their homes to foreclosure over the five years of the modifications.[13] It is still too early to determine the impact of re-defaults on the program's success or whether Treasury's estimates are accurate, and SIGTARP will continue to monitor this critically important issue.

- **Limitations on debt-to-income eligibility ratio** – HAMP uses an affordability ratio that excludes other factors that would normally be accounted for in traditional loan underwriting, thereby potentially overestimating the true ability of the borrowers to repay, which in turn will impact their ability to make modified payments in either a trial or a permanent modification. HAMP servicers use a monthly "front-end" debt-to-income eligibility ratio of 31 percent, consistent with a Federal Housing Administration underwriting guideline. In using this front-end calculation, the only debt HAMP servicers consider is mortgage debt[14] — the borrower's other debts (*e.g.*, car payments, student loans, credit card obligations, and second liens on the home) are not factored into the front-end debt-to-income calculation. Although the Federal Housing Administration uses a 31 percent front-end debt-to-income ratio when underwriting mortgages, it also requires lenders to consider the total debt-to-income ratio when determining whether a borrower qualifies for a mortgage. Both ratios must be below a designated threshold in order for the borrower to demonstrate his or her ability to make timely mortgage payments. In contrast, although HAMP servicers are required to calculate the borrower's total debt-to-income ratio, high total ratios will not exclude borrowers from participating in HAMP. Instead, borrowers with total debt-to-income ratios greater than or equal to 55 percent must simply sign a statement that they will work with an HUD-approved counselor. As a result, many HAMP participants have their monthly mortgage debt reduced but still have a debt-to-income ratio that may be far too high for them to be able to afford to continue to make monthly mortgage payments, even at the HAMP-reduced amounts, thereby increasing their likelihood to re-default. As of December 2009, borrowers with total debt-to-income ratios greater than 50 percent represented more than half of HAMP permanent modifications. Thirty-two percent of all borrowers holding HAMP permanent modifications had total debt-to-income ratios greater than 70 percent. This problem is exacerbated, of course, by the unacceptably high unemployment rates,

[13] When a borrower re-defaults during a trial modification, he is still responsible for the difference between the original payments and the modified payments made during the trial modification period.

[14] Mortgage debt is defined as principal, interest, taxes, insurance, and homeowners'/condominium association fees for HAMP purposes. This excludes second lien mortgage debt.

which will potentially increase household debt and could have a dramatic impact on re-default rates.

- **Five-year period of permanent modifications** – HAMP's permanent modification is designed to last for five years. Treasury based the five year period on "analysis used to determine a reasonable time frame for price recovery, including review of future prices, a statistical analysis of the steepness of actual price declines, consideration of broader macroeconomic forecasts, experiences of other modification programs, and judgment." Unlike a traditional fixed-rate mortgage, if the interest rate on a HAMP modification is adjusted to below prevailing market rates, after the five-year fixed period, the rate can incrementally increase by up to one percent per year, capped at the 30-year conforming fixed rate[15] on the day the modification agreement is drafted. Borrowers, however, may be unable to meet the increasing monthly payments once the interest rate begins to increase if the borrower's income has not increased commensurate with the interest rate adjustments, a situation that led to widespread defaults for sub-prime adjustable rate mortgages during the current financial crisis. Using the HAMP average unpaid principal balance of $247,149 (as of November 2009) and average remaining term of 327 months, a borrower with a two percent modification interest rate will face a monthly payment that is 23 percent higher in the fourth year after the permanent modification period if the rate is incrementally increased by one percentage point annually. However, current projections suggest that salaries may not increase by a corresponding rate.

- **Second liens** – Treasury has estimated that up to 50 percent of mortgages at risk of delinquency and foreclosure are backed by second liens. Although borrowers may receive a HAMP permanent modification on their first lien, the total monthly mortgage payment might still be unaffordable if the second lien is not modified or extinguished. Under the second lien program, when a borrower's first lien is modified under HAMP and the servicer of the second lien is a HAMP participant,[16] that servicer must offer either to modify the borrower's second lien according to a defined protocol or to accept a lump sum payment from Treasury in exchange for full extinguishment of the second lien. The second lien program follows a standard waterfall similar to HAMP's first lien program. Servicers can begin immediately to modify or extinguish loans under the second lien program, once they sign Servicer Participation Agreements to participate in the program. The second lien program has not been fully implemented, although it was announced in April 2009 and designed to work in tandem with HAMP. Participation to date has been extremely limited, but with the recent signing of Bank of America, Wells Fargo, and JPMorgan Chase, it is improving.

- **Negative equity and strategic defaults** – Negative equity results when more is owed on a property than the property is worth. HAMP does not require servicers to address

[15] This rate represents the fixed interest rate on a 30-year loan that has a principal balance less than the maximum principal amount of mortgage which Fannie Mae and Freddie Mac can purchase, sell, and securitize. For example, a mortgage that was modified on January 7, 2010, would be capped at 5.09 percent.

[16] A servicer must execute a Servicer Participation Agreement or amend and restate an existing Servicer Participation Agreement previously executed for HAMP to participate in the HAMP Second Lien Modification Program.

negative equity,[17] which an industry expert has called the "most important predictor of default." It is estimated that homeowners who have negative equity (currently constituting about 25 percent of all borrowers nationwide) represent almost half of all foreclosures. During the course of our audit work, SIGTARP was not able to obtain documentation to support the different estimates as to the weighted average of the combined mortgage loan amounts[18] compared to the home's value for all borrowers in HAMP trial modifications, but the numbers all indicate that the average HAMP mortgage is underwater. For example, Fannie Mae reported to SIGTARP that the ratio was 247 percent through November 2009, which Treasury has "corrected" to 140 percent. Treasury currently estimates that the ratio is 114 percent.

- The primary method of quickly addressing negative equity is through principal reductions. However, Treasury Secretary Geithner testified during the December 10, 2009 Congressional Oversight Panel hearing that Treasury made a "conscious choice . . . not to start [HAMP] with principal reductions." He stated it was determined that principal reductions were "more expensive for taxpayers," "harder to justify," and had a higher "risk of unfairness." Principal reduction is a long-term means of making payments affordable, but can pose moral hazard.[19] In this context, borrowers who are current on their mortgages may consciously choose to stop paying their mortgage if they are aware that delinquent borrowers receive incentives and financial assistance under HAMP.

- The practice of a borrower choosing to default on the mortgage, even when he or she can afford the payments, is called strategic default. Strategic default usually occurs when the home's value is substantially lower than the mortgage value. Although relatively common in commercial real estate, it has been widely reported that homeowners may be increasingly more likely to strategically default on their homes. Given the amount of negative equity in the mortgages under trial modifications, strategic default may become a factor in HAMP re-defaults, as borrowers decide that it makes more economic sense for them to walk away from their mortgages, and rent at a lower cost, rather than continue to make higher payments that may never result in them obtaining equity in their mortgage.

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[17] HAMP allows principal reduction, but it is not typically implemented in practice. Servicers forgave principal on less than two percent of HAMP trial loans. Before HAMP, 10 percent of servicer-sponsored modifications forgave principal. Rather than forgiving principal, HAMP primarily reduces monthly payments through interest rate reductions, amortization term extensions, and principal forbearance. On February 19, 2010, however, the Administration announced a new initiative to help the housing markets that have experienced 20 percent or more average home price decreases. The program allocates $1.5 billion of TARP funds for a limited number of states' housing finance agencies to address housing priorities in the local markets. The state agencies will submit proposals to Treasury for approval before Treasury funds the programs. The proposals may include measures for unemployed homeowners, assistance to borrowers owing more than their home is now worth, help to address challenges arising from second mortgages, or other programs encouraging sustainable and affordable homeownership. Until the states submit proposals, it is unclear whether any or all of the programs will include the items discussed above.

[18] Combined loan-to-value ratio compares the value of all outstanding mortgages on the home to the home's value.

[19] Moral hazard occurs when someone insulated against a risk (such as in the context of a government bailout program) may behave differently than if they bore the full risk.

Several Issues Relating to HAMP Implementation Have Posed Challenges to HAMP Participation, in Particular to Converting Trial Modifications into Permanent Modifications

This section describes how Treasury has implemented HAMP and some of the program challenges that have been encountered.

When HAMP was announced in February 2009, Treasury committed to implement the program rapidly, with Treasury Secretary Geithner stating that HAMP would work at an "extraordinarily rapid pace for a program." As promised, the program was rolled out quickly, with initial program guidelines released in March 2009 and the first agreements with servicers being executed in April. In July, Treasury also placed pressure on servicers to move more quickly and instituted a goal of 500,000 trial modifications by November. Although that goal was met, by November it became clear that the pace of conversions from trial modifications to permanent modifications was slower than expected, and Treasury's Assistant Secretary for Financial Stability stated that the department was "disappointed in the permanent modification results thus far." Treasury has blamed servicers for this disappointing result; servicers have blamed Treasury's implementation; and both have blamed homeowners for failing to comply with documentation requirements.

Steps Treasury Took to Implement HAMP

Treasury attempted to get HAMP running rapidly. President Obama announced the Homeowner Affordability and Stability Plan, of which HAMP was a major component, on February 18, 2009. Fourteen days later, the Administration and Treasury released what they called "detailed requirements" that they indicated would equip servicers with the information necessary to begin modifying mortgages. Fifteen days after that, Treasury launched the Making Home Affordable Web site, an online resource intended to educate borrowers about HAMP. On April 6, 2009, Treasury issued its first supplemental directive containing additional guidance to servicers for implementation of HAMP for privately-owned mortgages. One week later, on April 13, 2009,

the first six servicers signed servicer participation agreements, making them eligible to modify loans under HAMP.[20]

In July, Treasury took a series of steps to accelerate the pace of HAMP participation.

- On July 9, 2009, Treasury Secretary Geithner and HUD Secretary Donovan wrote the Chief Executive Officers of participating servicers calling upon them to redouble their efforts to increase staffing, improve borrower response times and streamline the application process.

- On July 28, 2009, Treasury, HUD and other government officials met with senior officials from servicers participating in HAMP to discuss ways in which to accelerate the program and bring relief to homeowners faster. At that meeting, steps were announced to improve the program's performance, including reporting on performance on a servicer-by-servicer basis, the development of performance metrics, and that Freddie Mac, in its role as the program's compliance agent, would take a "second-look" at a sample of modifications.

- The Administration announced a goal to reach 500,000 trial modifications by November 1, 2009.

The goal of 500,000 trial modifications was met by early October. By then, however, it was becoming clear that the rate of conversion from trial modifications to permanent modifications was very slow. Through the end of October, there were more than 650,000 active trial modifications, but Treasury had not disclosed the number of permanent modifications in its monthly Servicer Performance Report through November 1, 2009.

The slow pace of conversions from trial modifications to permanent modifications prompted Treasury and HUD to undertake a "conversion drive" in November 2009. According to public statements by Treasury, servicers had, up to that point, "not done a good enough job of bringing people a permanent modification solution" and needed "to do better."[21] The conversion drive included similar measures as in the earlier drive to increase trial modifications, including putting pressure on the servicers by making results public. The initial announcement included:

- publicly reporting conversion rates by servicer
- regular communications with the servicers and reporting by the servicers on conversions
- the deployment of conversion "SWAT" teams to assist the largest servicers
- engagement with key state and local groups in an outreach campaign

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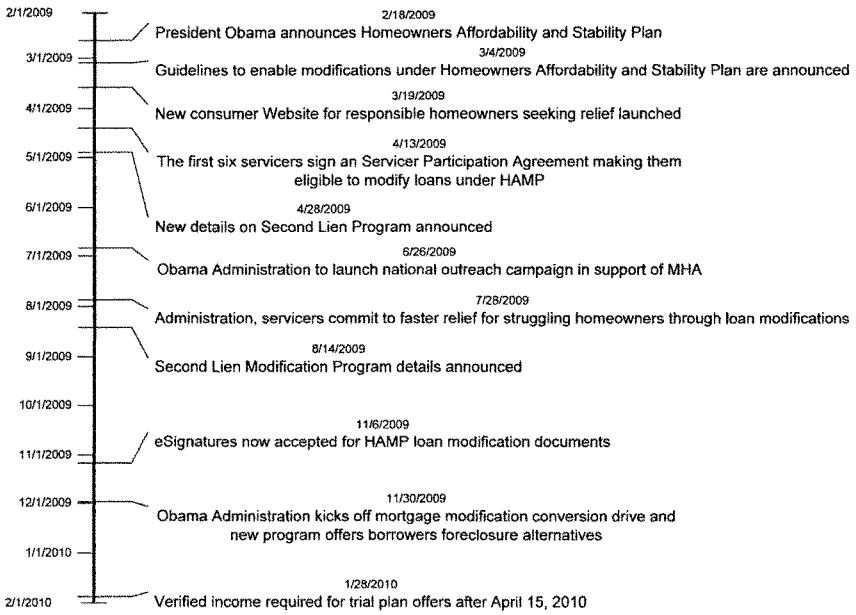
[20] Beginning in April and May of 2009, Treasury attempted to expand homeowner relief and increase modification affordability programs that were complementary to HAMP or that provided alternative relief, announcing the Second Lien Modification Program, foreclosure alternatives such as deed-in-lieu and short sale, and the Home Price Decline Protection Incentive. It took Treasury another three months until it announced program details, however, and another five months after that until the first servicer signed a contract to participate in the Second Lien Modification Program in late January 2010.

[21] For their part, servicers stated that a lack of guidance from Treasury and constantly changing program guidelines were challenges to implementing HAMP.

On January 28, 2010, Treasury announced that it would require servicers to obtain verifiable income documentation prior to trial modification, beginning with borrowers entering trial modifications after April 15, 2010.

Figure 3 is a timeline of several key HAMP implementation milestones from the announcement of the program through February 2010.

Figure 3—Key HAMP Implementation Milestones (February 18, 2009 through February 2010)



Source: SIGTARP analysis of Treasury Press Releases and Supplemental Directives.

Difficulties Encountered in Implementing HAMP

Although the reasons for the disappointing results thus far are many, discussions with Treasury, the GSEs, and the servicers, and an analysis of performance data have identified several specific issues concerning HAMP implementation that have posed particular challenges.

Changing Documentation Requirements

Receiving required documentation from borrowers has been a significant challenge in moving trial modifications into permanent status. Treasury has identified this as a significant challenge, and servicers have reported difficulties in obtaining borrowers' income documentation. These views have been borne out by the data. Of the 375,000 trial modifications targeted for conversion in November, a majority had incomplete documentation and 20 percent had supplied no documentation at all.

Treasury has changed the standards for what documents are required and whether trial modifications can be entered into before such documentation is provided since the program was rolled out. Table 4 tracks the changes in what documents have been required for borrowers to verify income.

Table 4—Changes in HAMP Income Documentation Requirements

Date	Change Description	Documentation Requirements and Changes
3/4/2009	Treasury's initial program guidelines stated that a servicer may accept either documented or verbal income from the borrower to determine whether a borrower is eligible for a trial modification.	• Signed Form 4506-T • Two most recent paystubs for wage earners, and other third party document of reasonable reliability for self-employed • Representation that the borrower does not have sufficient liquid assets to make monthly payments • Obtaining most recent tax return on file
4/6/2009	Supplemental Directive 09-01 provided additional detail as to what kinds of documentation would be deemed sufficient before conversion to a permanent modification.	If borrower is employed: • A signed copy of most recently filed federal tax return • A signed Form 4506-T • Copies of two most recent paystubs indicating year-to-date earnings • A letter from a reliable third party for all bonuses, commissions, fees, housing allowances, tips and overtime. If self-employed: • A signed copy of most recently filed federal tax return • A signed Form 4506-T • Most recent quarterly year-to-date profit/loss statement • Other third party reliable documentation voluntarily provided If borrower uses alimony or child support: • Photocopy of divorce decree or other legal written assignment providing for payment of alimony, and documentation of payment. Servicers must determine that income will continue for three years. If borrower uses benefit income (such as social security):

		• Documentation showing amount of benefit, frequency and duration (must continue for three years). • Must obtain copies of signed federal tax returns, W-2 forms or copies of two most recent bank statements. If borrower receives public assistance or unemployment: • Documentation showing amount, frequency and duration. Servicers must determine the income will continue for nine months. If borrower uses Rental income: • Signed Federal income tax returns including Schedule E, supplemental income and loss. This income will be counted at 75 percent.
7/6/2009	Treasury's Supplemental Directive 09-03 announced that the servicer should begin trial modification period reporting once the servicer receives the borrower's first trial period payment regardless of whether the servicer has received an executed copy of the trial period plan.	Same documentation requirements as Supplemental Directive 09-01, but *borrower may be put into trial period without the executed copy of the trial period plan.*
10/8/2009	Treasury's Supplemental Directive 09-07 represents an ongoing effort to improve process efficiency by updating the borrower underwriting requirements by permitting "alternative" forms of income verification before conversion to a permanent modification and introducing revised model documentation for the program.	Servicers can still put a borrower into a trial period with stated income, but the income documentation collection now includes: • Signed Form 4506-T • Those in imminent default may, in accordance with investor guidelines, be required to provide the most recent signed copy of their federal income taxes. All other borrowers may, but are not required to submit. • Copies of two most recent paystubs with year-to-date earnings If self-employed: • The most recent quarterly or year-to-date profit and loss statement If borrower earns "other" income: • Reliable third party documentation describing nature of income If borrower uses alimony, separation maintenance, or child support income: • Copy of divorce decree, or other legal written assignment providing for payment of alimony or child support and duration of payment. • Evidence of receipt of payment, such as bank statements with amount of payment If borrower receives public assistance or unemployment: • Evidence of amount, frequency and duration of the benefits, which must continue for nine months. If borrower uses rental income: • Signed Federal income tax returns including Schedule E, supplemental income and loss. This income will be counted at 75 percent. If borrower uses benefit income (such as social security): • Evidence of amount and frequency of benefit • Evidence of receipt of payment All passive and non-wage income (including rental, part-time employment, bonus/tip, investment and benefit income) does not have to be documented if borrower declares the income and it constitutes less than 20 percent of total income.
1/28/2010	Treasury's Supplemental Directive 10-01 requires full verification of borrower eligibility after April 15, 2010, including documented verification of income, prior to offering a trial period plan.	A servicer may only evaluate a borrower for HAMP after it receives: Request for Modification and Affidavit Form, Form 4506-T or 4506T-EZ and evidence of income, including: • Copies of two recent paystubs which do not have to be consecutive. • The most recent quarterly or year-to-date profit and loss

		statement for self employed • Reliable third party documentation describing nature of income for all bonuses, commissions, fees, housing allowances, tips and overtime. If borrower earns benefit income (such as social security): • Evidence of amount and frequency of benefit • Receipt of payment, such as bank statements showing deposit amounts. If borrower receives unemployment: • Evidence of amount, frequency and duration of the benefits, which must continue for nine months. If borrower uses Rental income: • Signed Federal income tax returns which include Schedule E, supplemental income and loss. This income will be counted at 75 percent. If borrower uses alimony, separation maintenance, and child support income: • Copy of divorce decree, or other legal written assignment providing for payment of alimony or child support and duration of payment. • Evidence of receipt of payment, such as bank statements with amount of payment All passive and non-wage income (including rental, part-time employment, bonus/tip, investment and benefit income) does not have to be documented if borrower declares income and it constitutes less than 20 percent of total income. Non-borrower income voluntarily provided may be included if the servicer decides the income can be relied upon to continue. The directive permits servicers to substitute their "business judgment" in determining the forms of verification necessary to convert a trial modification to permanent status.

Source: SIGTARP analysis of Treasury program guidelines.

All five of the servicers interviewed in connection with this audit have identified problems of one sort or another that they have experienced due to repeated changes in program guidelines. One servicer in particular noted that it changed from offering only fully documented trial modifications to verbal modifications after Treasury threatened to make examples of servicers with low trial modification numbers.[22] Servicers have reported, among other things, that:

- repeated changes to program guidelines have made it difficult for servicers' operators to keep up with program rules;
- verbal modifications have allowed borrowers to obtain trial modifications due to misrepresentations, and identifying borrowers who have misrepresented their eligibility is difficult and resource intensive; and
- borrowers might be gaming the system by withholding required documents, (and thereby avoiding to have to make payments until the end of the trial period and still avoid foreclosure), and that some borrowers might be withholding documents to avoid disclosing misrepresentations on their original loan applications.

[22] Other servicers have noted issues relating to Treasury's drive in July 2009 to increase the rate of trial modifications. One servicer found the meeting on July 28, 2009, as not helpful and just a forum for Treasury to tout publicly its goal of 500,000 modifications. Another complained that several servicers were made examples of for the sake of providing a certain public perspective about Treasury's oversight of the program.

On balance, although Treasury's attempt to increase HAMP participation in July was certainly a laudable goal, Treasury's decision to permit trial modifications without documentation appears to have been made in error, and the diversion of resources it has created appears to have slowed the conversions to permanent modifications. Apparently recognizing this error Treasury has changed the rule requiring full documentation in advance of trial modifications initiated after April 15, 2010.

Repeated Changes and Clarifications in Net Present Value Models

Repeated changes in the net present value test methodology have also caused confusion and delay in implementing HAMP. As described above, after determining that a loan meets basic eligibility requirements, a servicer will undertake a net present value test to determine whether it is economically advantageous to the investor for the loan to be modified rather than allowing the loan to continue to foreclosure. Several loan characteristics are input to Treasury's net present value model, with a resulting positive or negative numeric value. These inputs include but are not limited to the location of the home, value of mortgage, homeowner's credit score, front-end debt-to-income ratio, and delinquency status. The HAMP program provides a net present value model on the www.hmpadmin.com portal that is available for servicers to use to evaluate loans for modification. According to Treasury, the portal net present value model is automatically updated to reflect data and program changes and requires no servicer support.

Since HAMP's initial roll-out, Treasury has issued changes or clarified model policies for the net present value methodology several times. Indeed, since the model parameters were first released on March 4, 2009, Treasury has issued changes or clarifications to the model nine times: April 6, 2009; June 11, 2009; July 9, 2009; July 31, 2009; August 7, 2009; September 11, 2009; November 3, 2009; November 10, 2009; and January 28, 2010. Thus far, according to Treasury, there have been three different formal versions of the model.[23] Appendix C contains a chart describing these changes and clarifications in the net present value methodology.

All five of the servicers interviewed in connection with this audit identified significant issues with the net present value modeling and in particular with the multiple changes over time in the model.[24] Issues identified included: problems in accessing the model at all, particularly early in the process; problems in getting documentation concerning the model; errors in the model; insufficient time to incorporate changes into the model for servicers not using Treasury's online version of the model; a lack of guidance and confusion with respect to retroactive application of changes to the model; and inconsistencies between the model code and the written guidance. One servicer opined that the problems and changes to the net present value test effectively doubled the effort needed to administer the test. Another stated that Treasury's failure to provide guidance on net present value issues resulted in delays in initiating trial modifications and negative public scrutiny due to such delays.

[23] In commenting on a draft of this report, Fannie Mae stated there have been four model versions.

[24] Large servicers — those with a book exceeding $40 billion — may customize the base model to use modeled default rates that reflect their own portfolio experience.

Guidance on Other HAMP Implementation Issues

All five HAMP servicers visited by SIGTARP during this audit mentioned that they did not have clear guidance from Treasury on identifying and determining eligibility for borrowers at imminent risk of defaulting on their privately-owned mortgages. Treasury's frequently asked questions regarding HAMP, published on its administrative Web site for servicers (updated on January 8, 2010) stated that "no additional guidance is being provided at this time with respect to determining whether a non-GSE [or privately-owned] loan is in imminent default under HAMP." Treasury has advised servicers that they may, but are not required to use GSE guidance[25] on borrowers at risk of imminent default on their privately-owned mortgages for HAMP. However, without consistent and clear standards, it is possible that servicers will apply inconsistent criteria for modifying mortgages of borrowers at imminent risk of default on privately-owned mortgages or may even exclude borrowers who would otherwise qualify if the guidance were available.

Indeed, it has been widely reported that servicers have told borrowers that they must be delinquent to be eligible for HAMP, which is simply untrue, the whole concept of imminent default presumes that the borrower is current on his payments. Similarly, only two of the five servicers visited by SIGTARP reported that they had integrated Hope for Homeowners as an option for borrowers.[26] HAMP requires servicers to consider borrowers for the Hope for Homeowners refinance program as they offer modification solutions to borrowers. One of the servicers stated that Treasury promised additional details on how to integrate Hope for Homeowners but the information was still forthcoming. Without providing guidance on how to integrate Hope for Homeowners, borrowers may encounter inconsistent experiences based on their servicer and, in some cases, may not be offered a program that would assist them.

Servicer Capacity and Training Issues

Traditionally, the primary role of a servicer is to collect monthly mortgage payments and to foreclose on properties when such payments are missed. In HAMP, in addition to collecting monthly mortgage payments, servicers now must train personnel to follow the program guidelines in determining a borrower's eligibility, execute the program's modification waterfall, run the latest version of the net present value model, and verify income. Indeed, the servicers reported rapid increases in their staffing levels. These new personnel also needed training to implement HAMP, which likely increased the lead time to offer HAMP modifications. As an example, one servicer had not completed formal training as of our September 2009 visit, with the

[25] On January 26, 2010, Freddie Mac issued updated guidance for servicers with respect to the income documentation and verification requirements for borrowers with Freddie Mac mortgages who must be evaluated for imminent default. Fannie Mae instructed its servicers on February 1, 2010, to use Freddie Mac's tool to identify imminent default borrowers with Fannie Mae mortgages. Imminent default borrowers will now be screened by the GSEs when they are current or less than 60 days delinquent to align with privately-owned mortgages under Treasury's HAMP guidelines.

[26] The Economic and Housing Recovery Act of 2008 authorized HUD to implement the Hope for Homeowners Program, which gives banks and homeowners the option to ward off foreclosure by refinancing their at risk mortgages into 30-or 40-year fixed mortgages. The program was announced October 1, 2008, and ends September 30, 2011.

servicer indicating staff was not scheduled to attend training until the month following our visit. It is important for personnel to have the proper training to reinforce consistency in the execution of those modifications. Despite the importance to the program's success, all five servicers interviewed by SIGTARP in connection with the audit reported that they had received no formal guidance from Treasury on how to train their personnel to handle HAMP modification requests.

Beyond difficulties in properly training personnel, handling the ever changing documentation requirements also challenged servicers' capacity to handle borrower inquiries and applications. One servicer reported that HAMP's quick roll-out forced it to rely on a vendor to coordinate the tracking of borrower documentation upon receipt. Officials said the handling between vendor employees and servicer employees had caused inconsistencies in storage procedures, resulting in the loss of borrower documentation, a problem that has been widely reported. Another servicer called capacity to process modifications a "key constraint."

Issues Relating to HAMP Marketing Efforts

To date, Treasury has used three primary methods to market HAMP to the public: an informational Web site, community outreach events, and a telephone hotline.

- According to Treasury, its largest outreach effort is the Making Home Affordable Web site, www.makinghomeaffordable.gov. Launched in March 2009, the Web site provides a centralized online resource for borrowers to learn about HAMP. The site includes, among other things, a tool for borrowers to help them determine whether or not they are eligible for HAMP, a loan look-up feature, which helps borrowers determine whether or not their loans are owned by GSEs, and a listing of the documentation needed to apply for a modification. Treasury also recently added video guides and other tools to assist in converting more trial modifications to permanent status.

- Treasury participates in community outreach events, with events taking place thus far in 23 U.S. cities hit hardest by foreclosures. The events provide for face-to-face interaction among borrowers, servicers and housing counselors.

- Treasury, through the help of Fannie Mae, provides a telephone resource, the Homeowner's HOPE Hotline. Fannie Mae officials approached the non-profit Homeownership Preservation Foundation to operate a 24 hours-a-day, seven days-a-week MHA informational hotline, available in English, Spanish, and other languages upon request. The Homeownership Preservation Foundation assumed this role for the Homeowner's HOPE Hotline in May 2009 and, as of the end of February, has recorded more than 800,000 calls, for which 95 percent related to HAMP.

As program administrator, Fannie Mae has provided an outreach toolkit with sample marketing materials on a Web site available to participating servicers (those which have signed a Servicer Participation Agreement). Treasury officials pointed to the toolkit as HAMP marketing guidelines and said they also provided the materials to members of Congress for provision to their constituents.

Notwithstanding these efforts, each of the five servicers we visited indicated more guidance was needed to develop HAMP marketing materials to better inform the public about HAMP. There was lack of a consistent message that resulted in confusion among some borrowers. Based on the servicer interviews, interviews of Treasury and GSE officials, and a review of program materials, SIGTARP has identified several limitations in the HAMP marketing and outreach efforts thus far.

- **Performance metrics are limited.** Although Treasury does count the use of the marketing efforts it does make — by tracking hits to its website, how many people come to its outreach events, and how many calls to its hotline — Treasury thus far has not tried to comprehensively gauge whether HAMP information is reaching its target audience (homeowners in trouble) effectively. As a result, it is impossible to gauge the effects of these efforts because Treasury has not developed a comprehensive way, through focus groups or more wide-ranging surveys beyond its outreach events, for example, to measure whether its efforts have been successful.

- **Treasury's efforts to use mass media advertising have been delayed and will not begin until at least April 2010.** It has taken Treasury more than a year to develop its own public service announcements[27] for television, the medium with arguably the best chance of reaching the broadest audience. After a series of delays, the first such broadcast media spots are not scheduled to occur until at least April, a year after modifications could begin. Putting aside whether there are homeowners who could have been helped had knowledge of HAMP been broader, the lack of basic understanding about the program has sown confusion. For example, one servicer reported that its operators repeatedly had to deal with the fact that many borrowers believed that the program was available to everyone. If Treasury were to launch its own public service announcement, it would also provide a broad opportunity to educate the public about foreclosure rescue scams. SIGTARP recognizes that Treasury's Web site and borrower outreach events present warning information regarding this type of fraud. However, SIGTARP alone has opened more than two dozen investigations into this type of fraudulent behavior, and television public service announcements could better educate the public of the dangers of these frauds.

- **Treasury is not providing oversight of servicers' marketing and outreach efforts.** Treasury does not collect any information regarding servicers' marketing efforts. It also cannot ensure the integrity of information disseminated to the public about HAMP, as officials do not conduct oversight of HAMP marketing materials and say they have no plans to do so in the future. An official at Treasury's Homeownership Preservation Office told us the office is not monitoring the marketing or methods servicers use to solicit borrowers and inform them about HAMP. Moreover, the official told us Treasury does not intend to monitor HAMP materials disseminated by servicers in the future, including content on servicers' Web sites. According to Treasury's Homeownership Preservation Office, it does not view marketing inconsistency or content variation as a

[27] Treasury stated it incorporated references to the Homeowners' HOPE Hotline and the MHA website into an existing NeighborWorks America video, which was distributed in December by the Ad Council.

problem that warrants oversight efforts. But, as of November 4, 2009, less than half of the participating servicers' Web sites contained information specific to HAMP,[28] only a little more than one third of the servicers' websites provided a link to the Making Home Affordable Web site, and only 15 provided borrowers warning information about foreclosure rescue scams.

[28] At the time of our analysis on November 4, 2009, 71 servicers had signed HAMP servicer participation agreements.

Conclusions and Recommendations

Any examination of whether a government program is being implemented successfully must have in mind, at least as an initial frame of reference, what the stated purpose of the program was and whether the agency's goals for the program are being met. Unfortunately, in the case of HAMP, even this starting point is less than straightforward.

When HAMP was launched in the first few months of 2009, Treasury justified the program by stating that the program would "help up to 3 to 4 million at-risk homeowners avoid foreclosure," and that it would do so "by reducing monthly payments to sustainable levels." Notwithstanding this laudable aspiration that the program would *actually help* 3 to 4 million homeowners avoid foreclosure, Treasury has stated that the 3 to 4 million homeowner goal is not tied to how many homeowners actually receive sustainable relief and avoid foreclosure, but rather that 3 to 4 million homeowners will receive *offers* for a trial modification. Treasury's focus on how many offers are given out for trial modifications — without setting goals for how many of those offers result in trial modifications or how many of the resulting trial modifications become permanent and thus actually attain the aspiration of helping homeowners avoid foreclosure and stay in their homes for a meaningful period of time — raises issues for how the program was justified and how Treasury is now measuring its progress.

First, defining success by how many offers are given can reasonably be perceived as essentially meaningless. As an extreme example, Treasury could reach, even exceed, its goal with only assisting few homeowners: if offers were given to four million at-risk homeowners, but only a very few accept that offer — because the homeowner is hopelessly underwater, because even the reduced payments are unaffordable, because the homeowner does not understand the terms well enough to take action, or for any other reason — few would be helped and the program would be an abject failure, despite meeting Treasury's stated goal. To be meaningful, Treasury's goal for HAMP must relate to how many people are helped to avoid foreclosure; because offers standing alone do not actually assist homeowners, it is simply not a useful measure.

Second, even if Treasury's goal were construed to measure how many trial modifications were started, that measure too would not be terribly illuminating. Experience thus far has shown that a substantial number of homeowners entering trial modifications never convert to permanent modifications, and a Treasury official informed SIGTARP that it is expected that only 50 percent to 66 percent of the estimated three million trial modifications will convert to permanent status. Although borrowers in trial modifications delay foreclosure and enjoy lowered monthly payments during the several months of the trial period, those benefits go away (and the difference between the original payment amount and the reduced trial payment amount is still owed) if the borrower fails to progress to a permanent modification. Indeed, there is an argument to be made that borrowers who enter trial modifications who do not get permanent modifications are actually harmed by the program because they end up making several additional mortgage payments (money that they could use to secure alternative, more affordable housing) and face foreclosure anyway.

Plainly, the goal that should be developed and tracked is how many permanent modifications HAMP generates that help homeowners avoid foreclosure and stay in their homes. On that front, a year into the program, although more than a million trial modifications have been initiated, the number of conversions to active permanent modifications thus far, 168,708, has been, even according to Treasury, "disappointing." Indeed, a Treasury official's estimate for how many permanent modifications will result from HAMP — 1.5 to 2 million over the course of the four-year program — is a small fraction of how many foreclosures are expected to occur during that period. Approximately 2.8 million homeowners received foreclosure filings just in 2009, and millions more are expected in 2010, with some estimates predicting that the number will eclipse the already staggering 2009 number. It is the current estimated number of permanent modifications, which would average between 500,000 and 667,000 permanent modifications in the remaining three years of the program, and not Treasury's still repeated 3 to 4 million figure, that should inform the debate on whether HAMP is worth the considerable time and resources that are being expended or whether the program needs to be revamped to actually help more at-risk borrowers. Transparency and accountability demand that Treasury establishes goals that are meaningful, and that it report its progress in meeting such meaningful goals on a monthly basis. Continuing to frame HAMP's success around the number of "offers" extended is simply not sufficient.

Turning from goals to implementation, there are several reasons for the disappointing results thus far, and the participants in the program have pointed fingers at one another: Treasury has blamed the mortgage servicers for not doing enough to move borrowers into permanent modifications; the servicers have blamed Treasury for a lack of guidance and ever-changing program rules; and both Treasury and the servicers have blamed borrowers for failing to submit required documentation in a timely manner. This audit, which focuses only on Treasury's performance, has identified several issues with Treasury's implementation of HAMP that have negatively affected HAMP's success thus far:

Repeated changes to program guidelines caused confusion and delay. Treasury attempted to rollout HAMP as fast as possible and made substantial progress in meeting its servicer participation goals in a short period of time: the program was announced in February 2009; the initial program guidelines were released in March 2009; and the first servicers signed agreements in April 2009. Program rules had not been fully developed, however, by the time the program began, and Treasury has had to revise guidelines repeatedly, often causing confusion and delay. The rules relating to what documents are required to be submitted by borrowers, for example, have been changed and/or clarified multiple times since the initial rules were released in March 2009, and the net present value test model and related guidance has been changed or clarified *nine times*, prompting one servicer to estimate that the model changes doubled the amount of time that it took to administer the test. Although Treasury's desire to launch the program as soon as possible was laudable, and some changes to a program as complex as HAMP are inevitable, taking more time at the outset to adequately plan and test HAMP procedures, in the long run, may have resulted in more permanent modifications faster, and with fewer complications, than what has occurred.

Permitting unverified verbal modifications was counterproductive. In July 2009, the Administration set a target of reaching 500,000 trial modifications by November 2009, and Treasury undertook several steps to speed up the pace of trial modifications to meet that target, including expanding outreach efforts and pressuring servicers by publicly reporting results on a servicer-by-servicer basis.

Although the trial modification target was reached as a result, it is now clear that permitting trial modifications without document verification was a mistake that, among other things, has contributed to the slow pace of converting trial modifications into permanent modifications since then, and may have arguably caused actual harm to homeowners placed into trial modifications that had no chance of becoming permanent. The resulting increase in trial modifications has created a large backlog of trial modifications that includes many borrowers who may never provide the required documentation. Servicers have reported that weeding out ineligible borrowers amongst those who entered the program through verbal information is very resource intensive, monopolizing scarce resources that could have been used to process the completed written applications of eligible borrowers. Treasury has recognized this error and has changed the rule for all trial modifications initiated after April 15, 2010.

Marketing efforts concerning HAMP have been limited. To date, Treasury has used three primary methods to market HAMP to the public: an informational Web site, community outreach events, and a telephone hotline. As program administrator, Fannie Mae also provides an outreach toolkit with sample marketing materials on a Web site available to participating servicers. Several limitations in the marketing efforts thus far have been identified:

- Servicers have indicated that more guidance was needed to develop HAMP marketing materials to better inform the public about the program, resulting thus far in a lack of a consistent message and confusion among some borrowers.

- Although Treasury does count the use of its marketing efforts — by tracking hits to its Web site, how many people come to its outreach events, and how many call its hotline — Treasury thus far has not tried to comprehensively gauge whether HAMP information is reaching its target audience (homeowners in trouble) effectively.

- Treasury does not collect any information regarding servicers' marketing efforts and thus does not know whether the servicers are attempting to provide information to the borrowers they service and cannot ensure the integrity of information disseminated to the public about HAMP.

- It has taken Treasury more than a year to develop HAMP-specific unique public service announcements for television, the medium with arguably the best chance of reaching the broadest audience. Putting aside whether there are homeowners who could have been helped had knowledge of HAMP been broader, the lack of basic understanding about the program has sown confusion. If Treasury were to launch its own public service announcements, it would also provide another opportunity to educate the public about foreclosure rescue scams. In the context of a media world in which non-profit groups are able to get television advertisements on the air within days of a natural disaster, it is

simply inexplicable that, when facing a tsunami-sized foreclosure crisis, Treasury has taken more than a year in a four-year program to simply develop — let alone broadcast — its own HAMP-specific television message to reach borrowers.

Re-defaults threaten the long-term success of the program. Even if HAMP results in the estimated 1.5 to 2 million permanent modifications, the program will not be a long-term success if large amounts of borrowers simply re-default and end up facing foreclosure anyway. Treasury estimates that 40 percent of the mortgages that enter into HAMP modifications (trial and permanent) will re-default during the program. Although, in the final analysis, it is up to the policy makers in the Administration and Congress to determine whether it is worth spending tens of billions of dollars of taxpayer funds on a program that is assumed at its outset to fail ultimately for 40 percent of the participants, several aspects of HAMP's design make it particularly vulnerable to re-defaults:

- Debt-to-income ratios: HAMP reduces mortgage payments to what is deemed to be an affordable level, 31 percent of a borrower's gross monthly income. In doing this calculation, however, the only debt HAMP servicers consider is mortgage debt — the borrower's other debts (*e.g.*, car payments, student loans, credit card obligations, and second liens on the home) are not factored into the calculation — and high total debt ratios will not exclude borrowers from participating in HAMP. Spending taxpayer resources to modify the mortgage payment of a borrower is of questionable value if the borrower will be unable to meet the mortgage payment anyway because of the burden of servicing other debts. Indeed, in certain circumstances such a borrower may be better off conserving funds by finding housing at a cost less than even the modified mortgage payment.

- Interest rate increases after modification period: Unlike a traditional fixed-rate mortgage, if the interest rate on a HAMP modification is adjusted to below prevailing market rates, after the five-year period of the program the rate can incrementally increase by up to one percent per year, capped at the 30-year conforming fixed rate on the day the modification agreement is drafted. Borrowers, however, may be unable to meet the increasing monthly payments once the interest rate begins to increase to current market rates if their income has not increased commensurate with the interest rate adjustments. Increasing interest rates, of course, were one of the early drivers of the current foreclosure crisis, particularly as interest rates on sub-prime adjustable rate mortgages reset requiring payments beyond what many borrowers could afford.

- Second liens: Treasury has estimated that up to 50 percent of mortgages at risk of delinquency and foreclosure are backed by second liens. Although borrowers may receive a HAMP permanent modification on their first lien, the total monthly mortgage payments might still be unaffordable if the second lien is not also modified or extinguished. Treasury has instituted a second lien program in which participating servicers must offer either to modify the borrower's second lien according to a defined protocol or to accept a lump sum payment from Treasury in exchange for full extinguishment of the second lien. Participation to date has been extremely limited, but

with the recent signing of Bank of America, Wells Fargo, and JPMorgan Chase, it is improving.

- Negative equity and strategic defaults: HAMP does not require servicers to address negative equity (*i.e.*, when the borrower owes more than the house is worth), which has been called by an industry expert the "most important predictor of default." It is estimated that homeowners who have negative equity (currently constituting about 25 percent of all borrowers nationwide) represent almost half of all foreclosures. In light of the amount of negative equity in the mortgages under trial modifications, resulting re-defaults, including strategic defaults, may be a factor as borrowers decide that it makes more economic sense for them to walk away from their mortgages, and rent at a lower cost, rather than continue to make payments that may never result in them obtaining equity in their home.

Recommendations

To improve the administration of HAMP, SIGTARP recommends that the Secretary of the Treasury implement the following measures:

- Treasury needs to rectify the confusion that its own statements have caused with respect to its goals and expectations for HAMP. To permit informed debate on the program's value and effectiveness thus far, Treasury must unambiguously and prominently disclose its goals and estimates (updated over time, as necessary) of how many homeowners will actually be helped through permanent modifications, and report monthly on its progress to meeting that goal.

- Beyond just measuring modifications, Treasury should develop other performance metrics to measure over time the implementation and success of HAMP. For example, Treasury could set goals and publicly report against those goals for servicer processing times, modifications as a proportion of a servicer's loans in default, modifications as a proportion of foreclosures generally, rates of how many borrowers fall out of the program prior to permanent modification, and re-default rates. Having specific goals and metrics, and comparing performance against those goals, will be essential in further refining the program and measuring its success.

- Treasury should undertake a sustained public service campaign as soon as possible both to reach additional borrowers that could potentially be helped by the program and to arm the public with complete, accurate information about the program to avoid confusion and delay, and to prevent fraud and abuse.

- Treasury should reconsider its position that allows servicers to substitute alternative forms of income verification based on the subjective determination by the servicer, such as whether such documents are "appropriate" or relying on the servicer's "good business judgment consistent with the judgment employed when modifying mortgage loans held under their own portfolio." Although we certainly understand Treasury's desire to speed

up conversions from trial modifications into permanent modifications, this provision is problematic. It will be very difficult to determine from a compliance and oversight perspective whether the rule is followed: to determine whether a borrower was admitted into a permanent modification appropriately under this provision, a compliance or oversight body will need to figure out what documents a particular servicer's own proprietary modification system would require under the circumstances and then, given that system, whether acceptance of the alternative documents constitutes good business judgment under that system. Furthermore, because servicers have both an economic and reputational incentive to convert as many trial modifications to permanent modifications as possible, this provision seriously risks being the exception that devours the rule, with servicers applying loose underwriting standards to generate higher conversion rates, which could result in waste from taxpayer-funded modifications that will eventually re-default. If Treasury believes that it is appropriate to expand the forms of income verification that it will deem acceptable, it should do so in an open and transparent manner rather than simply deferring to the servicers.

- Treasury should re-examine the program's structure to ensure that the program is adequately minimizing the risk of re-default. If HAMP ends up being a foreclosure mitigation program that merely delays foreclosures rather than preventing them, the program will be of questionable value, particularly in light of the huge investment of taxpayer funds. A program that helps borrowers permanently avoid foreclosure is preferable (and far less wasteful of tax dollars) to one that merely kicks the proverbial foreclosure can down the road. The program as currently constituted may not adequately address the risk of re-defaults stemming from non-mortgage debt, from second liens on the property, from the partial interest rate resets after the five-year modifications end, and from the fact that many of the borrowers are hopelessly underwater with little hope of ever building equity in the home.

In sum, one year into HAMP, although Treasury has done a considerable amount of work and made progress in establishing the administrative framework of the program, Treasury must promptly address the issues raised in this report; failure to do so could result in a lost opportunity to make sure that the TARP program that was specifically intended to benefit Main Street, as well as Wall Street, succeeds. Absent a thorough review of HAMP and its goals, the program risks helping few, and for the rest, merely spreading out the foreclosure crisis over the course of several years, at significant taxpayer expense and even at the expense of those borrowers who continued to struggle to make modified, but still unaffordable, mortgage payments for months more before succumbing to foreclosure anyway. While such spreading out of the pain may in some circumstances benefit the lender/investors (who may not have to immediately recognize losses that could accompany additional immediate foreclosures), it will have done little to accomplish EESA's explicit purpose to "help families keep their homes."

Management Comments and Audit Response

In its management response, which is reproduced in full in Appendix F, Treasury generally concurs with and indicates that it is working towards implementing SIGTARP's recommendations concerning the need for Treasury to (a) disclose its goals and estimates for how many homeowners will be helped through permanent modifications, (b) develop goals for other performance metrics to measure HAMP implementation and success, and (c) undertake a sustained public service campaign.

Treasury disagrees with SIGTARP's two other recommendations. First, with respect to SIGTARP's recommendation that Treasury reconsider its decision to allow servicers to substitute alternative forms of income verification, for the reasons stated in the report, SIGTARP continues to submit that verification of a requirement as central to HAMP as a borrower's income should be explicit and uniform. Accordingly, SIGTARP stands by this recommendation.

Treasury also disagrees with SIGTARP's recommendation that it should re-examine the program's structure to ensure that the program is adequately minimizing the risk of re-default. Although Treasury acknowledges that "there are alternative structures that could lower re-default rates," it asserts that the recommendation fails to acknowledge that these alternatives might limit the total number of participants in the program or could result in increasing program costs. Ultimately, if the program is plagued by high re-default rates, it will have done little to achieve the goal of assisting homeowners who would still find themselves losing their homes after an unsuccessful short-term modification. In light of the significant costs of re-default — both in terms of devoting taxpayer funds merely to delay foreclosure and in terms of potential harm to homeowners — in the final analysis, SIGTARP continues to believe that only through maximizing the number of *sustainable* permanent modifications can Treasury meet its originally stated intention to enable "homeowners to modify the terms of their mortgage to avoid foreclosure" and therefore "reduc[e] monthly payments to sustainable levels." In other words, a modification program that begins with a smaller gross number of total modifications but that results in lasting relief for a vast majority of those homeowners would be preferable to a program that starts with a higher total number of modifications upfront, but through re-defaults, ends up with fewer people being helped over the long term. As to cost, although SIGTARP does not take any position with respect to Treasury's policy determination to allocate $50 billion of taxpayer funds for HAMP, it is worth noting that a recent Congressional Budget Office report estimated that no more than $20 billion of these funds will be spent on HAMP payments. Treasury thus may well have the resources to change the program in a manner that will result in more sustainable modifications and still be below its planned allocation.

SIGTARP continues to recommend that Treasury should re-examine the program's structure to assure that it adequately minimizes the risk of re-default.

Appendix A—Scope and Methodology

We performed the audit under authority of Public Law 110-343, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended. The audit reports on the status of HAMP and specifically addresses the following objectives:

- What is the status of HAMP, and has the program met its goals for participation thus far?
- What challenges have confronted and continue to confront Treasury in implementing the program?

Our audit was completed during July 2009 to March 2010. The scope covered HAMP activities implemented between March 2009 and February 2010 with particular focus on the first-lien program.

We conducted our work at the Treasury Offices of Financial Stability and Domestic Finance in Washington D.C.; Fannie Mae's Washington, D.C. headquarters; Freddie Mac's McLean, Virginia headquarters; and five mortgage servicers. The sample of five servicers was judgmentally selected based on HAMP participation status for privately-owned mortgages, volume of SIGTARP Hotline complaints, HAMP cap allocation amount, and geographic location. Four of the servicers had signed a HAMP servicer participation agreement and one servicer had not. The unpaid principal balance of participating servicers' servicing portfolio was not available during our audit planning, and was therefore not included as a sampling criterion. Site visits to the servicers occurred from September 2009 through October 2009. We also conducted work at the Homeowner's HOPE hotline in Lock Haven, Pennsylvania, and attended borrower outreach events in Chicago, Illinois, and Woodbridge, Virginia, which were sponsored by Treasury, Fannie Mae, or Hope Now.

To assess the status and challenges confronting HAMP as well as Treasury's plans to address existing challenges, we interviewed Treasury officials from the Offices of Financial Stability and Domestic Finance and GSE officials who were involved in the policy decision-making process, including interim and permanent Chief Homeownership Preservation Officers and Fannie Mae's and Freddie Mac's Chief Executive Officers. We also discussed the status and challenges confronting HAMP with Federal Housing Finance Agency officials, as well as mortgage servicing industry experts. We interviewed servicer officials and observed the loss mitigation, collections, and HAMP operations departments at the five servicers we visited. We reviewed modification policies and procedures developed by Treasury, GSEs, and servicers, as well as reports and testimonies by Government Accountability Office, the Congressional Oversight Panel, the Office of the Comptroller for the Currency, the Office of Thrift Supervision, and industry groups. We reviewed mortgage modification complaints received through the SIGTARP Hotline. We also evaluated Treasury's weekly and monthly HAMP status reports and other HAMP data reports produced by Fannie Mae. To determine the extent that trial

modifications resulted in changes to interest rates, amortization terms, and mortgage payments, we reviewed all active trial modifications in the HAMP system of record as of November 5, 2009, for the four servicers we visited which were modifying privately-owned mortgages for HAMP at that time.

To assess the methods Treasury used to market HAMP, we analyzed and assessed the Office of Financial Stability's ("OFS") HAMP marketing and outreach strategy against the nine key practices for developing a consumer education campaign compiled by GAO.[29] We spoke with officials within the marketing teams at OFS and Fannie Mae to learn their roles and responsibilities, and we examined HAMP marketing policies, procedures, and budgets. In addition, we reviewed Fannie Mae's financial agency agreement to identify any specific marketing responsibilities the GSE was assigned as part of its role as HAMP program administrator. During visits with five servicers, we interviewed officials to determine the extent to which Treasury issued policies, procedures, and other guidance to assist them in developing their HAMP marketing materials. We also reviewed samples of the servicers' marketing materials, such as letters and pamphlets, and asked officials about the extent to which Treasury or Fannie Mae had reviewed such materials to determine the level of governance associated with ensuring the accuracy of information disseminated to the public. We reviewed Treasury's HAMP website (www.makinghomeaffordable.gov) and 71 participating servicers' Web sites to assess the amount of information provided to borrowers about HAMP as well as to identify best practices or inconsistencies among the information provided. In addition, we interviewed Homeowner's HOPE hotline officials, listened to hotline recorded calls, and obtained those officials' reviews of the operators' handling of the calls. At the borrower outreach events in Illinois and Virginia, we observed the proceedings and the processing of individual borrowers and evaluated the material presented to borrowers by the sponsors, servicers, and non-profit counselors. We also attended a Treasury-sponsored event that educated and addressed concerns of housing counselors and community officials about HAMP.

This performance audit was performed 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.

Use of Computer-Processed Data

To perform this audit, we used unaudited data provided by Treasury to report on the status of trial and official modifications. Treasury produces this information based upon data servicers report to the Investor Reporting 2 database — a transaction mortgage servicing system — which is maintained by Fannie Mae. The extent to which we captured the full universe of HAMP modifications, whether in trial period or official status, is subject to the completeness and accuracy of Investor Reporting 2.

[29] GAO-08-43, "Digital Television Transition: Increased Federal Planning and Risk Management Could Further Facilitate the DTV Transition," 11/2007, p. 26-26, 40-43.

Internal Controls

SIGTARP will release a mutually exclusive audit report addressing the adequacy of HAMP internal controls later this year. Our report will address several internal control objectives, including the state of the HAMP control environment and the extent to which conflicts of interest may exist across responsible program parties. In addition, the report will examine the reliability of program data, as we previously stated its completeness and accuracy require further review.

Prior Coverage

Congressional Oversight Panel, *"Foreclosure Crisis: Working Toward a Solution,"* March 6, 2009

Congressional Oversight Panel, *"An Assessment of Foreclosure Mitigation Efforts after Six Months,"* October 9, 2009

Congressional Oversight Panel, "*Taking Stock: What has the Troubled Asset Relief Program Achieved?,"* December 9, 2009

Government Accountability Office, Report No. 09-837, *"Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable,"* July 23, 2009

Government Accountability Office, Report No. 10-16, *"One Year Later, Actions are needed to Address Remaining Transparency and Accountability Challenges,"* October 8, 2009

Government Accountability Office, Report No. 10-301, *"Office of Financial Stability (Troubled Asset Relief Program) Fiscal Year 2009 Financial Statements,"* December 9, 2009

Appendix B—HAMP Stakeholders

Several entities work with Treasury to implement HAMP. Treasury has engaged the GSEs and Bank of New York Mellon as financial agents to carry out specific program tasks. Servicers execute the modifications. Other government housing authorities and the Homeowner Preservation Foundation also have a role in HAMP. See the following descriptions of key HAMP stakeholders' roles and responsibilities.

Treasury

Treasury's Domestic Finance and the OFS are the primary Treasury offices that developed Making Home Affordable. OFS created the Homeownership Preservation Office in November 2008, and this office serves as the Making Home Affordable Program office. The Homeownership Preservation Office is responsible solely, or in conjunction with other OFS offices, for the following program functions:

- Audit oversight
- Congressional and regulatory liaison
- Data analysis
- Establishing policies in conjunction with other Treasury departments and the GSEs
- Communicating and marketing the program (performed in conjunction with Fannie Mae), including maintaining the www.makinghomeaffordable.gov website
- Oversight of program compliance and fraud prevention (performed in conjunction with Freddie Mac)

Fannie Mae

Fannie Mae was selected to be the Program Administrator for all programs under the Homeownership Preservation Office and signed a Financial Agency Agreement with Treasury on February 18, 2009. This agreement details Fannie Mae's roles, responsibilities, and basis for compensation. As the program administrator, Fannie Mae has been tasked with assisting with creating program policies, developing a marketing plan, developing the net present value model under Treasury direction, maintaining the program system of record, preparing and producing program management reports, developing a servicer integration team to provide on-going assistance to all servicers, and integrating servicers that are new HAMP participants.

Freddie Mac

Freddie Mac was selected as the HAMP compliance agent to ensure servicers are following program guidelines, and a Freddie Mac official signed a Financial Agency Agreement with Treasury on February 18, 2009. This agreement details Freddie Mac's roles, responsibilities, and basis for compensation. Freddie Mac established a separate group of employees, named the Making Home Affordable compliance team, that are firewalled[30] from the rest of Freddie Mac's organization. The compliance team assesses all institutions that signed a HAMP servicer participation agreement on a quarterly basis, and new data is monitored on a monthly basis.

Making Home Affordable compliance has plans to conduct announced and unannounced site visits to the servicers. Making Home Affordable compliance employs loan file and management control reviews, as well as on-site and off-site procedures to review servicers' compliance. When new servicers sign a participation agreement, Freddie Mac attempts to visit them for a "readiness" review. Freddie Mac has reviewed 11 servicers as of January 2010, which represents 16 different servicing platforms.[31] Freddie Mac also publishes additional HAMP guidance to servicers for the Freddie Mac portion of GSE loans that are modified.

Bank of New York Mellon

Treasury selected Bank of New York Mellon in October 2008 to serve as its primary agent for custodial, accounting and auction management for TARP. With respect to HAMP, it is responsible for processing and distributing the program's incentive payments to the participating servicers.

Mortgage Servicers

All servicers of GSE loans are required to evaluate those mortgages under HAMP. In order to modify privately-owned mortgages and receive incentive payments, a servicer must sign a Servicer Participation Agreement. Servicers contact borrowers who may be eligible for HAMP, and borrowers may also contact their servicer if they meet general eligibility requirements. Servicers report HAMP modifications in the program's system of record, Investor Reporting 2 database, created by Fannie Mae.

Federal Housing Finance Agency

The Federal Housing Finance Agency serves as the regulator and conservator of the GSEs and has oversight of GSE loans that are eligible for HAMP. The Federal Housing Finance Agency provides feedback for policy changes to Fannie Mae and Freddie Mac in their parallel modification programs.

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[30] Firewalls, in this context, are organizational controls intended to minimize conflicts of interest for employees with certain sensitive program knowledge.

[31] Servicing platforms means each servicing entity's book of business, including legacy servicing portfolios of acquired companies (e.g., Wells Fargo would count as multiple platforms due to the inclusion of Wachovia and other acquired entities).

U.S. Department of Housing and Urban Development

The U.S. Department of Housing and Urban Development has formed a partnership with HAMP, providing free housing counselors across the United States that can assist borrowers in avoiding foreclosures. Federal Housing Authority is an agency that exists as part of the Department. Federal Housing Authority has helped keep families in their home through loss mitigation practices such as deed-in-lieu, loan modifications, pre-foreclosure sales, and forbearance, among other practices throughout the United States.

Homeownership Preservation Foundation

The Homeownership Preservation Foundation's mission is to develop innovative solutions for preserving and expanding homeownership through consumer education and counseling programs. The Foundation created the Homeowner's HOPE Hotline in 2004, and Fannie Mae, on behalf of Treasury, contracted with the Foundation for the Homeowner's HOPE Hotline to become HAMP's central telephone tool. The Making Home Affordable call center launched on June 22, 2009, and intends to increase foreclosure prevention awareness, educate homeowners about their options and guide them to an optimal solution, and drive homeowners to obtain either refinance, obtain a modification, or seek financial counseling.

Appendix C—Net Present Value Test Guidance

Changes and Clarifications in Treasury's Guidance on Its Net Present Value Model Parameters and Reporting

Date	Change Description
March 4, 2009	Treasury issues guidelines that introduce its net present value model and explain how the model should be used to evaluate borrowers requesting a HAMP modification. This net present value test is supposed to compare the net present value of cash flows expected from a modification to the net present value of cash flows expected in the absence of a modification. If the net present value of the modification scenario is greater than the net present value of no modification, the net present value result is deemed positive. If the net present value test generates a positive result, the servicer is required to offer a mortgage modification to the borrower. If the test generates a negative result, modification is optional. The following model parameters were introduced: • The program allows the servicer to choose the discount rate — the rate that determines the value of future payments compared to payments received today — to use in the net present value model, subject to a program-determined ceiling that will be sensitive to the market-determined cost of funds. • The cure rates — to cure a mortgage in default is to pay all the back payments, interest, and legal fees — and re-default rates are to be obtained from a default equation with parameters based on Fannie Mae and Freddie Mac analytics and program portfolio data, except where servicers use custom parameters. • Property value is to be determined in accordance with the guidelines. • The remaining parameters — home price forecast, valuation of the house price depreciation reserve, foreclosure timelines, foreclosure costs, and real-estate owned stigma — is to come from data sets held or produced by the Federal Housing Finance Agency. • Servicers having at least a $40 billion servicing book have an option to substitute a set of cure rates and re-default rates estimated based on the experience of their own aggregate portfolios. Additional parameters and further details of the model components for the net present value test beyond those discussed above were published separately.
April 6, 2009	The Supplemental Directive clarifies the options for borrowers with negative net present value model results and standards for retaining model documentation. It also states that Fannie Mae has developed a software application for servicers to submit loan files to the net present value calculator. Also, servicers having at least a $40 billion servicing book — dollar value of mortgages the servicer is managing — have the option to create a version of the net present value model that uses a set of cure rates and re-default rates estimated based on the experience of their own portfolios and that guidance on required inputs for custom net present value calculations will be forthcoming. Treasury requires servicers to maintain detailed documentation of the net present value model, all net present value inputs and assumptions, and the net present value results each time they run the test, regardless of whether the mortgage is modified.
June 11, 2009	Treasury issues updated guidelines that further explain the following key net present value model parameters presented previously in the March 4th guidelines.

	• Discount rate – All servicers are permitted limited discretion to adjust the discount rate by up to 250 basis points. The discount rate may be as low as Freddie Mac's Primary Mortgage Market Survey weekly rate for 30-year fixed rate conforming loans. In no case may a servicer use a higher discount rate for loans in its own portfolio than the rate used for loans it services for other investors. With respect to loans owned or guaranteed by Fannie Mae or Freddie Mac, the servicer is to apply the rate specified in Fannie Mae and Freddie Mac guidance. • Default rate – The model projects the probability of default if the loan is not modified and the probability of default if the loan is modified. As HAMP performance data becomes available, the model is to be updated to reflect actual program experience. Large servicers — those with a book exceeding $40 billion — may customize the base model to use modeled default rates that reflect their own portfolio experience. • Home prices – A servicer must use the base model's home price projection, made available by the Federal Housing Finance Agency exclusively for this program and is based on data from a broad cross-section of mortgage transactions that is to be updated quarterly. • Foreclosed or real-estate owned discount – The real-estate owned discount recognizes the deterioration in perceived value that buyers often place on a home that has been foreclosed.
July 9, 2009[a]	Fannie Mae outlines the following enhancements under development based on servicer feedback on version 1 of the net present value model. • Metropolitan statistical area level home price projection – Fannie Mae simplifies the AR2 model developed for the Treasury to use in version 2 of the net present value model and allows flexibility for other servicers to use other indices (e.g., Moody's, Case Shiller, etc.). • More granular real-estate owned discount – Fannie Mae clarifies the real-estate owned discount by using the current discount for automated valuation model values — a 75 percent discount for external broker price opinions/appraisals and a 25 percent discount for internal broker price opinions/appraisals. • Prepayment model – Fannie Mae proposes a prepayment model that considers variables such as the change in modification rate versus the market rate, mark-to-market loan-to-value, and loan status. Fannie Mae further notes that relevant modification data to calibrate the prepayment model are yet not available. • Home price decline protection payment – Fannie Mae provides final rules about home price decline protection payment for version 2 of the net present value model.
July 31, 2009	Treasury issues Supplemental Directive 09-04, which introduces the home price decline protection program, an initiative designed to encourage modification of loans in markets hardest hit by falling home prices. The Supplement Directive adds the home price decline protection incentive payment as an input to the net present value model and informed the servicers that the details are to be made available in early August 2009. Servicers that integrated the base net present value model into their systems or customize the model in accordance with program requirements are responsible for ensuring that they incorporate the required home price decline protection determination functionality into their version of the net present value model. Also, the Supplemental Directive informs the servicers that specific details regarding the use of the home price decline protection incentive payment in the net present value model is to be provided in the documentation for version 3 of the model.
August 7, 2009	Treasury issues guidance that makes significant changes from version 2 to version 3 of the net present value model: • Home price decline protection incentive – The home price decline protection incentive is to be effective beginning September 1, 2009. (Supplemental Directive 09-04 contains the detailed policy guidelines for the Home Price Decline Protection Program.)

	• Prepayment model – The guidance adjusts coefficients for the prepayment model and the refinance incentive value bounds. • Model versioning requirements –Servicers are required to use the same major model version, related supplement data, and the Freddie Mac Primary Mortgage Market Survey weekly rate for the initial model run in subsequent model results. • Test consistency requirements –Servicers are required to use borrower and loan information that was initially reported correctly to determine subsequent model results. • Term extension – Loans with current remaining terms greater than 480 months should skip the term extension step. Amortization term after modification should equal the remaining term. Re-amortize and extend the loan to a maximum 40-year term in monthly increments to reach as close to the target 31 percent debt-to-income without going under. • De-seasonalized home price index – Beginning the third quarter of 2009, the home price index is to be adjusted to remove the seasonal affects of home prices and reduce the index's impact on the home price decline protection payment. Also, Treasury's guidance clarifies the documentation required from version 2 to version 3 of the net present value model. For example • Escrow shortage – Servicers are to include any future monthly escrow shortage payments to the "Association Dues/Fees Before Modification" field. • Adjustable-rate mortgage/interest-only reset or recast – For adjustable-rate mortgage/Interest-only recast that is to happen within the next four months, front-end debt-to-income is to be calculated using principal, interest, taxes, insurance, homeowners' association, and/or condominium fees based on the greater of the "Principal and Interest Payment before Modification" input field and the fully amortizing payment. • Timing of the investor incentive and government subsidy incentive in the equations for the modification cure and default cash flows – The investor incentive payment for the trial period is to be made in period 3, and the three government subsidy payments for the trial period are to remain in period 4.
September 11, 2009	Treasury issues Supplemental Directive 09-06, which outlines data collection and reporting requirements for the net present value model. The Supplement Directive requires servicers to report loan-level data starting in October 2009 to Fannie Mae for mortgages evaluated for HAMP, including the net present value model type code and 43 other model inputs.
November 3, 2009	Treasury issues Supplemental Directive 09-08, which requires services who receive a borrower request within 30 calendar days from the date of notifying the borrower their loan has a negative net present value model result to provide the borrower with the date of the net present value calculation and with select input values. If, within 30 calendar days of receiving this information the borrower provides the servicer with evidence that any of these input values are inaccurate and those inaccuracies are material, the servicer is to conduct a new net present value evaluation.
November 30, 2009	Treasury issues Supplemental Directive 09-09, which provides guidance to servicers for the adoption and implementation of the Home Affordable Foreclosure Alternatives Program. The Home Affordable Foreclosure Alternatives Program — a part of HAMP — provides financial incentives to servicers and borrowers who utilize a short sale or a deed-in-lieu to avoid a foreclosure on an eligible mortgage. The Supplemental Directive states that the HAMP net present value model should not be used to project investor cash flows from either a short sale or deed-in-lieu and should be used only to determine borrower eligibility for a HAMP mortgage modification.
January 28, 2010	Treasury issued Supplemental Directive 10-01, which makes the following changes to the net present value model and the use of the model results: • A borrower who has been evaluated for HAMP but does not meet the minimum eligibility criteria described in Supplemental Directive 09-01 or who meets the minimum eligibility criteria but is not qualified for HAMP by virtue of a negative net present value result,

	excessive forbearance or other financial reason, may request reconsideration for HAMP at a future time if they experience a change in circumstance. • In the event a servicer elects to forbear principal in an amount resulting in a modified interest-bearing balance that would create a current mark-to-market loan-to-value ratio less than 100 percent in negative net present value situations, the servicer is to ignore the error code and the flag for excessive forbearance that is returned by the net present value model. Updates are to be made to the model in the future to eliminate this error code. • Servicers are to re-evaluate a loan using the net present value model if the borrower's documented income differs from the stated income used in the borrower's initial qualifying net present value test. With respect to trial modifications after April 15, 2010, servicers may elect to offer the borrower a permanent modification without performing an additional net present value evaluation based on the borrower's verified income documentation. If the servicer elects not to perform an additional net present value evaluation in this situation, the servicer is to enter the trial period date and values for the model results when reporting to the HAMP system of record.

Note a: Because official guidance for these changes is not posted to the HAMP servicer website, this information on the net present value model is based on a July 9, 2009, Fannie Mae presentation.

Source: SIGTARP analysis of Treasury's and Fannie Mae's data.

Appendix D—Acronyms

Acronym	Definition
EESA	Emergency Economic Stabilization Act of 2008
GSE	Government-sponsored enterprise
Fannie Mae	Federal National Mortgage Association
Freddie Mac	Federal Home Loan Mortgage Corporation
HAMP	Home Affordable Modification Program
HUD	Department of Housing and Urban Development
MHA	Making Home Affordable
OFS	Office of Financial Stability
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
TARP	Troubled Asset Relief Program
Treasury	Department of the Treasury

Appendix E—Audit Team Members

This report was prepared and the review was conducted under the direction of Kurt Hyde, Deputy Special Inspector General, Office of the Special Inspector General for the Troubled Asset Relief Program.

The staff members who conducted the audit and contributed to the report include:

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Appendix F—Treasury's Comments

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

March 22, 2010

Neil M. Barofsky
Special Inspector General
Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP)
1500 Pennsylvania Ave., NW, Suite 1064
Washington, D.C. 20220

RE: SIGTARP Draft Audit Report

Dear Mr. Barofsky:

Thank you for the opportunity to review the draft audit report titled "Factors Affecting Implementation of the Home Affordable Modification Program (HAMP)", to be released on an embargoed basis on or about March 23, 2010. The Department of the Treasury (Treasury) is working to continuously strengthen foreclosure mitigation efforts through HAMP. As explained below in the summary responses for each recommendation in the report, in general, we concur with the concerns expressed in the recommendations (a), (b) and (c), towards which Treasury has already taken and is taking significant steps, but do not concur with recommendations (d) and (e). In addition, we have commented on the characterization of the net present value (NPV) model contained in the audit report. A detailed description of the actions that Treasury has already taken or plans to take with regard to the concerns expressed in the recommendations will be provided to SIGTARP within 30 days of the issuance of the audit report.

Before we address our summary responses to the recommendations, we should note that Treasury appreciates the acknowledgement in the report that SIGTARP "accepts Treasury's assertion that its goal has always been offers and not permanent modifications." We also agree with SIGTARP's statement that "To be meaningful, Treasury's goal for HAMP must relate to how many people are helped to avoid foreclosure." But we respectfully do not concur with the conclusion that that helping homeowners actually avoid foreclosure "can only occur with permanent modifications." Our goal is to avoid preventable foreclosures among homeowners eligible for HAMP through modifications as well as alternatives to foreclosure such as short-sales and deed-in lieu, and other modification programs offered by servicers.

Through HAMP, every homeowner who is eligible for a permanent modification, who submits all required documentation and remains current during the trial period will get a permanent modification offer. Homeowners who participate in HAMP and then are denied a permanent modification because they did not meet the criteria may have alternatives other than foreclosure. The success of HAMP should be measured by how many eligible homeowners are able to avoid the pain and stigma of foreclosure by reducing their mortgage payments to affordable levels while either remaining in their homes or transitioning with dignity to more suitable housing. The number of permanent modifications is one element, but not the only element of gauging the success of HAMP programs over time.

Additionally, the approximately 170,000 permanent modifications reported in the MHA Monthly Report and identified in the audit report does not account for the approved final modifications that are awaiting acceptance by the borrower. Of the 1.1 million borrowers that have started a HAMP modification, 170,000 borrowers have entered permanent modifications, and an additional 91,000 borrowers have

received final approval from the servicers, which represents 32% of borrowers in trial periods for longer than three months and therefore eligible for a decision on a final modification.

Summary responses to SIGTARP recommendations

Recommendation (a): Treasury should unambiguously and prominently disclose its goals and estimates (updated over time, as necessary) for how many homeowners will actually be helped through permanent modifications, and report monthly on its progress to meeting those goals.

Treasury acknowledges that there has been confusion about what the references to "helping up to 3-4 million homeowners" meant and that Treasury's own statements have not always been precise. Treasury notes that the Government Accountability Office (GAO) Report in July 2009 described the goal for HAMP in the way that Treasury intended - up to 3-4 million trial modification offers - but many people have assumed this number represented a goal of permanent modifications. Treasury will try in the future to be more precise.

HAMP is the largest, most complex mortgage modification program of its kind, bringing together borrowers, servicers, lenders and investors. There was little historical precedent on how to design the program, in addition to limited data on which to base estimates of potential performance. HAMP is highly transparent with regard to program performance. We publish monthly data reports on program performance – with additional data added to the report on a regular basis. Treasury's first monthly Servicer Performance Report was released in July 2009 and contained data on program performance beginning in May 2009.

The monthly reports unambiguously and prominently state the number of permanent modifications achieved each month since November 2009. The monthly reports also report servicer-specific progress in completing permanent modifications – providing the percentage of each servicer's pool of delinquent loans that have completed a permanent modification. The report also provides information by servicer on the percent of trial modifications converted to permanent modifications. These comparative performance metrics on completion of permanent modifications by servicer provide a good measurement of progress on meeting permanent modification goals.

Recommendation (b): Treasury should set goals for other performance metrics to measure over time the implementation and success of HAMP, and report performance against those goals.

Treasury agrees that performance goals and metrics are critical to the effective administration of any program. At launch there were a number of unknowns regarding implementation of the program that made it difficult to set appropriate targets. These included the number of servicers that would participate; the rate at which they could build capacity to implement the program; and the acceptance of overall program design. In addition, during the first year of operation, targets and goals were focused on short-term implementation deliverables and milestones for the program to become fully operational against the goal of up to 3-4 million trial modification offers.

Since the inception of the program, indicators of performance have been monitored closely, and Treasury has provided extensive information about performance. To ensure accountability, Treasury's website, www.FinancialStability.gov, provides transparency for a wide range of programs, including HAMP, with all of the monthly Servicer Performance Reports and program fact sheets. We have also established two additional websites to provide information about HAMP specifically – www.hmpadmin.gov and www.MakingHomeAffordable.gov. These websites include comprehensive documentation and information about HAMP including, for example, complete lists of all servicers participating in the

program, copies of all contracts signed by servicers, the Supplemental Directives (SDs) that establish additional requirements for HAMP, hundreds of frequently asked questions, a white paper describing the Net Present Value (NPV) test methodology and all of the borrower application documents.

In July 2009, just three months after the first servicers signed agreements to participate in HAMP, Treasury began publishing the monthly Servicer Performance Reports. The first monthly report included one page of information reflecting the limited data available and reliable at that time, including trial modifications started and trial modifications offered. Each month we have significantly expanded the amount of data included in the monthly report, to maximize servicer accountability and program transparency. The latest report includes a copious amount of data through February 2010, for example: data on trial and permanent modifications by servicer, a list of participating servicers, trial and permanent modifications at the state and key metropolitan levels, a chart of the estimated population of borrowers eligible for HAMP, an overview of administration housing initiatives, characteristics of permanent modifications, average payment reduction, data on modifications by investor type, permanent modifications by waterfall steps, and predominant hardship reasons for permanent modifications.

In September 2009, we began to include modification performance by servicer in the monthly Servicer Performance Report to increase the accountability of servicers participating in the program. This included adding a "trial modification tracker" which tracks each servicer's population of delinquent loans as well as what percentage of that pool has been offered a trial modification, started a trial modification and started a permanent modification. This servicer performance metric compares the relative success of each servicer in reaching its eligible pool of borrowers, and provides a clear metric of what percentage of eligible borrowers overall are being reached through HAMP. As of 2010, the reports include servicer-by-servicer comparisons of both trial modifications and permanent modifications as a percent of the servicer's pool of loans that are sixty or more days past due.

With the lessons learned from the past several months of full capacity operations, Treasury will set specific targets for key program objectives soon and for which we will provide a further description in the detailed response letter. For example, Treasury has developed a survey of operational metrics and is collecting data from servicers on an enhanced number of performance measures, including time to answer incoming borrower calls, and time to process HAMP applications from homeowners.

Recommendation (c): Treasury should undertake a sustained public service campaign as soon as possible both to reach additional borrowers that could potentially be helped by the program and to arm the public with complete, accurate information about the program to avoid confusion and delay, and to prevent fraud and abuse.

Treasury will consider the audit report's suggestion that we "comprehensively gauge whether HAMP information is reaching its target audience (homeowners in trouble) effectively," for the implementation of the public service campaign described below. We believe the fact that more than 1.3 million homeowners have received offers for trial modifications, representing an estimated 60%of the total population of homeowners currently eligible to participate in HAMP, is a testament to the outreach efforts by Treasury and the servicers.

Treasury has taken and continues to take significant actions to supplement the efforts of servicers in terms of program outreach. Fundamentally, it is the contractual responsibility of servicers participating in HAMP to reach out to borrowers and convey information about the program to the homeowners whose loans they service.

Treasury is working with the Ad Council on a two-part public service announcement (PSA) campaign that has been underway since December 2009. For the first part of this campaign, Treasury is partnering with the U.S. Department of Housing and Urban Development (HUD) and NeighborWorks America® on a refreshed foreclosure prevention campaign. The refreshed campaign includes a new call-to-action for struggling homeowners by directing them to the Homeowner's HOPE Hotline and *MakingHomeAffordable.gov* so that they may receive free assistance with the Making Home Affordable Program from a HUD-approved housing counselor. The campaign includes both television and radio advertising that have been sent to 12,000 stations across the country, as well as web banners and outdoor advertising. The Ad Council will share regular updates about the success of the campaign with Treasury. Preliminary reports from January (the first full month of advertising) demonstrate that the advertisements have already run about 1,000, including at stations in some of the hardest-hit areas of the country, such as Detroit, Michigan; Jacksonville, Florida; and San Luis Obispo, California.

For the second phase of the campaign, Treasury and HUD are working with the Ad Council on a new multi-media campaign set to launch in late spring 2010. The new campaign will feature English and Spanish television, radio, outdoor and web advertisements, as well as fliers and other print materials. The Ad Council recently held one-on-one interviews with homeowners in Miami, Florida and Chicago, Illinois to test the various campaign approaches for effectiveness. As with the "refresh" campaign currently underway, the key message of this campaign will be that free help is available from the federal government if homeowners reach out for help.

Treasury believes that engaging in the two-part roll-out will continue to raise awareness of the program among eligible homeowners. By working with the Ad Council on these campaigns, we are able to leverage its extensive relationships to secure donated space, keeping campaign costs down but media impressions high.

Recommendation (d): Treasury should reconsider its decision to allow servicers to substitute alternative forms of income verification based on the subjective determination by the servicer, such as whether such documents are "appropriate" or relying on the servicer's "good business judgment consistent with the judgment employed when modifying mortgage loans held under their own portfolio."

The Supplemental Directives published by Treasury, specifically SD 09-01 and SD 10-01, clearly state the requirements for documentation of borrower income for HAMP modifications. However, these guidelines were never intended to be, and should not be, a comprehensive underwriting guide applicable to every unique borrower circumstance or to replace servicer judgment in making credit decisions for its portfolio. Although standards are important in the underwriting process, the application of good business judgment is also critical, and helps to ensure appropriate outcomes for all potentially eligible borrowers. Good business judgment is applied to include the non-traditional borrower (e.g., a recently re-employed person with an offer letter and only one associated pay stub). The updates to HAMP underwriting requirements described in the SD 09-07 and SD 10-01 reinforced the most important fraud protection measures – a requirement that servicers obtain tax returns/transcripts and a credit report for 100% of borrowers. Treasury is working with Fannie Mae to implement fraud detection procedures as contemplated in SD 09-07, targeting owner-occupancy and identity.

With regard to oversight and compliance, auditors are accustomed to evaluating organizations' application of business judgment. In addition, auditors apply their own good business judgment in assessing the nature and impact of identified exceptions. SD 10-01 specifically requires the servicers to appropriately document "the decision-making process when applying good business judgment ... and,

where applicable, reference the servicer's associated policies and procedures". Therefore, Treasury, through the compliance agent, will be able to evaluate and conclude on the applicability of the servicer's use of judgment. The compliance agent's suite of compliance activities (specifically, on-site fieldwork and loan file reviews) is constructed to assess the adequacy of the servicer's documentation, the appropriateness of the servicer's business judgment, and the consistency with which that judgment is applied.

Recommendation (e): Treasury should re-examine the program's structure to ensure that the program is adequately minimizing the risk of re-default.

Treasury continues to examine program parameters to improve operational efficiency and effectiveness. SD 10-01 is an example of this re-examination as it takes a major step forward in minimizing re-default risk by mandating the move to fully verified trial period plans. Beginning with trial plans offered after April 15, 2010 (June 1 Trial Plan effective date), borrowers must be fully verified and determined to be eligible for a permanent modification, subject only to timely receipt of trial period payments. This will limit the fall-out from trial to permanent to only those borrowers who fail to make trial payments.

Payment affordability under HAMP is achieved primarily through interest rate reduction, term extensions and principal forbearance. All loans permanently modified include an interest rate reduction (and the median decrease is four percentage points), 40% of modifications include term extensions and 28% have principal forbearance. HAMP supports long term sustainability by fixing the initial interest rate for five years and making term extension and principal forbearance permanent. This gives the borrower the ability to recover from the hardship that caused the initial delinquency.

After five years the interest rate is gradually increased but will never exceed an interest rate cap based on the Freddie Mac survey rate on the date of the modification. That rate is currently near historic lows. The median rate cap of permanent HAMP modifications is five percent for the life of the loan. This rate is an affordable rate over the life of loan, and represents a significant reduction from the loan's original interest rate for many borrowers, particularly those who had subprime, high rate loans.

The program design for HAMP purposely focused on achieving affordability of the first mortgage payment in an effort to preserve homeownership. It also includes a second lien modification program to provide a comprehensive affordability solution for borrowers. Failure to pay back-end or consumer loan debts will not result in the borrower losing the home. A permanent HAMP modification reinstates the delinquent first mortgage and reduces mortgage debt by a median of $500 per month giving borrowers greater ability to control other credit obligations without fear of losing their homes to foreclosure.

We agree that there are alternative modification structures that could lower re-default rates, but the audit report's recommendation and discussion fail to acknowledge that these alternatives, taken alone, would likely result in fewer modifications and therefore fewer modifications completed and/or would significantly increase program cost.

Treasury has also continuously examined issues that can undermine program effectiveness, such as affordability challenges presented by second liens, unemployment and negative equity. Treasury has already announced and begun implementation of the Second Lien Modification Program (2MP), including three servicers - Bank of America, Wells Fargo and JPMorgan – that together account for more than $400 billion of second lien loans. We expect other large servicers to join soon. While the focus of the program remains affordability, Treasury continues to study ideas that will enhance, albeit modestly, program outcomes for unemployed and underwater borrowers.

Additional comment on the Net Present Value model

In addition to the summary responses above, Treasury has the following observations regarding the characterization that "repeated changes in net present value methodology have caused confusion and delay in implementing HAMP":

- All servicers have had access to the fully operational portal NPV model throughout the program.
- The major changes to the NPV model have reflected improvements in that model and program adjustments in HAMP that servicers supported. We have not introduced a material change since version 3.0 in August, 2009.
- On selected servicer concerns with "doubling the time": as noted above, a fully operational version of the NPV has been available through the portal at all times. A servicer having difficulty recoding the model into its system could and should use the portal.

Treasury shares your commitment to effective foreclosure mitigation and dedication to protecting taxpayer interests. We appreciate SIGTARP's acknowledgment in the audit report that "Treasury has made progress in developing the administrative backbone of the program and in getting the program started rapidly", and "Treasury has made substantial progress during the year since the announcement of HAMP in attaining servicer participation."

We look forward to working with you and the SIGTARP team.

Sincerely,

Herbert M. Allison, Jr.
Assistant Secretary for Financial Stability

Draft Report
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If you are aware of fraud, waste, abuse, mismanagement, or misrepresentations associated with the Troubled Asset Relief Program, please contact the SIGTARP Hotline.

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HOME AFFORDABLE MODIFICATION PROGRAM
BASE NET PRESENT VALUE (NPV) MODEL SPECIFICATIONS

UPDATED: JUNE 11, 2009

Overview

As a part of the Making Home Affordable Program, we are providing standardized guidance and a base net present value (NPV) model described herein that any servicer who participates in the Home Affordable Modification Program (HAMP) can use or, if eligible, customize into a proprietary NPV model. The base NPV model is illustrative of an NPV model that meets the specifications put forward under the Making Home Affordable Program. Servicers are not precluded from using the illustrative model for making program NPV determinations. It is our expectation that servicers may use the Base NPV Model Documentation to customize the model based on their individual portfolio experience – all within the standardized guidelines put forward for the model under the program. The base NPV model will provide consistency in NPV calculations for the Home Affordable Modification Program and help the industry move toward a more standard process for evaluating the NPV of mortgages for purposes of making modifications.

A participating servicer in the Home Affordable Modification Program must modify any loan that meets the program's eligibility criteria if the modification tests "positive" for NPV. When mortgage modifications have a positive NPV, it is in the best interests of lenders, servicers, investors, and borrowers to modify mortgages to reduce the risk of foreclosure. The Home Affordable Modification Program increases the potential number of mortgage modifications that will have a positive NPV, resulting in more servicers modifying mortgages, and keeping more Americans in their homes. The Home Affordable Modification Program specifies a precise method for determining NPV and provides a base NPV model that any servicer can use or customize into a proprietary NPV model that satisfies all of the program's methodological requirements.

Under the program, a defined set of parameters for the base NPV model can be customized for each servicer. Every servicer is given discretion, within specified limits, to choose a discount rate. In addition, larger servicers are given discretion to develop portfolio-specific default rates. These customization capabilities are built into the base NPV model to preserve the ability of servicers, lenders, and investors to tailor the base NPV model to reflect the unique characteristics of the loans that they service or own, and to incorporate knowledge gained from years of working with those particular groups of mortgages. For other servicers, the baseline parameters can provide a sufficient NPV tool to evaluate loans being considered for modification.

Net Present Value of Modification

In general, NPV refers to the value today of a cash-generating investment – such as a bond or mortgage loan. When an investor is faced with a choice between two alternative investments – specifically, between the timing and amounts of the cash flows for each investment – the investor obviously prefers the choice that has a higher present value.

In the context of a mortgage borrower who has become distressed, the investor – or a third party servicer, acting on behalf of the investor – faces a choice of whether to modify the mortgage or leave it as-is. Each choice

generates expected cash flows, and the present values of these two cash flows are likely to be different. If the loan is modified, there is a greater chance that the borrower will eventually be able to repay the loan in full. If not, there is a higher likelihood that the loan will go to foreclosure, and the investor will absorb the associated losses. If the NPV of the modified loan is higher than the NPV of the loan as-is, a modification is said to be "NPV positive."

The Making Home Affordable Program is structured to produce modifications that are more likely to test NPV positive, increasing the number of modifications that will be done and keeping more Americans in their homes. It does this, first, by lowering the probability that borrowers will default by making borrower payments more affordable and, second, by providing incentive payments that are added to cash flows received by lenders (or investors).

If a borrower meets the eligibility criteria for the Home Affordable Modification Program, a servicer will adjust the terms of the borrower's loan (modify the loan) to reduce the borrower's payment to the program's target front-end debt-to-income (DTI) ratio of 31 percent. At a 31 percent DTI, the borrower will have a monthly mortgage payment that is more affordable over the long term, so that the borrower will be more able to afford to stay in his or her home.

Servicers must reduce payments in the precise manner specified by the Making Home Affordable Program (the "Standard Waterfall"), starting with reducing the interest rate on the mortgage. Once the servicer knows which loan terms will change, the servicer is ready to run an NPV model calculation. If the expected value to the lender of the loan after a HAMP modification exceeds the expected value of the same loan to the lender if it is not modified, then the NPV test result is positive and the servicer must modify the loan.

Requiring servicers to modify all NPV-positive loans ensures that there is help for all distressed borrowers when an objective test demonstrates the modification will benefit both the borrower and the investor. The program does not require the servicer to modify the loan if the modification tests negative, though the servicer must consider other ways to prevent foreclosure.

The Base NPV Model

The program supplies a base NPV model that any servicer may use to satisfy the requirement to modify all eligible loans that test NPV positive for modification. Large servicers – those having a book of business exceeding $40 billion – have some discretion to customize the base NPV model with respect to two important inputs, the expected default rates for loans that are not modified and the re-default rates for loans that are modified, as discussed further below.

Both the base NPV model and a servicer's proprietary customized version will:

1. Compute the net present value of the mortgage assuming it is not modified.

    a. Determine the probability that the mortgage defaults.

    b. Project the future cash flows of the mortgage if it defaults and the present value of these cash flows.

    c. Project the future expected cash flows of the mortgage if it does not default and the present value of these cash flows.

d. Take the probability weighted average of the two present values.

2. In the same manner, compute the net present value of the mortgage assuming it is modified, incorporating the effects on cash flows and performance of the modification terms and subsidies provided by the Home Affordable Modification Program.

3. Compare the two present values to determine if the HAMP modification is NPV positive.

An NPV model used in the HAMP takes into account the principal factors that can influence these cash flows, including:

1. The value of the home relative to the size of the mortgage.
2. The likelihood that the loan will be foreclosed on.
3. Trends in home prices.
4. The cost of foreclosure, including:
    a. legal expenses,
    b. lost interest during the time required to complete the foreclosure action,
    c. property maintenance costs, and
    d. expenses involved in reselling the property.
5. The cost of conducting a modification, including:
    a. a lower monthly payment from the borrower,
    b. the likelihood a borrower will default even after the loan is modified,
    c. financial incentives provided by the government, and
    d. the likelihood that a loan will be paid off before its term expires (prepayment probability).

The base NPV model was designed by an expert working group including the Department of the Treasury, the Federal Deposit Insurance Corp., the Federal Housing Finance Agency, Fannie Mae, and Freddie Mac. It was designed specifically for the Home Affordable Modification Program. The base NPV model reflects aggregate data across many servicers, as well as the professional judgment of the working group.

Individual servicers have their own unique experience with the loans they service. The program permits servicers to customize the base NPV model to reflect that unique experience, within certain constraints and guidelines. As a result of customization, servicer NPV results and resulting modification decisions will likely vary even when borrowers' circumstances appear to be similar, but the results will be more accurate and provide a better gauge of appropriate modifications.

Key Parameters of the Base NPV Model and Customization of Inputs

Below is a summary of important parameters used in the Home Affordable Modification Program base NPV model, and the extent to which servicers may customize the parameters of the base NPV model.

Discount Rate: For a firm that owns a mortgage loan (the investor), the mortgage is a series of future cash payments expected from the borrower. But the promise of a payment in the future is worth less to an investor than cash today. How much less will depend on the discount rate – the higher the discount rate, the less a future payment is worth to an investor today. For example, a $1,000 payment in one year would be worth about $950 today using a 5 percent discount rate, and that same $1,000 payment in a year would be worth about $800 today using a 25 percent discount rate. In the base NPV model, all servicers are permitted limited discretion to adjust the discount rate by up to 250 basis points because different investors may place different values on future payments versus payments received today.

The discount rate the servicer uses may be as low as Freddie Mac's Primary Mortgage Market Survey (PMMS) weekly rate for 30-year fixed-rate conforming loans, and as high as the PMMS weekly rate plus 250 basis points. (To find the current PMMS go to http://www.freddiemac.com/pmms.) With respect to loans that are not owned or guaranteed by Fannie Mae or Freddie Mac, the servicer may apply a single discount rate or two discount rates, one for loans in its own portfolio and another for loans serviced for all other investors. However, in no case may a servicer use a higher discount rate for loans in its own portfolio than the rate used for loans it services for other investors. With respect to loans owned or guaranteed by Fannie Mae or Freddie Mac, the servicer must apply the rate specified in Fannie Mae and Freddie Mac guidance.

Whatever discount rate the servicer chooses to use must be applied to both cash flows – that is, to the cash flows if the loan is modified under the Home Affordable Modification Program, as well as the cash flows if the loan is not modified.

Default Rates: The base NPV model projects default rates in two scenarios. It projects the probability of default if the loan is not modified and the probability of default if the loan is modified. Default rates depend on a number of variables particular to the loan. In general, however, the default rate is assumed to vary based on the credit quality of the borrower, the borrower's debt burden, the loan-to-value (LTV) of the home at the time of modification, and whether the loan is modified earlier or later in the delinquency cycle.

In the base NPV model, the default rates are generated by a model based on the performance of GSE and non-GSE loans. As Home Affordable Modification Program performance data become available, the base NPV model will be updated to reflect actual program experience.

Large servicers – those with a book exceeding $40 billion – may customize the base NPV model to use modeled default rates that reflect their own portfolio experience. These customized default rate models must be empirically validated where possible, commercially reasonable, and will be subject to review and oversight by program monitors.

Default rates may vary significantly from one large servicer to another based on differences in their portfolios. Therefore, allowing servicers flexibility to use rates that reflect their own portfolio experience should result in more accurate evaluations of proposed modifications.

Home Prices: Future increases or decreases in home prices impact a borrower's willingness to stay in a house and potential financial loss in the event of foreclosure. A servicer must use the home price projection provided in the base NPV model. A servicer does not have discretion to substitute a different projection. The home price projection for the program has been made available by FHFA exclusively for this program, is based on data

from a broad cross section of mortgage transactions, and will be updated quarterly. The projection is not based on the FHFA House Price Index and does not represent an official forecast of FHFA or any other government agency.

REO Discount: Foreclosed or real estate owned (REO) properties generally sell for less than similar, non-distressed assets. This is referred to as the REO Discount and it recognizes the deterioration in perceived value that buyers often place on a home that has been foreclosed. The REO Discount is worse in some markets than in others. The REO Discount values used in the base NPV model are based on an analysis of sale prices of foreclosed homes sold by Fannie Mae and Freddie Mac. REO Discount values vary by state and home price. Servicers are not permitted to change the REO assumptions in the base NPV model.

Help for America's Homeowners

MAKING HOME AFFORDABLE

HOME AFFORDABLE MODIFICATION PROGRAM

BASE NET PRESENT VALUE (NPV) MODEL V3.0
MODEL DOCUMENTATION

Updated: December 8, 2009

Contents

I. Overview 3

II. Significant Model Changes from Version 2.0 to 3.0 4

III. Considerations for Cash Flows in the NPV 6

IV. Base Model Components 11

V. Base Model Equations 25

VI. Requirements for Customization of the Base NPV Model by Servicers 34

VII. Calculation Logic for the HAMP Waterfall 38

I. Overview

A central element of the Home Affordable Modification Program (HAMP) is the use of a net present value (NPV) model. An NPV model will be used by servicers participating in the HAMP as a tool for deciding whether to modify a troubled mortgage that is eligible for subsidies under the program.

The base NPV model described in this paper meets the specifications put forward under the Making Home Affordable Program. It is anticipated that servicers will use the base NPV model to develop and, to some extent, customize their own NPV model based on their individual portfolio experience.

The documentation of the base NPV model methodology, provided herein, provides servicers standardized guidelines as they develop NPV models for use in the program.

The base NPV model assesses borrower and loan information for HAMP eligibility and determines whether a proposed modification under the program tests NPV positive or negative. The test result is NPV positive when the total discounted value of expected cash flows for the modified loan is higher than the total discounted value of expected cash flows for no loan modification. A negative NPV test result occurs when the opposite is true – the expected value of the cash flows for the modified loan is lower than that for no loan modification. If the result of the NPV test is positive, then it is beneficial to an investor to modify the loan. The base NPV model and proprietary servicer NPV models are designed to guide this assessment for all servicers participating in HAMP.

The NPV test will be required for each loan that is in imminent default or is at least 60 days delinquent under the MBA delinquency calculation. If a modification that follows the HAMP program guidelines is NPV positive, the servicer participating in this program is required to perform a HAMP modification.

This document discusses the base NPV model calculation logic, model inputs and outputs, as well as the base model components and equations. It also outlines the requirements for customizing the base model for servicers that are eligible for such customization. The final section reviews the waterfall logic that generates the modification terms, which is incorporated in an NPV output "Waterfall Check" to provide a reasonableness check on the modification terms submitted by servicers.

II. Significant Model Changes from Version 2.0 to Version 3.0

In response to servicer feedback and planned model enhancements, the following updates have been made to the base NPV model.

Home Price Decline Protection Incentive (p7, p26-Model Equations)

- The Home Price Decline Protection (HPDP) incentive will be effective beginning 9/1/2009. Supplemental Directive 09-04, issued on 7/31/2009, contains the detailed policy guidelines for the HPDP program.

Prepayment Model (p16-17, p29-Model Equations)

- The coefficients for the prepayment model have been adjusted.
- The refinance incentive value bounds have been adjusted.

Model Versioning Requirements (p33)

- Servicers are required to use the same major NPV version, related supplement data, and PMMS weekly rate as used for the initial NPV run to determine subsequent NPV results.

Test Consistency Requirements (p34)

- Servicers are required to use borrower and loan information that was initially reported correctly to determine subsequent NPV results.

Term Extension (p37)

- Loans with current remaining terms greater than 480 months should skip the term extension step. Amortization term after modification should equal the remaining term. Re-amortize and extend the loan to a maximum 40-year term in monthly increments to reach as close to the target 31% DTI without going under.

De-seasonalized Home Price Index (p18)

- Beginning Q32009, the home price index has been adjusted to remove the seasonal affects of home prices and reduce the index's impact on the Home Price Decline Protection Payment.

Clarification to the Model Documentation from Version 2.0 to Version 3.0

- ***Escrow Shortage (p13)***: Include any future monthly escrow shortage payments to the "Association Dues/Fees Before Modification" field.
- ***ARM/IO Reset or Recast (p16)***: For ARM/IO recast that will happen within the next four months, front-end DTI is calculated using PITIA based on the greater of the "Principal and Interest Payment before Modification" input field and the fully amortizing payment using the note reset rate using the index value as of the date of the evaluation.

Timing of the Investor Incentive (II) and Government Subsidy (GS) incentive in the equations for the Mod Cure and Mod Default cash flows (p26 -27): The II payment for the trial period will be made in period 3 and the three GS payments for the trial period will remain in period 4.

III. Considerations for Cash Flows in the Base NPV Model

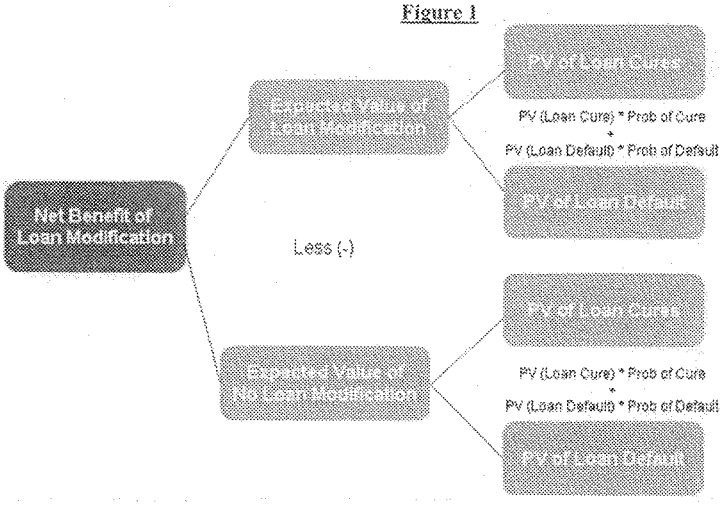
This section briefly summarizes the cash flows considered in the base NPV model calculation. In addition to the cash flows from the principal and interest of the loan, government incentives are provided to the investors under the HAMP program. The timing and amount of these incentives are specified below.

The reduction in monthly payment provided by the modification affects (1) the borrower's intent and capacity to repay the loan, and (2) the timing and nature of subsequent loss mitigation or resolution activities. The modification reduces the cash flows (principal and interest) to the investor through interest-rate reduction, term extension, principal forbearance, and/or principal forgiveness. However, the modification also reduces the borrower's monthly debt burden, which is expected to improve loan performance by reducing the probability of default.

Each loan has a probability of default and cure in both the no-modification and modification scenarios. (For purposes of the NPV test, default is defined as an event that ends in foreclosure and property disposition, and therefore has no possibility of cure; the NPV model assumes some rate of cure for loans in any stage of delinquency.) The default model of the base NPV model predicts four probabilities of default and cure:

1. Probability of cure for a loan that is not modified
2. Probability of default for a loan that is not modified
3. Probability of cure for a modified loan
4. Probability of default for a modified loan

Figure 1



The present value of each scenario is calculated and weighted by the scenario's probability. The probability-weighted present values of the two "no mod" scenarios are added to calculate the total expected present value of the "no mod" decision. The probability-weighted present values of the two "mod" scenarios are added to calculate the total expected present value of the "mod" decision. The expected present value of the "no mod" decision is compared against the expected present value of the "mod" decision to determine whether the proposed modification is NPV positive or negative. If the expected value of the "mod" decision is greater than the expected value of the "no mod" decision, the servicer is required to proceed with loan modification.

The servicer must provide the input data required by the base NPV model – essentially, current financial information for the borrower, the existing loan terms, and the terms of the proposed modification.

Incentive Payments Included in the Base NPV Model Calculation

Payment Reduction Cost Share for Investor
For every month the borrower is in the HAMP (including a successfully completed trial period), the U.S. Treasury, acting through Fannie Mae as its fiscal agent, reimburses the investor 50% of the cost of lowering monthly payments from a level consistent with a 38% debt to income ratio (DTI)[1] ratio to that consistent with the target DTI of 31%, for up to five years. If the borrower's DTI before the modification is below 38%, the subsidy is equal to 50% of the smaller payment reduction needed to achieve a 31% DTI. If the DTI after the modification is higher than 31%, the loan is not eligible for HAMP and receives no subsidy. While the servicer may reduce the payment to achieve a DTI ratio below 31%, the subsidy payments will only be calculated based on the reduction between 38% DTI and 31% DTI.

Payment Reduction Cost Share Incentive = 50% [MIN(38% or current DTI) – 31% DTI]

$1,500 Non-delinquency Modification Incentive for Investor
If the borrower is current at the beginning of the trial period *and* current at the end of the trial period, the investor will be paid $1,500 by the HAMP Program.

Borrower Pay-for-Performance Success Payments
Borrowers who make timely monthly payments are eligible to accrue up to $1,000 of reduction in principal each year for five years, or a maximum total of $5,000 over five years, in the HAMP. The borrower's mortgage payment must be made on time in order to accrue the monthly Pay-for-Performance Success Payment. Annual principal balance reductions will start 12 months after entering the trial period, provided the borrower remains eligible for the program. The payment will be applied by the servicer to reduce the principal balance by up to $1,000 a year for five years, provided the borrower remains eligible. The payment will be calculated as the lesser of (i) $1,000 ($83.33/month), or (ii) one-half of the reduction in the borrower's annualized monthly payment to the 31% DTI payment.

[1] For the purposes of the base NPV model calculation, DTI refers to the front-end ratio. Front-end DTI is the ratio of principal, interest, taxes, insurance (including homeowners' insurance and hazard and flood insurance), and homeowners' association and/or condominium fees (PITIA) to gross monthly income. Mortgage insurance is excluded from the PITIA calculation.

For borrowers who do not default, the base NPV model assumes the full amount of the success payments is accrued annually. This amount is applied to reduce the principal for that program year.

Home Price Decline Protection Incentive (HPDP)

HPDP is an investor incentive to offset some of the investors' risk of loss exposure due to near-term negative momentum in the local market home prices. The HPDP incentive is effective beginning 9/1/2009, and loans tested for modification eligibility on or after that date may qualify for HPDP payments.

The HPDP payment data is used as an input to the NPV calculation. A HPDP payment table is calculated every quarter to show the full HPDP payment for each MSA and unpaid principal balance (UPB) quintile. The quarter for which the payment is used in the NPV calculation is set on the "NPV Date" – the date the loan was run through the NPV model to determine trial modification eligibility. The "NPV Date" is an input to the NPV submission spreadsheet on the portal.

The HPDP incentive payments are calculated based upon the following three characteristics of the mortgage loan receiving a HAMP modification:

(i) An estimate of the cumulative projected home price decline over the next year, as measured by changes in the home price index over the previous two quarters in the applicable local market (MSA or non-MSA region) in which the related mortgaged property is located;
(ii) The UPB of the mortgage loan prior to modification under HAMP; and
(iii) The mark-to-market loan-to-value ratio (MTM-LTV) of the mortgage loan based on the UPB of the mortgage loan prior to modification under HAMP.

The first characteristic, the cumulative projected home price decline over the next year, expressed in percentage points (projected home price decline), is related to recent momentum in local market home prices. The projection is calculated from the percentage changes in the local home price index in the most recent previous two quarters for which data is available..

The second characteristic, the UPB of the mortgage loan prior to modification under HAMP, involves assignment of the loan to one of five UPB quintiles. The quintile assignments determine the dollar payment per percentage point of projected price decline. Quintile assignments will not change over the course of the program.

Quintile	UPB Prior to Modification	Quintile Payment per Percentage Point Decline in House Price Index
1	$0 – $73,000	$200
2	greater than $73,000 – $116,000	$300
3	greater than $116,000 – $169,000	$400
4	greater than $169,000 – $259,000	$500

5	greater than $259,000	$600

The third characteristic, the MTM-LTV of the mortgage loan prior to modification under HAMP is used to determine the weighting factor that is applied to the HPDP payment. The weighting factor is multiplied by the HPDP payment assigned to the MSA/quintile for which the loan is attributed to.

MTM-LTV	Weighting Factor
less than 70%	0
at least 70% but less than 80%	1/3
at least 80% but less than 90%	2/3
90% or greater	1

An investor will accrue 1/24th of the total HPDP incentive payment for every month in which the borrower remains in good standing under HAMP. The accrual starts at the beginning of the trial period. If the trial period is not completed successfully, no HPDP incentives will be paid to an investor. Payments of accrued HPDP incentives will be made on an annual basis on each of the first anniversary and the second anniversary of the trial period start date.

De Minimis Requirement

To qualify for the $1,500 Non-delinquency Modification Incentive payment to investors, the $1,000 borrower Pay-for-Performance Success Payments, and the Home Price Decline Protection Incentive, the modification must meet a "de minimis" test. Based on the proposed new mortgage payment – including principal, interest, taxes, insurance, and any homeowner association or condo fees (PITIA) – the modification must result in a payment that is at least 6% lower than the current PITIA payment. (There is no de minimis test to be eligible for the Payment Reduction Cost Share.)

Treatment of Mortgage Insurance

For loans that have mortgage insurance (MI) coverage, the value of a mortgage insurance claim is included in the base NPV model calculation, based on the value of the claim in the event of a default of the loan – both with a modification and without a modification.

In the event of a negative NPV result, the case may be referred to the appropriate MI company. The MI company will review the case and propose a partial claim payment as well as document any proposed refinements to borrower and loan information based on MI company review. All new borrower and loan information must be consistent with HAMP guidance and based on more thorough examination of the case than the initial servicer underwriting analysis. Base NPV model assumptions such as discount rate risk premium and default/re-default equations will not be adjusted.

The base NPV model can then be re-run with any updated borrower and loan information, and with the incorporation of any proposed partial claim payment.

IV. Base NPV Model Components

Overall Process

The servicer makes contact with the borrower and determines whether he/she qualifies for the HAMP. The servicer obtains borrower information such as current gross income and mortgage-related and non-mortgage-related debt. If the borrower meets basic eligibility criteria, the servicer runs the loan through the HAMP waterfall and determines the modification terms. The NPV test is performed to determine whether the modification has a positive NPV for the investor.

Base NPV Model Inputs

The base NPV model determines the present value of a loan's cash flows under two scenarios: 1) no modification, 2) modification under HAMP. The model uses the following inputs in its equations:

a) "User Inputs" – Such as borrower and loan information – data typically already in the servicer's system (columns A-AG, AQ, AR from the table below).
b) "Servicer Defined Inputs" – Servicer input of the risk premium, modification fees, and mortgage insurance partial payment amount (columns AH-AJ from table below).
c) The terms of the proposed modification (columns AK-AP from the table below).

Base NPV Model Inputs

Column	Label	Data Dictionary	Field Type	Field Validation
A	**Investor Code**	A code identifying the investor in the loan.	Enumerated List	1 – Fannie Mae 2 – Freddie Mac 3 – Private 4 - Portfolio 5 - GNMA
B	**Servicer Loan Number**	A unique identifier assigned by the servicer which is associated with a loan secured by a property.	Character	Maximum Length 30
C	**GSE Loan Number**	Fannie Mae or Freddie Mac Loan Number.	Character	Conditionally required – GSE loans only. Maximum Length 30
D	**HAMP Servicer Number**	A unique identifier assigned to each servicer that is participating in the HAMP.	Character	Maximum Length 9
E	**Data Collection Date**	The date on which the UPB and associated remaining term data was collected.	Date	Valid date is not in the future of the NPV Date and within the last 90 days from the NPV Date.
F	**Property - Number of Units**	The total number of dwelling units included in the property.	Number	Allowable values: 1,2,3,4
G	**First Payment Date at Origination**	The estimated date the first payment was made on the loan	Date	Valid date between 12/31/1960 and

		after origination.		03/01/2009 (exclusive)
H	**Unpaid Principal Balance at Origination**	The face value on the note at origination (i.e., the amount borrowed by the mortgagor). Report 2 decimal places.	Number(2)	Greater than 0
I	**Amortization Term at Origination**	The number of months between the scheduled first payment due date and the maturity date of the mortgage, expressed in months.	Integer	Greater than 0
J	**Interest Rate at Origination**	The interest rate of the loan at origination. Report 5 decimal places.	Percent(5)	Greater than or equal to 0 and less than or equal to 25.00000%
K	**LTV at Origination (1st Lien only)**	The ratio between the original loan amount and the lesser of the sales price or the appraised value, for first mortgages.	Percent(5)	Greater than or equal to 0 and less than or equal to 150.00000%.
L	**Product before Modification**	The general classification of the loan.	Enumerated List	Must be a valid product type code from the list. 1- ARM, 2 - Fixed Rate, 3 - Step Rate, 4 - One Step Variable, 5 - Two Step Variable, 6 - Three Step Variable, 7 - Four Step Variable, 8 - Five Step Variable,9 - Six Step Variable, 10 - Seven Step Variable,11 - Eight Step Variable, 12 - Nine Step Variable,13 - Ten Step Variable, 14 - Eleven Step Variable, 15 - Twelve Step Variable, 16 - Thirteen Step Variable, 17 – Fourteen Step Variable Numeric(4,0)
M	**Next ARM Reset Rate**	The expected interest rate on an ARM loan at the next ARM reset date given the reset date is	Percent(5)	Conditionally required – ARM/IO product types only.

		within the next 4 months. Use the latest available reset rate at the time of submission. If the reset date is outside of 4 months, the use current note rate before modification.		Greater than or equal to 0 and less than or equal to 25.00000%
N	**ARM Reset Date**	The date on which the next ARM reset is due to occur.	Date	Conditionally required – ARM/IO product types only. Valid date greater than 01/01/1900
O	**Remaining Term (# of Payment Months Remaining)**	Scheduled remaining term of the loan in months. Equivalent to the amortization term minus the time since the first payment after origination to the date that the payment information (i.e., UPB) was obtained; regardless of months delinquent. Example: First payment date for a 360-month term loan was 5/1/08. The current payment information (i.e., UPB) was reported as of 4/30/09. Remaining terms for this loan is (360-12 = 348).	Integer	Greater than 0
P	**Unpaid Principal Balance Before Modification**	The unpaid balance as of the last paid installment date. Does not include arrearage. Report 2 decimals.	Number(2)	Greater than 0
Q	**Interest Rate Before Modification**	The interest rate on the loan before the modification. Report 5 decimals.	Percent(5)	Greater than or equal to 0 and less than or equal to 25.00000%
R	**Principal and Interest Payment Before Modification**	The sum of the principal and interest payments before modification. If the loan is an IO loan in the interest only period, enter only the interest amount. If the loan is a neg-am, enter the payment amount received (without escrow) at the most recent payment date. Report 2 decimals.	Number(2)	Greater than 0
S	**Current Borrower Credit Score**[2]	The current credit score of the borrower.	Integer	Greater than or equal to 250 and

[2] Credit score variable is based on FICO® scores. Users of other credit scoring systems must transform the mean and the standard derivation of that credit score to put it on a comparable scale to FICO.

				less than or equal to 900.
T	**Current Co-borrower Credit Score**	The credit score of the co-borrower. If not applicable, leave blank.	Integer	Conditionally required – Loans with co-borrowers. Greater than or equal to 250 and less than or equal to 900
U	**Property - Zip Code**	The five digit zip code of the property.	Integer	5 digits
V	**Property - State**	The two letter state code of the property.	Enumerated List[3]	Must be a valid state code from the list: AK, AL, AR, AZ, CA, CO, CT, DC, DE, FL, GA, GU, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MI, MN, MO, MS, MT, NC, ND, NE, NH, NJ, NM, NV, NY, OH, OK, OR, PA, PR, RI, SC, SD, TN, TX, UT, VA, VI, VT, WA, WI, WV, WY
W	**Association Dues/Fees Before Modification**	Monthly HOA or condo fees; also include any future monthly escrow shortage.	Number(2)	Greater than or equal to 0
X	**Monthly Hazard and Flood Insurance**	Monthly hazard and flood insurance coverage amount.	Number(2)	Greater than or equal to 0
Y	**Monthly Real Estate Taxes**	Monthly real estate taxes.	Number(2)	Greater than or equal to 0
Z	**MI Coverage Percent**	Current non-investor primary mortgage insurance coverage percentage. Report 5 decimals.	Percent(5)	Greater than or equal to 0 and less than or equal to 100.00000%
AA	**Property Valuation As-is Value**	Property value collected through an AVM, BPO, or appraisal.. Report 2 decimals.	Number(2)	Greater than 0
AB	**Mark-to-Market LTV**	Current UPB divided by current property value. Truncate the value to 5 decimal places. Do	Percent(5)	Greater than or equal to 0 and less than or equal to

[3] Note that DC is in the code, but is not a state; PR is in the code and is a commonwealth; Northern Mariana Islands is a commonwealth but not in the code; American Samoa is a territory and is not in the code; Guam is a territory and is in the code.

		not round. For example, for MTM-LTV =66.666612%, truncate the value to 5 decimal places and report 66.66661%. If you are pasting the value, it should be 0.6666661. Another example, for MTM-LTV =79.999998%, truncate the value to 5 decimal places and report 79.99999%. If you are pasting the value, it should be 0.7999999.		999.99999%
AC	**Months Past Due**	Number of months between the reporting date and the last paid installment date if the first paid installment date is the first day of the month. If the first paid installment date is not the first day of the month, then Months Past Due is the number of months between the reporting date and the last paid installment date, minus one month.	Integer	Greater than or equal to 0
AD	**Advances/Escrow**	Required escrow advances already paid by the servicer and any required escrow advances from the servicer that are currently due and will be paid by the servicer during the Trial Period. Report 2 decimals.	Number(2)	Greater than or equal to 0
AE	**Borrower's Total Monthly Obligations**	Total monthly expenses as reported by the borrower. Report 2 decimals.	Number(2)	Greater than or equal to 0
AF	**Monthly Gross Income**	Total monthly gross income as reported by the borrower. Report 2 decimals.	Number(2)	Greater than or equal to 0
AG	**Imminent Default Flag**	If a current or 30-day delinquent borrower is considered in imminent default, then this flag receives the value "Y." Otherwise, it receives the value "N."	Character (Boolean)	Y/N
AH	**Discount Rate Risk Premium**	The rate at which the discount rate is greater than the Freddie Mac Primary Mortgage Market Survey (PMMS) weekly rate for the 30-year conforming loan. The default value is 0. However,	Percent(5)	Greater than or equal to 0 and less than or equal to 2.50000%

		a servicer can override the default rate and add up to 250 bps. No premium for Fannie and Freddie loans. Report 5 decimals.		
AI	**Modification Fees**	Fees that will be reimbursed by the investors, including notary fees, property valuation, and other required fees. Report 2 decimals.	Number(2)	Conditionally Required – If fees exist for reimbursement. Greater than or equal to 0
AJ	**MI Partial Claim Amount**	Amount paid by the MI at the time of the modification. Report 2 decimals.	Number(2)	Greater than or equal to 0
AK	**Unpaid Principal Balance After Modification (Net of Forbearance & Principal Reduction)**	UPB prior to the modification plus interest arrearage, taxes, insurance, HOA amounts, and other costs capitalized at the time of the modification. Report 2 decimals.	Number(2)	Greater than 0
AL	**Interest Rate After Modification**	The interest rate on the loan in the month after modification. Report 5 decimals.	Percent(5)	Greater than or equal to 0 and less than or equal to 25.00000%.
AM	**Amortization Term After Modification**	The amortization period of the loan after modification. Reported in months. This period includes the term extension as defined in the HAMP modification waterfall.	Integer	Greater than 0
AN	**Principal and Interest Payment after Modification**	The sum of the principal and interest payments in the month after the modification. Report 2 decimals.	Number(2)	Greater than 0
AO	**Principal Forbearance Amount**	The amount of principal forbearance applied at the modification. Report 2 decimals.	Number(2)	Greater than or equal to 0
AP	**Principal Forgiveness Amount**	The amount of principal forgiveness applied at the modification. Report 2 decimals.	Number(2)	Greater than or equal to 0
AQ	**Property Valuation Type**	A code that denotes the type of estimate of the value of the real estate property.	Enumerated List	1 – AVM 2 – Exterior BPO / Appraisal (as is value) 3 – Interior BPO / Appraisal (as is value)
AR	**NPV Date**	Date of the NPV run used to determine trial modification eligibility. This should be the same NPV Date reported for the	Date	Valid date must be greater than or equal to 4/15/09 but not after current

		trial modification setup. Use today's date if running the loan for the first time.		date

The Servicer Defined Inputs (columns AH-AJ from table above) are prescribed as follows:

- **Discount Rate Risk Premium** – Default value is the weekly Freddie Mac Primary Mortgage Market Survey (PMMS) weekly rate for 30-year fixed-rate conforming loans. Servicer can override the default discount rate by adding a risk premium of no more than 250 basis points to the PMMS weekly rate. With respect to loans that are not owned or guaranteed by Fannie Mae or Freddie Mac, the servicer may apply a maximum of two discount rates, one for loans in its own portfolio and another for loans serviced for investors. With respect to loans owned or guaranteed by Fannie Mae or Freddie Mac, the servicer must follow Fannie Mae and Freddie Mac guidance.
- **Modification Fees** – Fees that will be reimbursed by the investors, including notary, property valuation, and other required fees.
- **MI Partial Claim Amount** – This is the amount the MI agrees to pay subsequent to a negative NPV and MI insurer review, if this choice is made.

Base NPV Model Assumptions

- **Current Market Rate** – Freddie Mac's PMMS weekly rate for 30-year fixed-rate conforming loans.
- **Probability of Default/Re-default Rate** – See the *Base Model Equations* section, below. The re-default rates on modified loans will vary with a number of parameters particular to the loan. In general, however, the re-default rate is assumed to vary based on four key indicators:
  - Credit quality of the borrower(s);
  - MTM-LTV of the home at the time of modification;
  - Timing of the modification (earlier or later in the delinquency cycle); and
  - Front-end DTI ratio before and after modification.

  The default/re-default rate model will be updated over time as more information becomes available.
- **Time to Re-default** – The base NPV model assumes that those loans that do fail after modification will become delinquent six months after the initiation of the trial period and subsequently default.
- **Imminent Default Loans** – Current loans and loans that are delinquent 59 days or less that are flagged as "imminent default" are treated as if they have the default and re-default probabilities of loans that are 60 days or more delinquent.
- **Prepayment Rate** – See the *Base Model Equations* section for detailed information on the prepayment model. The prepayment rate for loans with modification or without modification is calculated based on a variety of parameters. The key variables are:
  - MTM-LTV for each period the prepayment rate is estimated
  - Home price growth in the previous 12 months for each period the prepayment rate is estimated
  - Current credit score
  - Original loan amount
  - Refinance incentive

- **ARM/IO Reset or Recast** ***(Used to calculate DTI for eligibility and incentives)*** – ARMs and IO loans with a payment scheduled to reset or recast in the next four months will be based on the reset payment. This base NPV model simplifies the interest rate assumption per the following terms:
  - If the ARM/IO loan *will not* reset or recast in next four months, amortize the loan using the current interest rate, current UPB, and the remaining term plus the months past due. In this instance, the "Principal and Interest Payment before Modification" input field plus taxes, insurance, and association fees (PITIA) is used to calculate the front-end DTI.
  - If the ARM/IO loan *will* reset or recast in next four months, amortize the loan using the reset interest rate, current UPB, and the remaining term plus the months past due. Front-end DTI is calculated using PITIA based on the greater of the "Principal and Interest Payment before Modification" input field and the fully amortizing payment using the note reset rate using the index value as of the date of the evaluation.
- **Par Value Approach** ***(Used for No Mod Cure Cash Flow)*** – Due to the difficulty of predicting future interest rate paths for adjustable rate mortgages, we are making a simplifying assumption to calculate the cash flows by using a par value approach. This will only apply to the no mod cure cash flow for all loans except fixed rate mortgages. This includes interest-only loans (adjustable-rate and fixed-rate), and option-ARM loans. We set the present value of the cash flow equal to P&I arrearage plus UPB.
- **REO Discount for AVM** – REO Discount represents the difference between the sale price of a foreclosed property and the sale price of comparable properties that are not foreclosures. The measure is expressed as a percentage of the non-foreclosure sales price. An Automated Valuation Model (AVM) was used to determine the estimated non-foreclosure sale price based upon combined data on Fannie Mae and Freddie Mac sale prices of foreclosed single-family properties. This discount reflects the deterioration in value that often occurs as a home goes through the foreclosure sale process. This discount varies by property location and value. The state-level median discounts are provided separately for properties that are above and below $100,000 in value.
- **REO Discount for BPO and Appraisal** – Servicers can submit exterior or interior broker price opinion (BPO) or appraisal in lieu of AVM valuation. Because an exterior valuation is presumably more accurate than an AVM valuation, and an interior valuation is presumably more accurate than an exterior valuation, we adjust the REO discount numbers for each valuation type. The REO discount for an exterior valuation will be 75% of the AVM discount. The REO discount for an interior valuation will be 25% of the AVM discount. For example, if the AVM REO discount is 12%, the exterior valuation discount would be 9% (=.75*12%); the interior valuation discount would be 3% (=.25*12%).
- **Home Price Projection** – A 110 local markets (MSA or non-MSA regions) home price projection is used for all home-price related calculations. The projection is based on an autoregressive model using the previous two quarters' data. We used data from all Fannie Mae and Freddie Mac mortgage transactions, and data from outside vendors including deed transactions associated with many jumbo loans, loans in private-label securities, government loans, and loans held by lenders in portfolio. The projections are updated quarterly with new data, and the models supporting the projections may be updated to improve their accuracy. Unlike the FHFA House Price Index, this home price projection includes non-GSE transactions. Projections are based on both long- and short-term trends. The assumption is that prices tend to return to their long-term trends and that short-term trends continue, but at a

diminishing rate. The forecasting model considers projected income, population growth, and short-term macroeconomic drivers like housing starts. Beginning Q32009, the home price index (history and projection) has been adjusted to remove the seasonal affects of home prices and reduce the index's impact on the Home Price Decline Protection Payment.

- **Foreclosure, REO, and Disposition Timing and Costs**
  - Foreclosure timeline data is calculated on all defaults (including pre-foreclosure sales, third-party sales, REO, and all other cases) that had their liquidation date in the preceding four quarters. Foreclosure timeline extends from the date of last paid installment date (LPI) to loan liquidation date.
  - REO timeline data is calculated on all GSE REO disposed as direct sales in the preceding four quarters. Borrower redemptions, lender repurchases, etc., are not included in the REO timeline calculation, but auctions and bulk sales do count as direct sales. The REO timeline begins at the REO acquisition date and ends at the REO disposition date, and includes any redemption periods or other periods that may delay sale of the property.
  - Foreclosure & REO costs are calculated based on GSE REO cases in the preceding four quarters on a weighted-average basis for each state. Settlement costs are calculated based on GSE REO direct-sale cases only in the preceding four quarters on a weighted-average basis for each state. Costs are calculated excluding all taxes, large repairs (greater than $3,000) that would significantly change a property's value, homeowners' insurance premiums, homeowners' association fees, and condominium fees. (These expenses are dealt with separately in the base NPV model framework).

    1. Foreclosure & REO costs are the sum of:
       a) Attorney and Trustee Fees
       b) Possessory and Eviction Fees and Expenses
       c) Bankruptcy Expenses
       d) Servicer Liquidation Expenses
       e) MI Premium
       f) Flood Insurance Premium
       g) Title Insurance
       h) Appraisal Fees
       i) Property Inspection
       j) Utilities
       k) Property Maintenance/Preservation
       l) Other Foreclosure and Holding Costs
       m) Total Repairs (capped at $3,000 to exclude discretionary repairs)
       n) Participation Expenses
       o) Foreclosure Costs that are paid out at property sale (from HUD-1)

       Calculation: Weighted average of ((Sum of costs "a" through "o" above) / Loan UPB at Default), with the weight on the UPB at default.

    2. Settlement Charges are the sum of:
       a) Discount Points
       b) Loan Origination Fees
       c) Broker's Bonus

d) Broker Commission Fees
e) Buyer's Closing Costs (paid by seller only—not total buyer's closing costs)
f) Title Fee Cost
g) Seller's Closing Costs
h) Assessments
i) FHA/VA Non-Allowable Costs
j) Other Costs
k) Wire Fees
l) Subtract miscellaneous revenues received at property sale:
    i. Per diem amount
    ii. Other rent/interest amount
    iii. Prepaid interest amount

Calculation: Weighted average of ((Sum of costs "a" through "l" above) / Gross Sale Price), with the weight on the Gross Sale Price.

Note: The "foreclosure costs" on the HUD-1 document are paid out at property sale. That value is included in the calculation of the Foreclosure & REO costs rather than Settlement Charges. Although they are paid at the property sale, they are conceptually part of the Foreclosure & REO costs category.

Base NPV Model Outputs

The base NPV model produces two types of output – Waterfall Check (see Section VI) and NPV Results. The Waterfall Check is an indicator to the servicer as to whether the modification terms fall within the guidelines of the HAMP. The proposed terms of the modification are not provided in the output. The NPV Results display the total expected cash flows of the modification scenario and the no-modification scenario.

1. Waterfall Check
   - **Waterfall Test (Y/N)** – The Waterfall Check compares the modified loan terms and forbearance provided by the servicer with those calculated by an NPV model. The result of the Waterfall Check does not attest to whether the terms of the modification follow the HAMP waterfall guidelines, nor does it attest to whether the terms of the modification violate the standard waterfall guidelines. Because certain nuances may exist in the interpretation and implementation of the waterfall guidelines, this flag is simply informational. It is the responsibility of the servicer to make sure the terms of the modification follow the HAMP guidelines.

     For the test, the code checks that the waterfall outputs are within the following range:
     - Interest Rate After Modification must be within 12.5 basis points of the interest rate calculated by the base NPV model. Minimum rate is 2%.
     - Amortization Term After Modification must be within 12 months of the term calculated by the base NPV model. If the current remaining term is greater than 480 months, the Amortization Term After Modification must equal current remaining terms.

- Forbearance amount must be within $1,000 of the amount calculated by the base NPV model.

- **De Minimis (Y/N)** – Whether the loan meets the "de minimis" test to qualify for annual servicer and borrower Pay-for-Performance Success Payments – at least 6% reduction in monthly PITIA payment. Also, whether the Pay-for-Performance Success Payments are no larger than half the reduction in the borrower's annualized monthly payment to the borrower's 31% DTI payment.
- **Forbearance Flag (Y/N)** – The forbearance flag signifies whether the loan exceeded the maximum allowable forbearance amount. Only NPV negative loans have a cap in forbearance amount. In cases where the forbearance flag is "Y," the loan after modification is NPV negative and the amount forborne makes the interest-bearing UPB less than the market value of the property. Forbearance flag "N" means the loan did not exceed allowable forbearance amount.

2. NPV Results
   - **HAMP Servicer Loan Number**
   - **Servicer Loan Number** – Unique loan number
   - **NPV Value No Mod** – NPV value of not modifying the loan
   - **NPV Value Mod** – NPV value of modifying the loan
   - **NPV Test**– Result of the NPV test (Positive/Negative)
   - **NPV Run Successful?** – "Y" or "N" flag indicates whether the loan was able to run through the base NPV model. The data field is populated with a "Y" flag if the loan runs through the base NPV model successfully. If the loan does not run through the base NPV model successfully due to a data error or other issue, the field will be populated with an "N" flag, followed by a code(s) indicating the error. For example, N: 1; 5; d. The list of codes and descriptions is provided below. If the loan is not run through the base NPV model successfully, NPV values will not be available – please correct the data and resubmit.
   - **Run Date** – Date the NPV test was run
   - **Code Version** – The version of the base NPV model that was used in the assessment, where applicable
   - **Freddie PMMS Rate** – The Freddie Mac weekly PMMS rate for 30-year conforming loans used in the NPV calculation.

Codes returned in the "NPV Run Successful?" field when the run is not successful are:

NPV Run Successful? "N" Error Code	DESCRIPTION
1	Invalid or missing Investor Code
2	Missing Servicer Loan Number
3	Missing HAMP Servicer Number
4	Missing Data Collection Date
5	Missing First Payment Date at Origination
6	Missing Unpaid Principal Balance at Origination
7	Missing Amortization Term at Origination
8	Missing Interest Rate at Origination

NPV Run Successful? "N" Error Code	DESCRIPTION
9	Missing LTV at Origination
10	Invalid or missing Product before Modification
11	Missing Remaining Term
12	Missing Unpaid Principal Balance Before Modification
13	Missing Interest Rate Before Modification
14	Missing Principal and Interest Payment Before Modification
15	Missing Current Borrower Credit Score
16	Missing Property - Zip Code
17	Missing Property - State
18	Missing Association Dues/Fees Before Modification **or** Monthly Hazard and Flood Insurance **or** Monthly Real Estate Taxes
19	Missing Property Valuation As-is Value
20	Missing Mark-to-Market LTV
21	Missing Months Past Due
22	Missing Monthly Gross Income
23	Missing Unpaid Principal Balance After Modification
24	Missing Interest Rate After Modification
25	Missing Amortization Term After Modification
26	Missing Principal and Interest Payment After Modification
27	Invalid or missing Imminent Default Flag
28	Invalid or missing Property Valuation Type
29	Data Collection Date is more than 90 days ago from the NPV Date or is in the future of the NPV Date
30	Unpaid Principal Balance Before Modification is over the allowed maximum for the specified Property – Number of Units
31	Invalid or missing Property - Number of Units
32	First Payment Date at Origination is outside the range of [Jan 1st 1960, Mar 1st 2009)
33	Unpaid Principal Balance at Origination outside the range of [0,$10,000,000]
34	Amortization Term at Origination is 0 or less
35	Interest Rate at Origination outside the range of [0, 25%]
36	LTV at Origination outside the range of [0,150%]
37	Next ARM Reset rate outside the range of [0,25%]
38	ARM Reset Date is before the First Payment Date at Origination
39	Error code "39" no longer used
40	Unpaid Principal Balance Before Modification is less than 0
41	Interest Rate Before Modification is outside the range of [0,25%]
42	Principal and Interest Payment Before Modification is less than 0
43	Current Borrower Credit Score/ Current Co-borrower Credit Score is outside the range of [250,900]
44	Property - State is not in list of US states and territories
45	Association Dues/Fees Before Modification **or** Monthly Hazard and Flood Insurance **or** Monthly Real Estate Taxes is less than 0

NPV Run Successful? "N" Error Code	DESCRIPTION
46	MI Coverage Percent is outside the range of [0,100%] **or** missing
47	Mark-to-Market LTV is outside the range of [0,999.99999%]
48	Months Past Due is greater than age of the loan
49	Discount Rate Risk Premium is greater than 2.5%
50	Modification Fees is less than 0
51	MI Partial Claim Amount is less than 0 **or** missing
52	Unpaid Principal Balance After Modification is less than 0
53	Interest Rate After Modification is outside the range of [0,25%]
54	If Remaining Term is greater than 480 months, Amortization Term After Modification must be equal to Remaining Term. If Remaining Term is 480 months or less, Amortization Term After Modification must be less than or equal to Remaining Term.
55	MTM-LTV provided in the input file is inconsistent with the MTM-LTV calculated by dividing UPB before modification by property value; must report 5 decimal places (truncate the value to 5 decimal places - do not round)
56	ARM or IO Loan and missing ARM Reset Date
57	ARM or IO Loan and missing ARM Reset Rate
58	Invalid zip code
59	Missing NPV Date; or the NPV Date is in the future or before 4/15/09
a	Ineligible for HAMP mod - Current DTI already below 31%
b	Monthly Taxes & Insurance > Monthly Gross Income
c	Interest Rate After Modification is the smaller of the floor rate and Interest Rate Before Modification
d	Error code "d" no longer used
e	The new front-end DTI is greater than the current front-end DTI
f	Ineligible for HAMP mod - Excessive Forbearance on NPV Negative Loan
g	Ineligible for HAMP mod - DTI after modification is greater than or equal to 32%

Subsidy Ineligibility

There are four scenarios in which the modified loan is ineligible for subsidy.

1. If the borrower is not current at the end of the trial period.
2. If the new payment at 31% DTI is not at least 6% lower than the current payment, the loan is not eligible for the $1,500 investor initiation incentive, the $1,000 per year servicer pay-for-success incentive, the $1,000 per year borrower Pay-for-Performance Success Payment, or the Home Price Decline Protection incentive. However, the investor is entitled to the Payment Reduction Cost Share.
3. If the NPV for the modification is negative and the investor does not want to continue with the HAMP program, the loan is not eligible for program subsidy.
4. If the NPV for the modification is negative, the forbearance amount has already reduced the interest-bearing UPB to the market value of the property, and the loan has not achieved 31% DTI, the loan is not eligible for program subsidy.

V. Base NPV Model Equations

Below we describe the calculations for the no-modification (NPV_{NOMOD}) and modification (NPV_{MOD}) scenarios respectively.

When $NPV_{MOD} > NPV_{NOMOD}$, the modification is said to be NPV positive. Below we describe the calculations for NPV_{NOMOD} and NPV_{MOD} respectively.

Each NPV is calculated as:

$$NPV = (1-p).NPV\{Loan\ Cures\} + p.NPV\{Loan\ Defaults\}$$

where p is the lifetime default probability.[4]

Discounted Future Cash Flows – Four Cases

1. No Mod: NPV{Loan Cures}

In the case where the loan is fixed rate and there is no change in the principal and interest payment over the life of the loan, we calculate the present value using a cash flow model. However, for adjustable-rate loans, interest-only loans (adjustable-rate and fixed-rate), and option ARM loans the approach we take is a par value methodology.

Cash Flow Model (Fixed-Rate Mortgage Only)

For each month i, we assume that the full UPB is collected if the loan prepays. If the loan does not prepay, then the investor collects principal and interest. Note that loans that cure may have an arrearage that also must be accounted for. Here we make the simplifying assumption that the P&I arrearage is paid immediately and we approximate the arrearage as:

$$\text{P\&I Arrearage} \approx MDLQ(P+I)$$

Hence,

$$PV\{LoanCures\} = \sum_{i=1}^{T} \frac{1}{(1+\delta)^i}\left\{[\mathrm{UPB}_{i-1} - \mathrm{P}_i][\prod_{k=1}^{i-1}(1-\mathrm{SMM}_k) - \prod_{k=1}^{i}(1-\mathrm{SMM}_k)] + [\mathrm{P}_i + \mathrm{I}_i]\prod_{k=1}^{i-1}(1-\mathrm{SMM}_k)\right\} + MDLQ(P_0 + I_0)$$

where:

MDLQ – Months delinquent

T – Remaining term [5]

δ – Monthly discount rate

UPB – Unpaid principal balance [6]

P – Principal

I – Interest

SMM_k – Single month mortality (SMM) in month k [7]

[4] Default equations are defined at the end of this section.

[5] The remaining term includes the trial period.

[6] Note that the notation assumes that UPB_0 is equal to the UPB amount after delinquent loans have been cured.

[7] SMM equations are defined at the end of this section.

Par Value Methodology
For ARM loans, IO loans and Option ARM loans we set the present value equal to P&I arrearage plus UPB. Note that the UPB used is the amount after delinquent loans have been cured. [8]

2. No Mod: NPV{Loan Defaults}
The model utilizes a simplified approach to the timing of default. For the non-modification scenario, the model assumes that if the loan defaults, it makes no further payments and proceeds to default according to state-level foreclosure (FCL) timelines.

Months to FCL = Max (1, Average State Level FCL timeframe – MDLQ)
S ≡ Months to REO Sales = Months to FCL + Average State Level REO timeframe [9]

There are two components to this default cash flow: T&I (outflow) and REO sales proceeds (inflow).

$$PV\{LoanDefaults\} = \sum_{j=1}^{S}\left[\frac{-C}{(1+\delta)^{j}}\right] + \frac{NPDV}{(1+\delta)^{S}}$$

where :
C – Taxes and Insurance and Homeowners' Association fees
NPDV – Net Property Disposition Value

Net Property Disposition Value (NPDV)
We assume that all disposition-related cash flows occur on the date of REO Sale. These include FCL costs, REO disposition costs, MI proceeds, and Net REO Sales proceeds. The components of NPDV are estimated as follows:
a. **Foreclosure/REO Costs** – State-level average costs are used. Note that these are based on the current UPB before modification.
b. **Settlement Charges** – State-level charges as a percentage of the gross REO sales proceeds, including broker fees.
c. **MI Proceeds** [10, 11]
=Min ((MI CoveragePct *UPB*1.15), Max(UPB*1.15 – Net REO Sales Proceeds,0))
d. **Net REO Sales Proceeds** – The sales price of the REO property is calculated by marking forward a current property value [12] to the projected REO Sales date using the local market level

[8] It is equal to UPB_0 in the cash flow model above.
[9] For each of the two timeline components we divide the number of days provided in the Foreclosure and REO Disposition Timeline and Costs tables by 30 and set the number of months equal to the next highest integer for both. We then add the two (rounded up) monthly timeline components together to derive S.
[10] The servicer may choose to exclude MI coverage with investor consent. The 15% gross-up of UPB approximates accrued interest and foreclosure/disposition costs.
[11] For the loan modification case, the relevant UPB will be the post-modification UPB that includes arrears.
[12] The current property value is provided by the servicer and may be obtained through an approved Automated Valuation Model (AVM) such as Freddie Mac's Home Value Estimator (HVE) or Fannie Mae's Automated Property Service (APS), a broker price opinion (BPO), or appraisal. For BPOs and appraisals, the "as is value" should be used.

home price projection[13]. In addition, a state-level REO stigma discount is applied to reflect REO sales.[14]

Thus:

Net REO Sales Proceeds = MTMVal * (1-Abs(REO Discount)) * HPForecast *(1-Settlement Charges)

In summary: [15]

NPDV = (Net REO Sales Proceeds) – Foreclosure/Disposition Costs + MI Proceeds

3. Mod: NPV{Loan Cures}

For each period *i* the full UPB is collected if the loan prepays. If the loan does not prepay, then the investor collects principal and interest, subsidy and incentives.

$$
\begin{aligned}
PV\{LoanCures\} = \sum_{i=1}^{T} \frac{1}{(1+\delta)^i} \Bigg\{ & [\mathrm{UPB}_{i-1} - P_i + \mathrm{F}][\prod_{k=1}^{i-1}(1-\mathrm{SMM}_k) - \prod_{k=1}^{i}(1-\mathrm{SMM}_k)] + [\mathrm{P}_i + [\mathrm{I}_i + \mathrm{GS}_i]]\prod_{k=1}^{i-1}(1-\mathrm{SMM}_k) \Bigg\} \\
& + \frac{II_1}{(1+\delta)^3}\prod_{k=1}^{2}(1-\mathrm{SMM}_k) + \frac{(3*GS_4)}{(1+\delta)^4}\prod_{k=1}^{3}(1-\mathrm{SMM}_k) + \sum_{j=1}^{5}\left\{\frac{M}{(1+\delta)^{(12*j)}}\prod_{k=1}^{12*j-1}(1-\mathrm{SMM}_k)\right\} \\
& + \left[\frac{\frac{1}{12}*0.5*HPDP}{(1+\delta)^{12}}\right]\sum_{j=1}^{12}\left(\prod_{k=1}^{j}(1-\mathrm{SMM}_k)\right) \\
& + \left[\frac{\frac{1}{12}*0.5*HPDP}{(1+\delta)^{24}}\right]\left[\prod_{k=1}^{12}(1-\mathrm{SMM}_k)\right]\sum_{j=13}^{24}\left(\prod_{k=13}^{j}(1-\mathrm{SMM}_k)\right) \\
& - Mfee + MIPartialClaim + \left[\frac{F}{(1+\delta)^T}\right]\prod_{k=1}^{T}(1-\mathrm{SMM}_k)
\end{aligned}
$$

Where:

$\mathrm{UPB}_i = \mathrm{UPB}_{i-1} - P_i - \iota_i(M)$ and $\iota_i(M) = \begin{cases} M & \text{if } i = 13, 25, 37, 49, 61 \\ 0 & \text{otherwise} \end{cases}$

M = Borrower incentive paid for five years at the end of each year if the loan is current. It is the lesser of $1,000 or half the reduction in the borrower's annualized monthly payment to the borrower's 31% DTI payment.

GS_i – Government Subsidy

$\mathrm{GS}_i = 0.5*[\mathrm{Min}\ (\mathrm{PAY}_{\mathrm{DTI=38}}, \mathrm{PAY}_{\mathrm{DTI_START}}) - \mathrm{PAY}_{\mathrm{DTI=31}}]$ for $4 \leq i \leq 60$

Otherwise $\mathrm{GS}_i = 0$

[13] When converting from S (in months) divide by three and round *down* to the nearest integer.

[14] Each component is described in detail in the next section.

[15] We cap the NPDV so that NPDV = Current UPB + MI Proceeds in cases where NPDV > (Current UPB + MI Proceeds).

Note that in the fourth month, a government subsidy payment is made for the trial period. This is contingent on the successful completion of the trial period. We denote this payment as $3*GS_4$ because it covers the three months of the trial period.[16]

II_1 – Non-Delinquency Modification Incentive for the Investor = $1,500 if modified loan was current at the beginning of, and throughout, the trial period and the payment is decreased by ≥ 6%.

HPDP – Home Price Decline Protection Incentive

Half of the HPDP is allocated for payment 12 months after the start of the trial modification. The other half is allocated for payment 24 months after the start of the trial modification.

HPDP is calculated on the NPV Date at the start of the trial period using the formula:

HPDP = Quintile Base*[1.6*HPD(q–1) + 1.0*HPD(q–2) – 1]*MTMLTV Factor

The Quintile Base is equal to $200, $300, $400, $500 and $600 for loans that fall in quintiles 1, 2, 3, 4 and 5 respectively. Quintile assignment is based on the unpaid principal balance (UPB) of the loan prior to modification.[17]

(q–1) refers to the most recent quarter for which data is available. The HPDP payment table is updated on the first day of each quarter on a two quarter lag. For example, if the NPV Date is 9/1/2009, then (q–1) refers to the home price index for 2009Q1 (since 2009Q2 data is not yet available). On the other hand, if the NPV Date is 10/1/2009, then (q–1) refers to 2009Q2.

HPD(q–1) = percentage **decline** rounded to the nearest full percentage point. For example, if the decline was 5.3%, then HPD(q–1) = 5. If there was a growth of 5.5%, then HPD(q-1) = -6.

HPD(q–2) = percentage **decline** rounded to the nearest full percentage point. For example, if the decline was 4.9%, then HPD(q–2) = 5. If there was a growth of 5.5%, then HPD(q-2) = -6.

Continuing with the first example, if the NPV Date is 9/1/2009, HPD(q–2) refers to 2008Q4.

The MTM-LTV Factor is a weighting factor based on the UPB of the loan prior to modification. It is equal to 0 if the MTM-LTV is less than 70%; it is equal to 1/3 if the MTM-LTV is at least 70% but less than 80%; it is equal to 2/3 if the MTM-LTV is at least 80% but less than 90%; and it is equal to 1 if the MTM-LTV is greater or equal to 90%.

[16] Fannie Mae current loans require a four month trial period and the payment would be denoted as $4*GS_5$.
[17] Details on the UPB quintile thresholds are provided in Exhibit 1 of the Supplemental Directive 09-[04].

If HPDP < 0 then we set the incentive to 0.

F – Forbearance amount that is ballooned without interest.

Mfee – Modification fee to be reimbursed to the servicer by the investor (i.e., notary fee, property valuation, and other required fees).

Note that MIPartialClaim is set to zero except when the model is used to evaluate an MI company partial claim offer subsequent to a negative NPV result and MI insurer review.

4. Mod: NPV{Loan Defaults}

For the modified loan default scenario, we assume that the loan fails six month after the initiation of the trial period. This has the effect of resetting the foreclosure process at the end of the sixth month, thus delaying the eventual REO disposition.

S ≡ Months from LPI until REO Sale

$$
\begin{aligned}
PV\{Default\} = & \left[\sum_{i=1}^{6}\frac{1}{(1+\delta)^{i}}\left\{[\mathrm{UPB}_{i-1}-P_i+\mathrm{F}][\prod_{k=1}^{i-1}(1-\mathrm{SMM}_k)-\prod_{k=1}^{i}(1-\mathrm{SMM}_k)]+[\mathrm{P}_i+[\mathrm{I}_i+\mathrm{GS}_i]]\prod_{k=1}^{i-1}(1-\mathrm{SMM}_k)\right\}\right] \\
& +\frac{II_1}{(1+\delta)^{3}}\prod_{k=1}^{2}(1-\mathrm{SMM}_k)+\frac{(3*GS_4)}{(1+\delta)^{4}}\prod_{k=1}^{3}(1-\mathrm{SMM}_k) \\
& +\left[\sum_{j=7}^{S+6}\left[\frac{-C}{(1+\delta)^{j}}\right]+\frac{NPDV-MIPartialClaim}{(1+\delta)^{S+6}}\right]\prod_{k=1}^{6}(1-\mathrm{SMM}_k) \\
& +\left[\frac{\frac{1}{12}*0.5*HPDP}{(1+\delta)^{12}}\right]\sum_{j=1}^{8}\left(\prod_{k=1}^{j}(1-\mathrm{SMM}_k)\right)-Mfee+MIPartialClaim
\end{aligned}
$$

Here the first term reflects the six months of cash flows resulting from the timely payments of P&I during the trial period. The second term defines the incentive payment made after the end of the trial period. The third term defines the cash flows from the default that is set into motion in month seven and concludes with REO Sale in month *S+6*.

Base NPV Model for Determining Probability of Default

The NPV model contains a simple and intuitive model for determining the probability of default – both without modification and with modification. The model was estimated using historical data and, given the lack of experience with modifications that substantially reduce monthly payments, supplemented by expert judgment. The variables determining default probability are the current mark-to-market LTV (MTM-LTV) of the first-lien mortgage, the borrower's current credit score, the borrower's front-end DTI before the modification, and the delinquency status of the loan. Loan modification lowers the DTI and affects the default prediction of the model through a payment relief term specified as the difference between the original DTI and the

program target DTI of 31%. Predicted default rates increase with higher MTM-LTV levels, lower credit scores, and higher original DTI levels. Predicted re-default rates do not increase monotonically with original DTI. Higher DTI means the borrower is at greater risk of default, but it also means a larger reduction in monthly payments, which reduces the chance of re-default; the net effect depends on the sizes of the coefficients in the D30, D60, and D90 equations. The equations for the model are shown below. These equations are based upon logistic regressions with separate equations by loan status (current, D30, D60, D90+). Current loans and loans that are delinquent 59 days or less that are flagged as "imminent default" are treated as if they have the default and re-default probabilities of loans that are 60 days or more delinquent.

To calculate the probabilities the anti-logit transformation must be applied. That is, for each Z listed below:

Probability of Default = Exp(Z) / (1 + Exp(Z))

Current Loan Equation
Z=-2.95 + 0.0494*MTM_LTV - 0.00568*CREDIT SCORE + 0.01*DTI_START - 0.275* LN(DTI_START-(DTI_MODIFIED-1))*REDEF_IND

30 Days DLQ Equation
Z=-2.25 + 0.0425*MTM_LTV - 0.00495*CREDIT SCORE + 0.015*DTI_START - 0.365* LN(DTI_START-(DTI_MODIFIED-1))*REDEF_IND

60 Days DLQ Equation
Z=-1.98 + 0.0375*MTM_LTV - 0.00332*CREDIT SCORE + 0.025*DTI_START - 0.555* LN(DTI_START-(DTI_MODIFIED-1))*REDEF_IND

90+ Days DLQ Equation
Z=-1.15 + 0.0255*MTM_LTV - 0.00195*CREDIT SCORE +0.045*DTI_START - 0.745* LN(DTI_START-(DTI_MODIFIED-1))*REDEF_IND

where:
MTM_LTV – Mark-to-market LTV; value ranges from 0 to 300 (of the first lien but not junior liens). Multiply 100 by the input variable column AB in the NPV input spreadsheet.
Credit Score – Current credit score or equivalent (minimum of borrower and co-borrower)
DTI_START – Front-end ratio before the modification, must be 31 or above; value ranges from 0 to 100
DTI_MODIFIED – Front-end ratio after the modification; value ranges from 0 to 100
REDEF_IND – Binary indicator set to 1 for calculating the re-default probability and set to 0 for default probability

The model coefficients were set to be consistent with observed default rates on a broad loan population using data selected from GSE seasoned loans along with ABS/MBS data from First American CoreLogic. Coefficients will be updated as performance data from the modification program becomes available.

Prepayment Model for Determining Single Month Mortality (SMM)

A logistic regression model is used to estimate prepayment rate. The model has the following structure:

$$SMM_k = Exp(P_k) / (1 + Exp(P_k))$$

Where SMM_k is the monthly prepayment rate in month k and P_k is the predicted value from the regression.

The model has the same structure but different coefficients for loans with different delinquency status (current, D30, D60, D90+). There are no separate models for loans in the mod and no mod scenarios. The impacts of loan modifications on prepayment rate are captured through the explanatory variables in the model. The explanatory variables used in the model are: Refinancing incentive, 12-month home price growth rate,[18] mark-to-market LTV,[19] current credit score, and original loan amount.

Before we examine the regression coefficients we define in detail the refinancing incentive variable ("INCT").

INCT = WAC – effective refinancing rate – adjustments

WAC = Current note rate or the modified note rate.

Effective Refinancing Rate – Freddie Mac's PMMS weekly rate for 30-year fixed-rate conforming loans. For purposes of the model we use the current PMMS weekly rate for all periods.

The "adjustments" refer to the modification incentives available to the borrower that affect the borrower's incentive to prepay. The two financial incentives are the $1,000 in annual principal reduction upon performance (or half the reduction in the borrower's annualized monthly payment, if lower) and the interest on the principal that is in forbearance. In rate terms, the first incentive is given by:

[18] The house price growth is at the MSA or non-MSA region level. As in the HPD there are 110 possible paths. Note that values are provided for the last four quarters and 3 years into the future. At the end of the third year, we use a "flat lined" value equal to an annual growth rate of 4.5%. To convert the quarterly data into monthly data we assume that the index in the quarter corresponds to the index for the last month in the quarter. We further assume that the growth is the same for each month in the quarter. That is, if the quarterly growth rate is x, then the monthly growth is equal to $[(1+x)^{1/3} - 1]$.

[19] The mark-to-market LTV is calculated using the UPB from the previous period. The value is taken as the property value in the previous period multiplied by the house price growth from the last period to the current period.

$$adj_1(t) = \sum_{j=1}^{5} \frac{k(t,j) * M}{(1+\delta)^{(12*j-t)}} \frac{1}{UPB(t)} \frac{1}{m}$$

Where t is number of months the loan has been in the modification, M is the Borrower Pay-for Success incentive paid for five years at the end of each year if the loan is current. It is the lesser of $1,000 or half the reduction in the borrower's annualized monthly payment. This incentive adjustment is also contingent upon the modification meeting the de minimis test. $k(t, j) = 1$ if $t \leq 12*j$, and 0 otherwise. m is the effective "multiple" to translate points to rates. We use m=6.

The second incentive measured rate term is analogously:

$$adj_2(t) = \frac{\left((1+WAC/12)^{(T-t)} - 1\right) * F}{(1+\delta)^{(T-t)}} \frac{1}{UPB(t)} \frac{1}{m}$$

Where T is the remaining term of the loan at the time of the loan modification, and F is the forbearance amount that is ballooned without interest.

The following table shows the logistic prepayment model parameters. Note that all coefficients include five decimal places.[20]

Category	Coefficient				Variable
	Current	D30	D60	D90+	
Intercept	-6.53418	-6.32201	-6.17936	-4.21361	1
12 Month HPI growth I	4.20400	3.19578	2.56488	2.11653	MIN(-0.2, hpag)
12 Month HPI growth II	1.20280	0.19740	0.80500	0.00000	MAX(-0.2, MIN(-0.1, hpag))-(-0.2)
12 Month HPI growth III	3.34370	6.21320	4.50000	2.72610	MAX(-0.1, MIN(0, hpag))-(-0.1)
12 Month HPI growth IV	1.52310	4.32870	4.25000	6.33720	MAX(0, MIN(0.1, hpag))-(0)
12 Month HPI growth VI	1.00200	1.73040	1.98990	1.20390	MAX(0.1, MIN(0.2, hpag))-(0.1)
12 Month HPI growth VII	1.65990	2.68370	2.11510	2.46250	MAX(0.2, hpag)-0.2
INCT I	0.71370	0.72510	0.24045	0.52020	MIN(-1.5, inct)
INCT II	0.05490	0.06370	0.05883	0.08613	MAX(-1.5, MIN(-1, inct))-(-1.5)
INCT III	0.91180	0.45198	0.34893	0.22795	MAX(-1, MIN(0, inct))-(-1)
INCT IV	2.08100	0.71020	0.37760	0.12720	MAX(0, MIN(0.5, inct))-0
INCT V	1.19200	0.62190	0.19970	0.01860	MAX(0.5, MIN(1, inct))-0.5
INCT VI	0.51590	0.05750	0.06870	0.00000	MAX(1, MIN(1.5, inct))-1
INCT VII	0.17970	0.10540	0.11150	0.14470	MAX(1.5, MIN(2, inct))-1.5
INCT VIII	0.05280	0.12610	0.00000	0.05130	MAX(2, MIN(2.5, inct))-2
INCT IX	0.00000	0.00000	0.00000	0.00000	MAX(2.5, inct)-2.5
MTMLTV I	0.00400	-0.00246	-0.00763	-0.01408	MIN(50,MIN(mltv,180))
MTMLTV II	-0.00300	-0.01425	-0.01718	-0.02603	MAX(50,MIN(70, mltv)) - 50
MTMLTV III	-0.02160	-0.02580	-0.03090	-0.03555	MAX(70,MIN(80, mltv)) - 70
MTMLTV IV	-0.01660	-0.01938	-0.01915	-0.02178	MAX(80,MIN(90, mltv)) - 80
MTMLTV V	-0.11490	-0.11260	-0.11230	-0.11010	MAX(90,MIN(100, mltv)) - 90

[20] Note that we bound the values of the independent variables as follows:

- If "hpag" is less than -0.5 it is set equal to -0.5 and if it is greater than 0.5 it is set equal to 0.5
- If "inct" is less than -5 it is set equal to -5 and if it is greater than 3 it is set equal to 3
- If "mltv" is less than 40 it is set equal to 40 and if it is greater than 180 it is set equal to 180
- If "credit score" is less than 400 it is set equal to 400 and if it is greater than 800 it is set equal to 800
- If "amt" is less than 50 it is set equal to 50 and if it is greater than 500 it is set equal to 500

Category	Coefficient				Variable
	Current	D30	D60	D90+	
MTMLTV VI	-0.03110	-0.03640	-0.06010	-0.06130	MAX(100, mltv) - 100
Credit Score I	0.00160	0.00257	0.00227	0.00145	MIN(640, Credit Score)
Credit Score II	0.00160	0.00556	0.00395	0.00307	MAX(640, MIN(700, Credit Score)) - 640
Credit Score III	0.00160	0.00546	0.00466	0.00394	MAX(700, MIN(760, Credit Score)) - 700
Credit Score IV	0.00000	0.00000	0.00000	0.00000	MAX(760, Credit Score) - 760
Original Amount I	0.01240	0.01026	0.00940	0.00671	MIN(80, amt)
Original Amount II	0.00717	0.00615	0.00426	0.00501	MAX(80, MIN(140, amt)) - 80
Original Amount III	0.00336	0.00201	0.00082	0.00012	MAX(140, MIN(220, amt)) - 140
Original Amount IV	0.00178	0.00089	0.00010	-0.00019	MAX(220, MIN(300, amt)) - 220
Original Amount V	0.00000	0.00000	0.00000	0.00000	MAX(300, amt) - 300

To clarify how to calculate the predicted value, P_k, we provide an example. Suppose in month *k* the HPI growth is -5% (i.e., hpag=-0.05), inct=1, mtlv=60, Credit Score=720 and the original amount was $100,000 (amt=100). For a current loan:

$$
\begin{aligned}
P_k = \; & -6.53418 + [4.20400*(-0.2) + 1.20280*0.1 + 3.34370*0.05] + \\
& [0.71370*(-1.5) + 0.05490*0.5 + 0.91180*1 + 2.08100*0.5 + 1.19200*0.5] + \\
& [0.00400*50 + (-0.00300)*10] + [0.00160*640 + 0.00160*60 + 0.00160*20] + \\
& [0.01240*80 + 0.00717*20] = -3.124917
\end{aligned}
$$

Thus, $SMM_k = Exp(P_k) / (1 + Exp(P_k)) = 4.2091\%$

VI. Requirements for Customization and Implementation of the Base NPV Model by Servicers

Servicers with at least a $40 billion servicing book may choose to build and implement proprietary NPV models for use in the HAMP or to implement the base model on their own systems. Servicer-developed and implemented NPV models must adhere to the guidelines and framework outlined in this document. Servicers must use standard model inputs for the following variables:

- Discount Rate – The current Freddie Mac PMMS weekly rate for 30-year fixed-rate conforming loans; the servicer may choose to add a risk premium of up to 250 bps. With respect to loans that are not owned or guaranteed by Fannie Mae or Freddie Mac, the servicer may apply a maximum of two discount rates, one for loans in its own portfolio and another for loans serviced for investors. With respect to loans owned or guaranteed by Fannie Mae or Freddie Mac, the servicer must follow Fannie Mae and Freddie Mac guidance. When performing loan-level NPV calculations, the discount rate must be applied consistently to all cash flows. This means the discount rate applied to the no-modification cash flow will be the same as that applied to the modification cash flow.
- Prepayment Rate – See the Base Model Equations section. The prepayment rate for loans with modification or without modification is calculated based on a variety of parameters. The key variables are:
  - Mark-to-market loan-to-value ratio (MTM-LTV) for each period the prepayment rate is estimated
  - Home price growth in the previous 12 months for each period the prepayment rate is estimated
  - Current credit score
  - Original loan amount
  - Refinance incentive
- REO Discount – Servicer must use the REO discount table used by the base NPV model
- Home Price History and Projection – Servicers must use the 110 MSA/region level home price history and projection used by the base NPV model
- Foreclosure & REO Disposition Time Lines – Servicers must use the state level Foreclosure & REO Disposition Timelines table used by the base NPV model
- Foreclosure & REO Expenses and Settlement Charges – Servicers must use the state level Foreclosure & REO Expenses and Settlement Charges table used by the base NPV model
- Post-modification time to re-default – the base NPV model assumes re-default will occur six months after modification. This includes performance during the three-month trial period and in the subsequent three months. The loan then becomes 30 days delinquent at month seven and 90 days delinquent at month nine.
- Model version control – Each major model version, as defined by www.HMPadmin.com, must be maintained so that borrowers are tested and retested on only one model version. All models must access market inputs from the date of the borrower's first NPV test.

Foreclosure timelines and costs, REO Discount, and home-price projection are used to calculate the property value in the no-modification and modification default scenarios. These calculations are provided under *Base Model Equations* in Section IV above.

The prepayment rate model applied in the base NPV model calculations is detailed in the *Base Model Equations* section.

Servicer-Specific NPV Model Inputs

Servicers with proprietary NPV models are allowed to use their own internal data-driven models of default to determine default rates in the no-modification and modification scenarios. For purposes of the NPV calculation, default is defined as an event that ends in foreclosure and property disposition, with no possibility of cure, because the test assumes some rate of cure for loans in any stage of delinquency. The default model a servicer uses to establish these rates should take into account the variables determining the probability of default included in the default model used in the NPV model – current MTM-LTV, current DTI, current credit score, delinquency status, as feasible, and any other relevant variables the servicer identifies. Servicer judgment regarding the effect of DTI is expected, given the limited data available and the likelihood that the new program will materially reduce the modification re-default rate. However, all assumptions must be tested as program data become available and revised as appropriate.

The no-modification and modification default equations must be uniform across all loans. These equations may not distinguish between loans in portfolio and investor pools. In the modification default scenario, the model must assume the loan performs for six months, then becomes delinquent and defaults.

Loans at risk of imminent default (those that meet the test of imminent default the servicer employs along with the verification requirements in the Home Affordable Modification Program Guidelines) are treated as having the same level of default risk as a loan 60 days or more past due.

Model Versioning Requirements

Servicers should test the borrower using the same major version of the NPV model that was used to test the loan for trial modification eligibility. Major version refers to the first significant digit in a version number. For example, v1.1, v1.2, and v1.3 are all treated as version 1. The HMPadmin portal will use the best release of each major version to satisfy the versioning requirement. For example, v1.52 will become version 1, v2.01 will become version 2. New applicants should be tested using the latest available version of the NPV model. In deciding which version of the NPV model to use for subsequent re-runs, the servicer should use the model version that corresponds to the NPV Date.

Servicers also should use the same supplement data tables and discount rate that were used for the trial modification eligibility run. This includes the Freddie Mac PMMS weekly rate, REO Discount rate, Home Price Index, Home Price Decline Payment table, and Foreclosure/REO Timeline and Cost table.

Test Consistency Requirements

Servicers should keep as much borrower information constant between tests as possible. The only NPV inputs that should be updated when the borrower is retested are those that were incorrect on the date of the initial NPV evaluation and have since been corrected based on the borrower's income documentation. Inputs that have changed in the interim but were correct on the date of the initial NPV evaluation should be held constant.

In the version of the NPV model available at www.HMPadmin.com, servicers should not change the "Data Collection Date" or the associated UPB and remaining term information for retests. This information should be reported for the retest as it was in the initial NPV evaluation.

Compliance Requirements

Servicers electing either to implement the NPV model on their own systems or, where eligible, to create a customized version must first successfully pass an NPV output test to ensure that the servicer's NPV model outputs are consistent with those of the Base NPV Model v3.0.

Servicers who plan to begin using their own NPV Model v3.0 by September 1, 2009 are required to conduct and pass the NPV output test before that date. Servicers planning to implement or customize the NPV model *after* September 1, 2009 must pass an output test before they begin using that model.

The MHA Compliance Agent (Freddie Mac) will administer and evaluate the results of all servicer NPV output tests and provide the necessary clearance for servicers to begin using their own NPV models. The test will involve running a dataset of sample modifications against the servicer's NPV model. To pass the test, the servicer NPV model results for the entire dataset of sample modifications must be consistent with the corresponding base NPV model results, within a defined threshold of acceptable variance. Additional instructions regarding the NPV output test will be provided to servicers upon request.

Subsequent to the test, servicers electing to use a customized version of the NPV model will be asked to provide documentation on methodology and key assumptions, as well as evidence that the servicer has instituted adequate controls and governance procedures with respect to the model.

NPV compliance testing will be conducted on an ongoing basis for the life of the HAMP program, and will be triggered both by changes to the base NPV model and by servicer-driven changes, such as migration to new systems, subsequent decisions to use servicer-specific default rates (where permitted) or to change those rates, and other related factors.

Servicers of Fannie Mae and Freddie Mac loans must follow the respective GSE's guidance regarding building the NPV model into their own platform/system or customizing the NPV model.

VII. Calculation Logic for the HAMP Waterfall

This section discusses the waterfall logic described in the HAMP term sheet. The servicer is responsible for verifying program eligibility and the modification terms.

Eligibility
Eligible loans must be originated on or before January 1, 2009. New borrowers will be accepted until December 31, 2012. Program payments will be made for up to five years after the date of entry. The mortgage loan must be secured by a one- to four-unit property, one unit of which is the borrower's principal residence. Cooperative-share mortgages and mortgage loans secured by one-unit condominiums and manufactured homes[21] are eligible for the HAMP. Investor properties, second homes, vacant, and condemned properties are not allowed. There is no minimum or maximum current LTV ratio for eligibility purposes.

Current UPB limits (pre-modification and pre-capitalization) are as follows:

- 1 Unit $729,750
- 2 Units $934,200
- 3 Units $1,129,250
- 4 Units $1,403,400

The servicer must apply the standard waterfall (depicted in Figure 2) to all loans that meet the basic eligibility requirements. This waterfall adjusts the borrower's current loan terms in order to achieve a target front-end DTI of 31%. The waterfall step that results in a front-end DTI closest to 31% (without going below 31%) will satisfy the front-end DTI target. There is no restriction on reducing front-end DTI below 31%, but any portion of the reduction below 31% will not be compensated by the government. Government compensation will be based on verified borrower income.

Step 1: Calculate Current Debt to Income (DTI)
Calculate the borrower's front-end DTI based on current mortgage payment and gross monthly income. If the loan is an adjustable-rate mortgage (ARM) or interest-only mortgage (IO) and the interest rate is expected to reset or recast within four months, DTI is calculated using the greater of the payment using the reset rate or current scheduled payment. Otherwise, DTI is calculated using the current scheduled payment.

Step 2: Capitalize Arrearage
If the loan has any arrearage, the arrearage is capitalized to determine the new UPB. Items that may be capitalized include accrued interest, past-due real estate taxes, insurance premiums, delinquency charges paid to third parties and not retained by the servicer or its affiliate, and any required escrow advances. Late fees are not capitalized.

Step 3: Principal Forgiveness
There is no requirement to use principal reduction under the program, and it is not a formal step in the HAMP Standard Waterfall process. However, servicers may forgive principal to achieve

[21] For complete guidance on eligible property types, refer to Supplemental Directive 09-01.

the front-end DTI target. Principal forgiveness can be used on a stand-alone basis or before steps 4, 5, or 6 in the Standard Waterfall process. Principal forgiveness is applied to the UPB, and subsequent steps in the Standard Waterfall are carried out until 31% target DTI ratio is achieved. If principal is forgiven and the interest rate is not reduced, the rate will be frozen at its existing level and treated as a modified rate for the purposes of the interest rate cap.

In the event of principal forgiveness, the Payment Reduction Cost Share continues to be based on the change in the borrower's monthly payment from 38% to 31% front-end DTI ratio and is limited to five years.

Step 4: Rate Reduction
Reduce note rate in increments of 0.125% to get as close to the target DTI of 31% as possible, without reducing the borrower's DTI below 31%. The new rate cannot be lower than 2%. If the target DTI is met and the resulting interest rate is higher than the interest rate cap[22], then the resulting rate will be the note rate for the life of the modification and the payment (P&I) will be fixed for the life of the loan. If the resulting rate is below the interest rate cap, the reduced rate will be in effect for the first five years followed by annual increases of one percentage point per year (or a lesser amount as needed) until the interest rate reaches the interest rate cap. Borrower's monthly installment will be revised annually, if and when there is an interest rate reset, based on the statement above. If the target DTI cannot be reached at the 2% rate floor, term extension is considered.

Step 5: Term Extension
Re-amortize and extend the loan to a maximum 40-year term in monthly increments to reach as close to the target 31% DTI without going under. The modification term should not be lower than the current remaining term. If the loan's current remaining term is greater than 480 months, use the remaining term as the modification term. No term extension should be given. If the target DTI cannot be reached with the maximum term extension, then principal forbearance is considered.

Step 6: Principal Forbearance
Principal is forborne until the target DTI is achieved. The forbearance amount is added as a balloon payment to the end of the loan and no interest is collected on the forbearance amount. If the option to defer is selected, the servicer/lender shall forbear on collecting the deferred portion of the Capitalized Balance until the earlier of:

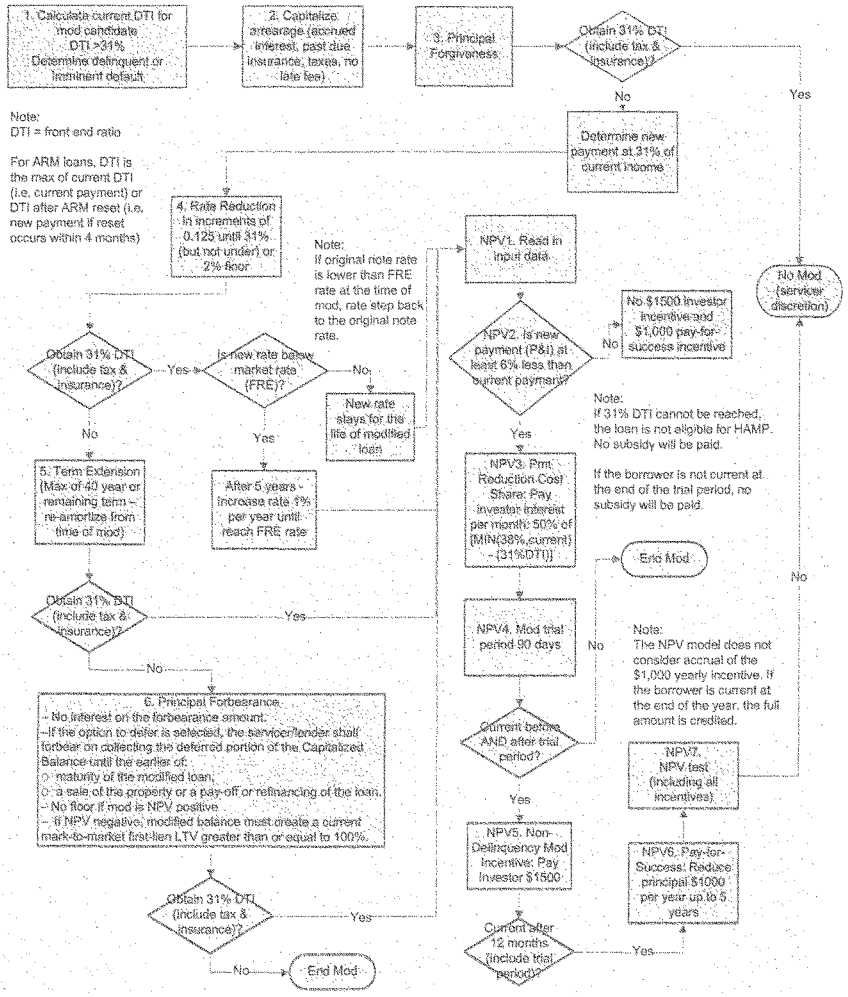
- maturity of the modified loan,
- a sale of the property, or
- a pay-off or refinancing of the loan

If the modification is NPV negative and the servicer chooses to modify the loan, forbearance can be no more than the difference between the unpaid balance and the current property value. If the target DTI cannot be reached with principal forbearance, principal forgiveness can be considered.

[22] See definition in Supplemental Directive 09-01. The "Interest Rate Cap" is the Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) weekly rate for 30-year fixed-rate conforming loans, rounded to the nearest 0.125 percent, as of the date that the modification agreement is prepared.

Figure 2

HAMP Logic Flow



HAMP Operational Metrics Survey - Phase I

Servicer Name > > > >

For time period:

Metric	Program Inception to Oct. 2009	November 2009
Number of incoming borrower calls Report the total number of inbound loss mitigation calls that resulted in the borrower speaking with a live person		
Time to pick up incoming borrower calls Report the average time it takes a borrower to speak to a live person for all loss mitigation calls.		
Distribution of times (1) it takes a borrower to speak to a live person for all loss mitigation calls:		
0 - 30 seconds		
31 - 60 seconds		
61 - 90 seconds		
91 - 120 seconds		
121 + seconds		
Number of HAMP eligible 60+ day delinquent population (2) personally contacted Report the total number of successful person-to-person right party contacts (via inbound/outbound calls or face-to-face contact) for the HAMP-eligible 60+ day population. (2)		
Number of contact attempts per borrower who is a member of the HAMP-eligible 60+ day delinquent population. Report the average number of outbound contact attempts made per borrower via the following:		
Phone calls		
Postal mail		
Emails		
Home visit		
Other		

Please provide examples of "other" in your email accompanying the survey response as well as magnitude of those "other" categories

Number of HAMP eligible borrowers that have made 2 or more trial payments and are still without complete documentation Report the number of trial modifications with **2** or more payments, (3) that are pending official modifications for incomplete documentation. Report as of 11/30/09.		

Report the number of trial modifications with 3 or more payments, (3) that are pending official modifications for incomplete documentation. Report as of 11/30/09.		
Report the number of trial modifications with 4 or more payments, (3) that are pending official modifications for incomplete documentation. Report as of 11/30/09.		
Report the median number of attempts per borrower made to retrieve the outstanding documents. Report as of 11/30/09.		

For above two questions, Reporting period should be all outstanding trial modifications that meet the criteria through the most recent completed month (November 2009)

Number of HAMP-eligible 60+ day delinquent population (2) who:

Have had foreclosure proceedings initiated		
Have had foreclosure sale completed		
Were in foreclosure and who:		
got a modification under HAMP program		
got a modification under a servicer modification program		
sold the property via a short sale		
were released via a deed-in-lieu arrangement		
participated in some other program / arrangement		

Please provide examples of "other" in your email accompanying the survey response as well as magnitude of those "other" categories

Number of contact attempts per HAMP eligible 60+ day delinquent population (2) borrower who had foreclosure sale completed

Report the median number of outbound contact attempts made per borrower who went to foreclosure sale		
Report the number of borrowers who went to foreclosure sale without a person-to-person right party contact		

NOTES:

(1) Distribution of times is equal to 0-30 seconds, 31-60 seconds, 61-90 seconds, 91-120 seconds, and 121+ seconds
(2) HAMP eligible 60+ day delinquent population is defined as the same estimated 60+ day delinquent population in the monthly public report survey.
(3) Report the number at 2 trial payments and each trial payment thereafter (reporting the numbers by each trial period payment separately).

Questions/Comments: Please contact Jametta Jenkins 202-752-2880; jametta_jenkins@fanniemae.com

DELIVERY INSTRUCTIONS: Please email spreadsheet to the following email addresses:

hamp_results_and_reports@fanniemae.com; david_w_rowland@fanniemae.com; jametta_jenkins@fanniemae.com

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

March 12, 2010

The Honorable Edolphus Towns
Chairman
Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Towns:

Thank you for your letter of February 4, 2010, requesting information regarding the investigation into federal foreclosure mitigation efforts and the Making Home Affordable (MHA) program. I have enclosed a detailed set of responses to your questions.

Thank you again for your attention to this important matter. I look forward to working with you to find lasting solutions for homeowners across the country.

Sincerely,

Timothy F. Geithner

Enclosure

Information Request from the
House Government Oversight and Reform Committee
March 10, 2010

1. **The number of trial modifications for each month in 2009 to present. Please do not submit such information based upon cumulative monthly totals.**

Through January 31st, 2010, over a million borrowers have entered into trial modifications. It is important to remember that, while the program was announced in February 2009, detailed guidance was released in April. During the initial months of the program two key trends were developing:

- Treasury and Fannie Mae were dedicating resources in signing on the largest servicers. To date, over 100 servicers are participating in the program, as well as all GSE servicers with respect to their GSE loans.
- Servicers who have signed on also faced significant challenges in ramping up their operations to meet program requirements and a large borrower demand.

In July, Treasury urged servicers to ramp up capacity and operations to reach as many potentially eligible borrowers as possible. Treasury also permitted borrowers to enter into trial modifications based on partial documentation or stated income, and allowed servicers to compile necessary documentation during the trial modification. In October, Treasury released a streamlined documentation process to reduce the burdens on borrowers and ensure compliance with program guidelines. In November, Treasury launched its conversion campaign aimed at: 1) ensuring servicers receive complete documentation from trial modification borrowers and 2) driving decisions for those borrowers with complete documents.

Data are as of January 31, 2010 and are from IR2, the HAMP system of Record.

Exhibit 1 – Active Trials by Month

First Payment Posted Month	Trials Started[2]	Trials Cancelled	Trials Active[3]
March 2009	257	11	215
April 2009	8,386	636	5,650
May 2009	45,148	4,401	29,504
June 2009	89,919	12,245	65,879
July 2009	118,055	13,776	80,068
August 2009	144,706	12,393	106,374
September 2009	134,499	9,101	106,767
October 2009	157,150	4,801	141,436
November 2009	110,091	1,441	106,362
December 2009	109,538	1,492	107,750
January 2010	80,477	179	80,252
Totals	**1,008,216**	**60,476**	**830,438**

[1] *Displays Trial Modifications Started and Active by vintage month.*
[2] *Trials Started includes loans that have been cancelled or converted to permanent.*
[3] *Trials Active based on the month in which the first trial payment was posted and excludes modifications that have been cancelled or converted to permanent.*

2. **The number of trial modifications that are for a duration of 1 month, 2 months, 3 months, 4 months, 5 months, 6 months, and 7 months or longer. Please provide such information according to monthly totals during the year 2009 to present. Please do not submit such information based upon cumulative monthly totals.**

Below, we show the number of trial modifications broken down by the number of months the borrower has spent in the trial as of January 31, 2010.

Bear in mind, as the program ramped up, servicers who allowed borrowers to enter trial modifications either on limited documentation or stated income experienced significant challenges in obtaining complete documentation. To ensure that borrowers were afforded ample opportunity to be considered for a permanent modification, Treasury extended the trial modification for some borrowers up to the end of 2009. At the end of November, Treasury launched its conversion campaign which required servicers to focus efforts on completing borrower documentation and generating permanent modification decisions. To facilitate this effort, Treasury embedded SWAT teams within the operations of the largest seven servicers to ensure operational efficiency in speed to decision and provide guidance on unique policy questions.

Going forward, Treasury, per Supplemental Directive 10-01, will require borrowers to submit hardship and income verification documents up front prior to entering into trial modifications. This should help to increase conversion rates, as documentation challenges will be diminished.

Exhibit 2 – Duration of Trial Modifications

First Trial Payment Posted Month	Number of Months	Trials Active[1]
March 2009 through July 2009	7+	181,507
August 2009	6	106,374
September 2009	5	108,767
October 2009	4	141,438
November 2009	3	106,352
December 2009	2	107,750
January 2010	1	80,252
	Total	830,438

[1] *Trials Active based on the month in which the first trial payment was posted, rather than when it was due.*

3. **The number of trial modifications that have failed to be converted to permanent modifications based upon the initial 3 month trial modification period versus the 5 month trial modification period. Please provide such information according to monthly totals during the year 2009 to present. Please refrain from submitting such information based upon cumulative monthly totals.**

The HAMP Program provides for trial modifications of three months for delinquent loans or four months for loans that are in imminent default.

In December, Treasury launched a comprehensive conversion drive to ensure that borrowers in trial modifications submitted complete documentation and received a final decision from the servicer in a timely manner. We required the seven largest HAMP servicers (representing nearly 90% of all trial modifications) to submit conversion plans demonstrating their ability to reach a decision on each loan for which they have documentation and to communicate a decision to those borrowers on or before January 31, 2010. We also required HAMP servicers to submit their

strategy for obtaining documentation from borrowers who are currently making payments under a trial modification but have not submitted all of their documentation.

As of January 31, 2010, 519,849 trial modifications were past their anticipated three/four month trial length. In Supplemental Directive 09-10, Treasury implemented a temporary review period for all active HAMP trial modifications scheduled to expire on or before January 31, 2010. During this temporary review period, servicers were not permitted to cancel an active HAMP trial modification for any reason other than failure to meet the HAMP property eligibility requirements. Therefore, a number of cancellations of trial modifications have not yet been submitted into the HAMP system of record and we expect that these will begin to be reported as of the March Public Report.

Servicers were also required to send written notification to all borrowers to inform them of their current modification status and provide borrowers with the opportunity to remedy any documentation or payment deficiencies. Following this required notice and cure period, servicers should make final determinations for all active HAMP trial modifications subject to Supplemental Directive 09-10 in accordance with the guidelines set forth below.

There are a number of reasons that borrowers might not ultimately convert to a permanent modification, most notably the following: servicers accepted stated and not verified incomes on HAMP trial loan applications; borrowers submitted incomplete documentation; borrowers did not return documentation to servicers; and borrowers may not be current on their trial modification payments.

In addition, servicers have initiated trial modification plans based on verbal income information that are not subject to the temporary review period required by Supplemental Directive 09-10 (and may continue to do so for trial modification plans with effective dates prior to June 1, 2010). Servicers should make final determinations for such trial modifications upon the expiration of the applicable trial modification in accordance with the guidelines set forth below.

- If the borrower has not made all required trial modification payments, or has not submitted any income verification documentation, the servicer must find the borrower ineligible for a permanent HAMP modification and cancel the HAMP trial modification from the Treasury system of record. When a HAMP trial modification is cancelled, the servicer must consider the borrower for other available foreclosure prevention alternatives and send the borrower the appropriate Borrower Notice in accordance with Supplemental Directive 09-08.
- If the borrower has submitted all required trial modification payments, and the borrower has submitted some form of income documentation, the servicer must evaluate the borrower, determine whether the borrower is eligible for a permanent HAMP modification, and promptly communicate the eligibility determination to the borrower. If the income documentation is insufficient to make a HAMP decision, and the servicer is unable to obtain the required documentation from the borrower, the servicer must find the borrower ineligible for a permanent HAMP modification and cancel the HAMP trial modification from the Treasury system of record. When a HAMP trial modification is cancelled, the servicer must consider the borrower for other available foreclosure prevention alternatives and send the borrower the appropriate Borrower Notice in accordance with Supplemental Directive 09-08.

If the borrower has not submitted or signed a Hardship Affidavit but has made all required trial modification payments and is otherwise eligible for a HAMP modification, the servicer may approve the borrower for a modification, send the Hardship Affidavit to the borrower with the Home Affordable Modification Agreement and instruct the borrower to execute and return both as a condition of the permanent HAMP modification.

If the borrower has not submitted a signed and completed Form 4506-T or 4506T-EZ but has submitted the most recent tax return (including all applicable schedules), has made all required Supplemental Directive 10-01 Page 10 trial period payments and is otherwise eligible for a HAMP

modification, the servicer may approve the borrower for a modification, send the Form 4506-T or 4506T-EZ, as applicable, to the borrower with the Home Affordable Modification Agreement and instruct the borrower to execute and return both as a condition of the permanent HAMP modification.

The table below shows the distribution of these trial modifications according to the month the trials began. Note that during 2009 various waivers were granted to allow servicers additional time to ramp up the program and work with borrowers on documentation requirements. Thus, servicers were allowed to continue to report trials as active if the borrowers were making their trial payments but had not yet provided complete documentation. The numbers in the table below do not reflect the effect of those waivers.

Exhibit 3 – Trials Active After 3-4 Months[1]

Trial Start Month[2]	Active Trials in Trial Period[3]	Active Trials Eligible for Conversion	Permanent Modifications Started	Active Trials Eligible, Not Converted	Active Trials + Permanent Modifications Started
February 2009	--	1	0	1	1
March 2009	--	104	0	104	104
April 2009	--	1,120	370	750	1,120
May 2009	--	24,440	5,359	19,081	24,440
June 2009	--	66,361	15,615	50,746	66,361
July 2009	--	93,100	20,850	72,250	93,100
August 2009	--	95,103	20,100	75,003	95,103
September 2009	--	125,346	22,963	102,383	125,346
October 2009	--	127,304	20,474	106,830	127,304
November 2009	30,614	104,272	11,571	92,701	134,886
December 2009	116,215	--	--	--	116,215
January 2010	98,822	--	--	--	98,822
February 2010	51,530	--	--	--	51,530
March 2010 and Future[4]	13,408	--	--	--	13,408
Totals	**310,589**	**637,151**	**117,302**	**519,849**	**947,740**

[1] Trial periods are either 3 months for delinquent loans or 4 months for loans that are in imminent default. Includes both 3 and 4 month trials.
[2] Trial Start Month based on month in which the first trial payment was due, rather than when it was posted.
[3] Duration in Trial Period is less than 3 or 4 months; therefore loans are not yet eligible for permanent status.
[4] Trial modifications reported by servicers to the HAMP system of record with Trial Start Month of March 2010 or later.

4. **The number of permanent modifications for each month in 2009 to present. Please do not submit such information based upon cumulative monthly totals.**

Exhibit 4 – Permanent Modifications by Month Started

Public Report Month	Permanent Modifications Active[1]
September 2009 and Before	1,711
October 2009	3,470
November 2009	26,201
December 2009	35,083
January 2010	49,832
Total	**116,297**

[1] *Number of permanent modifications reported in the HAMP reporting window as active for the listed month.*

5. **The number of trial modifications and permanent modifications amongst GSE serviced loans versus non-GSE loans. Please provide such information according to monthly totals during the year 2009 to present. Please do not submit such information based upon cumulative monthly totals.**

Exhibit 5A – Trial Modifications (GSE vs. non-GSE)[1]

First Trial Payment Posted Month[1]	GSE	Non-GSE	Total
March-09 through July-09	92,798	88,709	181,507
August-09	65,599	40,775	106,374
September-09	59,954	46,813	106,767
October-09	77,991	63,445	141,436
November-09	60,627	45,725	106,352
December-09	63,596	44,154	107,750
January-10	46,442	33,810	80,252
Totals	**467,007**	**363,431**	**830,438**

[1] *Trials Active based on the month in which the first trial payment was posted, rather than when it was due.*

Exhibit 5B – Permanent Modifications Started (GSE vs. Non-GSE)

Public Report Month	GSE	Non-GSE	Total[1]
September 2009 and Before	3,231	1,511	4,742
October 2009	7,432	3,475	10,907
November 2009	11,419	4,356	15,775
December 2009	21,223	14,291	35,514
January 2010	30,779	19,585	50,364
Totals	**74,084**	**43,218**	**117,302**

[1] *Total does not reflect 992 permanent modifications that were cancelled and 13 that were paid off. Net is 116,297, the number of Active Permanent Modifications reported in Exhibit 4.*

6. The criteria used to determine whether an applicant may participate in a trial modification.

Based on a recent survey of servicers, we estimate that as of the beginning of November there were fewer than 1.5 million homeowners who were both 60+ days delinquent and likely to meet the HAMP requirements. This puts the over 1,005,000 borrowers who had begun trial modifications as of the end of the January in a more complete context. As we have continually stressed, while no one wants to see foreclosures, not all delinquent borrowers will qualify for HAMP modifications.

The basic eligibility criteria for a trial modification are as follows:

- The mortgage is a first lien conventional mortgage originated on or before January 1, 2009.
- The unpaid principal balance is equal to or less than:
  - 1 Unit: $729,750
  - 2 Units: $934,200
  - 3 Units: $1,129,250
  - 4 Units: $1,403,400
- The property is occupied by the borrower as a primary residence (the property may not be vacant or condemned).
- The borrower has a mortgage payment that is not affordable due to a financial hardship that can be documented.
- The borrower has a monthly mortgage payment greater than 31 percent of monthly gross income.

7. The criteria used to determine whether an applicant may be granted a permanent modification.

If the borrower makes all of the required trial payments during the trial modification and the income and expense information provided by the borrower is determined to be accurate, the servicer will execute a permanent modification agreement.

8. The White Paper issued detailing the Net Present Value (NPV) process under MHA.

The latest NPV model documentation (Base NPV Model Documentation v3.0) for use by servicers in implementing the model is attached to these responses.

See attachment A.

9. The exact date that Treasury plans to issue information concerning the Net Present Value processes to the public and the anticipated information that will be released.

An overview of the NPV model was made available to the public on April 15, 2009 on www.HMPadmin.com, the administrative Web site established for servicers and maintained by Fannie Mae. In addition, a public version of the current version of the NPV model documentation (Base NPV Model Documentation v3.0) was made available on December 8, 2009 and can be found on www.HMPadmin.com under "Servicer Documents." Both of these documents are attached here.

See attachment B.

The overview document summarizes the purpose the model serves in the HAMP evaluation process and generally describes how the model works. The public version of the NPV model documentation provides specific details regarding the design and operation of the tool, with the exception of the discount and default rates used by individual servicers. By design, these rates vary from servicer to servicer, reflecting the performance of a given servicer's book of business.

10. A list of all information that Treasury requires to be included in the modification to a homeowner of a denial of an application for a trial modification and for a denial of a permanent modification.

Every borrower is entitled to a clear explanation if they are determined to be ineligible for a HAMP modification. Treasury has established denial codes that require servicers to report the reason for modification denials to Treasury. Servicers are now required to use those denial codes as a uniform basis for sending Borrower Notices to borrowers who were evaluated for HAMP but not approved for a modification. In those letters, borrowers will be provided with a toll-free phone number to contact a servicer representative capable of providing specific details about the decision as well as the Homeowner's HOPE Hotline. The HOPE Hotline has counselors who are trained to work with borrowers to help them understand reasons they may have been denied a modification, can help resolve misunderstandings with the servicer and explain other modification or foreclosure prevention options that may be available to them.

Borrower Notices must provide in clear, non-technical language the primary reason or reasons for the non-approval. The notice must also describe other foreclosure alternatives for which the borrower may be eligible, if any, including but not limited to other modification programs, short sale and/or deed in lieu or forbearance, and identify the steps the borrower must take in order to be considered for those options. If the servicer has already approved the borrower for another foreclosure alternative, information necessary to participate in or complete the alternative should be included. Whenever a non-government foreclosure prevention option is discussed, the notice should be clear that the borrower was considered for but is not eligible for HAMP.

When the borrower is not approved for a HAMP modification because the transaction is NPV negative, the notice must, in addition to an explanation of NPV, include a list of certain input fields that are considered in the NPV decision and a statement that the borrower may, within 30 calendar days of the date of the notice, request the date the NPV calculation was completed and the values used to populate the NPV input fields. The purpose of providing this information is to allow the borrower the opportunity to correct values that may impact the analysis of the borrower's eligibility.

All Borrower Notices must also include the following:

- A toll-free number through which the borrower can reach a servicer representative capable of providing specific details about the contents of the Borrower Notice and reasons for a non-approval determination.
- The HOPE Hotline Number (888-995-HOPE), 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.
- Any information, disclosures or notices required by the borrower's mortgage documents and applicable federal, state and local law.

11. What process has been established for a homeowner to appeal the denial of a trial modification or permanent modification? If there is no such appeal process, please provide a detailed explanation.

As mentioned in the question above, Borrower Notices provide the Homeowner's HOPE Hotline Number (888-995-HOPE), 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. Borrowers

who believe that they should have been given a modification should contact the MHA support call center through the HOPE Hotline. The borrower is connected with one of the counselors on the MHA Escalation team. The MHA Escalation team counselor discusses the borrower's situation and typically engages in a three-way conversation bringing the servicer into the call.

In cases where the borrower's issues are not satisfactorily resolved by the three-way conversation with the borrower, counselor, and servicer, the MHA Escalation counselor will first escalate to its management team to raise the issue with servicer management for resolution. If that does not resolve the issues in dispute, then the call is further elevated to Fannie Mae (for Fannie Mae loans), Freddie Mac (for Freddie Mac loans), or the HAMP Solution Center (for non-GSE loans), for final resolution. When appropriate, certain cases may be referred to Freddie Mac's MHA-Compliance team.

Treasury has a compliance committee for HAMP to review and understand servicers' compliance results and determine appropriate remedies. The compliance committee's actions range from requiring improperly rejected loans to be modified, to operational enhancements to monetary actions. Additionally, Freddie Mac has implemented the Second Look program, to ensure that servicers are not inappropriately denying borrower modification requests. Through this program, compliance staff reviews a sample of servicers' modification files to determine if loan modifications were improperly denied. Any such findings of improper denial would follow the same compliance process. Second Look also has access to call center data from MHA HELP and, if trends become evident, can review files to determine if there are any systemic issues that need to be addressed through the compliance process. See Q16 for a more detailed description of the Second Look program.

12. **The re-default rate of home loans after trial modification and permanent modification. Please submit the re-default rates separated by lender, the type of modification (trial or permanent) and the reason for default. Please provide such information according to monthly totals during the year 2009 to present.**

We do not presently track the reasons why servicers cancel individual trial modifications and so we are not able to provide the requested information pertaining to re-defaults. . In 2010 we will begin tracking that information going forward.

With respect to permanent modifications, the table below indicates, by month, re-default rates for permanent modifications, separated by lender. The speed with which servicers converted trials to permanent modifications varied, which is reflected in their redefault numbers. The totals for each lender/servicer are broken down by the month in which the modification became permanent. The table below only shows vintages through October 2009 because, as of December 31, 2009, modifications that became permanent in either November or December would not have had enough time to default. Because the conversion from trial to permanent modifications has just begun to ramp up, and because those who are in permanent modifications have been so for a short period of time, it is far too early to project, or derive any assumptions about, redefaults.

Exhibit 12A – HAMP Trial Modification Cancellations

First Payment Posted Month	Trials Started	Trials Cancelled	Trials Active
March 2009	257	11	215
April 2009	8,386	636	5,850
May 2009	45,148	4401	29,504
June 2009	99,919	12,245	65,870
July 2009	118,055	13,776	80,068
August 2009	144,706	12493	106,374
September 2009	134,499	9,101	106,767
October 2009	157,150	4,801	141,436
November 2009	110,081	1,441	106,352
December 2009	109,538	1,492	107,750
January 2010	80,477	179	80,252
	1,008,216	60,476	830,438

-Data not available for Trial Cancellations by servicer and month.
-Trials Cancelled are displayed by Vintage versus in the month in which they were officially cancelled in the HAMP system of record.
-Reasons for cancellation per SD09-06 will be available in 2nd qtr 2010.

Exhibit 12B – Permanent Re-default Rates (By Lender and Vintage)

HAMP Servicer Name	Jul 2009	Aug 2009	Sep 2009	Oct 2009	Nov 2009	All Vintages
Abacus Federal Savings Bank				1		1
American Home Mortgage Servicing, Inc		2	5	1	2	10
Arvest Mortgage Company			1			1
Aurora Loan Services, LLC		6	48	30	9	93
Banco Santander Puerto Rico			1			1
Bank of Jamestown					1	1
Branch Banking and Trust Company			12	18	7	37
Capital One, N.A.					1	1
Carrington Mortgage Services, LLC				4	2	6
Central Mortgage Company		3				3
Central National Bank			1	1		2
Coastal States Mortgage Corporation		1				1
Corning Credit Union				1		1
EMC Mortgage Corporation				5		5
Everhome Mortgage Company		2	8	11	10	31
First Federal Bank of The Midwest			1			1
First Federal Savings and Loan			2			2
First National Bank of Omaha		1				1
Flagstar Capital Markets Corporation					1	1
Fresno County Federal Credit Union		1				1
GMAC Mortgage, LLC			21	55	25	101
Green Tree Servicing LLC					1	1
Holyoke Credit Union					1	1
Home Federal Bank					1	1
Home Federal Savings Bank				1		1
Home Financing Center Inc			1	1		2
HomeStreet Bank		1				1
HSBC Mortgage Corporation (USA)			12	24	75	111

JPMorgan Chase Bank, NA			1	1		2
Liberty Savings Bank FSB				1		1
Mayflower Cooperative Bank					1	1
Merchants Bank	1					1
Midland Mortgage Company			1			1
Monarch Community Bank			1			1
National City Bank					1	1
Nationstar Mortgage, LLC			16	3	6	25
Nationwide Advantage Mortgage Company				1	3	4
Ocwen Loan Servicing, LLC		45	49	96	53	243
OneWest Bank				4		4
Primary Capital Mortgage			1	1		2
Provident Funding			6	9		15
Residential Credit Solutions, Inc.			2	1		3
Saxon Mortgage Services, Inc.				2		2
Select Portfolio Servicing, Inc.					16	16
ShoreBank				1		1
Sovereign Bank				1		1
SunTrust Mortgage Inc		25	76			101
The Northern Ohio Investment Company					1	1
The River Bank					1	1
Traverse City State Bank				1		1
Trustmark National Bank					1	1
Umpqua Bank		1				1
Unitus Community Credit Union				1		1
Wachovia Mortgage, FSB			9	12		21
Wells Fargo Bank, N.A.			7	87	27	121
Total	1	88	282	375	246	992

-Table represents permanent loans cancelled for default only
-Does not include 13 loans liquidated.

13. The number of 'in house' staff and the number of contracted staff working in Fannie Mae's division that administers the Making Home Affordable (MHA) program. Please also include the type of contract, the associated dollar value of each contract, and the type of work provided by such contractors from 2009 to present. Please include information detailing whether a solicitation was issued for the contract and if so, the number of bids, name of each entity submitting a bid, and a copy of each related proposal that was submitted. Please also detail whether any precautionary measures were taken to ensure proper firewalls were developed to restrict the flow of information between the contractor and 'in house' staff at Fannie Mae's division that applies loss mitigation tools for its GSE loans.

As of December 31, 2009, there were approximately 220 'in house' Fannie Mae staff working primarily to fulfill Fannie Mae's role as Program Administrator for the MHA Program (under the Financial Agency Agreement between Fannie Mae and the U.S. Department of the Treasury ("Treasury") entered into on February 18, 2009 ("FAA")). There were also approximately 250 Fannie Mae contractors (staff augmentation contractors and consultants) working primarily to support the MHA Program. There were approximately 720 additional Fannie Mae employees and approximately 100 additional contractors (staff augmentation contractors and consultants) who support the MHA Program but have other Fannie Mae responsibilities as well. The term "MHA Contractors" shall refer to both groups of contractors providing support to the MHA Program.

The chart below (Exhibit 13) includes all vendors who are currently providing or have provided MHA Contractors and the associated dollar value of each contract for FAA services. The chart does not include vendors providing event services such as audio/visual, facilities, printing, and internet services in support of the MHA Program's community outreach activities.

The FAA states that it is not a Federal procurement contract and is therefore not subject to the provisions of the Federal Property and Administrative Services Act (41 U.S.C. § § 251-260), the Federal Acquisition Regulations (48 CFR Chapter 1), or any other Federal procurement law which would require competitive bidding processes. However, the MHA Program leveraged vendors approved through Fannie Mae's competitive procurement process to provide services related to the MHA Program. The process consisted of:

- Requests for Information to vet the vendors, and/or
- Requests for Proposals to evaluate the vendors in the following areas: capabilities, rates and compliance with Fannie Mae requirements; and,
- Reverse auctions to set the final rates for each vendor for the contract period.

All vendors providing staff augmentation and consulting MHA Contractors have been through Fannie Mae's standard competitive procurement process managed by Fannie Mae's Corporate Procurement group. Fannie Mae began utilizing this process in 2006 to drive costs out of its contingent labor budgets. The goal of the process is to instill competitive rates, benchmark labor data, ensure consistency and compliance with Fannie Mae standards and to lock down not-to-exceed rates with the companies with which Fannie Mae engages.

The auction component of the selection process provided incentives for cost reduction by placing the vendors in direct competition to establish their rates. Once the auction is complete, the rates are locked for the term of the pre-negotiated contract.

In addition to the sourcing process described above, staff augmentation vendors, including those providing MHA Contractors, undergo a secondary competitive process. This process requires Fannie Mae business stakeholders to post contractor openings through Fannie Mae's Contractor Resource Center. Vendors (selected through the process described above) then submit bids by sending in candidate resumes and hourly rates. The internal stakeholders at Fannie Mae review these in a vendor blind assessment. All information about the submitting vendor's name is stripped from the resume, allowing stakeholders to make decisions based solely on the candidates' qualifications and rates.

As previously noted, all vendors providing staff augmentation and consulting MHA Contractors have been through the competitive process described above; however no competitive bid process has been conducted for project related work that is specific to the MHA Program. There are also a limited number of circumstances where Fannie Mae has engaged contractors outside of these processes, including, for example, instances where:

- A business unit stakeholder or Treasury identifies an individual with specific subject matter expertise or experience;
- An urgent need exists for specific services to help Treasury establish and administer the MHA Program according to the aggressive timeline associated with the MHA Program; or,

In the cases above, Fannie Mae leveraged the data in its procurement systems which provide market data on hundreds of suppliers' rates as a result of prior competitive bids, as well as benchmark data from external sources to optimize the contracts, reducing risk and cost. In one example, a supplier's bid was ultimately reduced by 50 percent through negotiation.

To address concerns regarding information flow, Fannie Mae, in consultation with Treasury, has developed (and continues to refine and implement) measures to restrict the flow of information between the individuals (including employees and MHA Contractors) working on the MHA Program under the FAA, on the one hand, and individuals (including employees and contractors) applying loss mitigation tools for its GSE loans, on the other hand. These measures, which are in

accordance with the FAA and 31 C.F.R. Part 31, include a specific Code of Conduct, specific policies and procedures, training, non-disclosure agreements, certifications, processes for handling and protecting confidential information, restricting access to confidential information, and various other controls, including periodic testing. Fannie Mae flows downs applicable FAA contractual provisions to vendors providing MHA Contractors.

See Exhibit 13 on next page.

Exhibit 13 – Fannie Mae MHA Contracts

CONTRACTOR DESCRIPTION	AMOUNT PAID	ESTIMATED CONTRACT VALUE*	TYPE OF CONTRACT	TYPE OF WORK
Global Consulting firm	$1,984,407	$3,315,948	Consulting Services	Consulting support for program.
Financial Services Consulting firm	$13,418	$13,418	Service Agreements	Staff augmentation
Global Staffing firm	$481,888	$4,000,000	Staff Augmentation Services	Staff augmentation
Technology staffing firm	$113,668	$113,668	Service Agreements	Staff augmentation
Technology staffing firm	$81,263	$81,263	Service Agreements	Staff augmentation
Technology staffing firm	$1,931,294	$1,931,294	Service Agreements	Staff augmentation
Large Accounting and Advisory firm	$103,225	$103,225	Consulting Services	Consulting support for program.
Certified small business IT Staffing firm	$201,070	$201,070	Service Agreements	Staff augmentation
Leading provider of on line branding and web site development services	$73,925	$358,200	Statement of Work under existing MSA - Web Site Development	Design and develop web sites.
Global Consulting firm	$41,255	$75,712	Consulting Services	Records Retention consulting
Technology staffing firm	$908,136	$908,136	Service Agreements	Staff augmentation
Software firm providing leading data protection tools and support	$238,000	$238,000	Licensing Agreement w/Prof Services	Software and services to enable backup of all Program data on desktops.
Consulting firm providing technology and advisory services to financial industry	$1,825,288	$1,825,288	Service Agreements	Staff augmentation
Technology staffing firm	$951,918	$951,918	Service Agreements	Staff augmentation
Technology and financial staffing firm	$676,673	$676,673	Service Agreements	Staff augmentation
Technology staffing firm	$290,004	$290,004	Service Agreements	Staff augmentation
Minority owned technology staffing firm	$258,617	$258,617	Service Agreements	Staff augmentation
Global Staffing firm	$2,840,087	$4,038,688	Consulting	Advisory assistance to design processes and controls.
Consulting and Staffing firm	$1,714,133	$1,714,133	Service Agreements	Staff augmentation
Technology staffing firm	$42,444	$42,444	Service Agreements	Staff augmentation
Technology staffing firm	$85,764	$85,764	Service Agreements	Staff augmentation
Finance and Accounting staffing firm	$151,478	$981,000	Staff Augmentation	Consulting support to advise on Treasury Accounting Policy
Nationally recognized not for profit corp.	$2,190,533	$12,000,000	Services Agreement	Call center.
Payroll services company	$447,873	$447,873	Service Agreements	Staff augmentation
e-Commerce solutions provider	$127,940	$127,940	Service Agreements	Staff augmentation
Global provider of information management and records management solutions	$1,062	$45,700	Services Agreement w/Treasury specific SOW	Offsite storage of back up tapes.
Technology staffing firm	$530,873	$530,873	Service Agreements	Staff augmentation
Financial Services Staffing firm	$15,848	$15,848	Service Agreements	Staff augmentation
Technology staffing division of global tech firm	$51,193	$51,193	Service Agreements	Staff augmentation
Minority owned technology staffing firm	$73,219	$73,219	Service Agreements	Staff augmentation
Leading provider of mortgage analytics	$3,322,500	$20,450,000	Data Services	Data aggregation, hosting, reporting and support.
Women owned provider of marketing staffing	$30,750	$30,750	Service Agreements	Staff augmentation
Management consulting firm to financial services	$438,216	$493,359	Service Agreements	Staff augmentation
Technology staffing firm	$349,526	$349,526	Service Agreements	Staff augmentation
Staffing firm	$849,999	$849,999	Service Agreements	Staff augmentation
Consulting firm	$76,440	$76,440	Consulting Services	Consulting support to optimize call centers.
Staffing firm	$33,110	$33,110	Service Agreements	Staff augmentation
National technology consulting firm	$3,196,316	$3,196,316	Service Agreements	Staff augmentation
Global Consulting firm	$828,331	$1,204,840	Consulting Services	Consulting and project management for the program.
Global Staffing firm	$70,276	$70,276	Service Agreements	Staff augmentation
Consulting firm providing services to government	$0	$258,484	Consulting Services	Consulting to support Program.
One of largest IT staffing companies in US.	$130,703	$130,703	Service Agreements	Staff augmentation
Large staffing firm	$67,781	$67,781	Service Agreements	Staff augmentation
Technology staffing firm	$191,912	$191,912	Service Agreements	Staff augmentation
Technology staffing firm	$989,570	$989,570	Service Agreements	Staff augmentation
Software firm providing leading data protection tools and support	$124,774	$173,421	Licensing Agreement w/Prof Services & Maintenance	Software for archiving e-mailboxes.
Technology staffing firm	$317,782	$317,782	Service Agreements	Staff augmentation
Leading technology staffing firm	$3,228,448	$3,228,448	Service Agreements	Staff augmentation
Leading producer of public service ads	$0	$2,980,753	Advertising Services	Advertising campaign development.
Technology consulting company	$1,118	$1,118	Service Agreements	Staff augmentation
Management and information tech consulting	$428,319	$695,000	Consulting Services	Consulting support to advise on reporting tools.
Global provider of IT solutions and support	$802,110	$4,883,732	Services Agreement	Call center services.

* Estimated value is representative potential value over life of multi-year contract.

14. The number of 'in house' staff and the number of contracted staff working in Freddie Mac's division that ensures compliance with MHA. Please also include the type of contract, the associated dollar value of each contract, and the type of work provided by such contractors from 2009 to present. Please include information detailing whether a solicitation was issued for the contract and if so, the number of bids, name of each entity submitting a bid, and a copy of each related proposal that was submitted. Please also detail whether any precautionary measures were taken to ensure proper firewalls were developed to restrict the flow of information between the contractor and 'in house' staff at Freddie Mac's division that applies loss mitigation tools for its GSE loans.

At December 31, 2009, Freddie Mac's compliance division established by Treasury ("MHA-C") had 75 full-time employees and it also utilized 105 contracted staff. These employees and contracted staff are engaged in the core compliance activities or providing infrastructure to these core activities.

Exhibit 14 – Freddie Mac MHA Contracts

2009 MHA-C CONTRACTORS

STRATEGIC VENDORS

VENDOR #	VENDOR	SCOPE DESCRIPTION	CONTRACT TYPE	2009 ACCRUALS	RFP
1	PROVIDER OF MORTGAGE INDUSTRY RISK AND SERVICING SYSTEMS	LFR SYSTEMS PROVIDER	Fixed fee (license, implementation) and T&M (development, training)	$ 1,480,377 66	YES
2	LEADING PROVIDER OF MORTGAGE-RELATED DUE DILIGENCE RESOURCES	LFR RESOURCES	T&M	$ 1,393,178 19	YES
3	INDUSTRY-LEADING CONSULTING FIRM	AUDIT SUPPORT	T&M	$ 10,328,354 66	YES
4	MAJOR MORTGAGE-SERVICING SYSTEMS DEVELOPER	LFR SYSTEM PROVIDER	Fixed fee (license, implementation) and T&M (development)	$ 919,070 35	YES
5	LEADING MODEL-ANALYTICS FIRM	NPV TESTING SUPPORT	T&M and Milestone based	$ 2,751,375 00	NO

	VENDOR	SCOPE DESCRIPTION	CONTRACT TYPE	2009 ACCRUALS	
6	STAFF AUGMENTATION VENDOR	STAFF AUGMENTATION	T&M	$ 27,906 46	N/A
7	STAFF AUGMENTATION VENDOR	STAFF AUGMENTATION	T&M	$ 198,012 97	N/A
8	STAFF AUGMENTATION VENDOR	STAFF AUGMENTATION	T&M	$ 46,440 00	N/A
9	STAFF AUGMENTATION VENDOR	STAFF AUGMENTATION	T&M and Milestone based	$ 331,904 79	N/A
10	STAFF AUGMENTATION VENDOR	STAFF AUGMENTATION	T&M	$ 57,295 00	N/A
11	STAFF AUGMENTATION VENDOR	STAFF AUGMENTATION	T&M	$ 892,428 80	N/A
12	STAFF AUGMENTATION VENDOR	STAFF AUGMENTATION	T&M	$ 250,988 19	N/A
13	STAFF AUGMENTATION VENDOR	STAFF AUGMENTATION	T&M and Milestone based	$ 208,700 00	N/A
14	STAFF AUGMENTATION VENDOR	STAFF AUGMENTATION	T&M	$ 13,060 00	N/A
15	STAFF AUGMENTATION VENDOR	STAFF AUGMENTATION	T&M	$ 703,969 44	N/A
16	STAFF AUGMENTATION VENDOR	STAFF AUGMENTATION	T&M	$ 616,212 80	N/A

	VENDOR	SCOPE DESCRIPTION	CONTRACT TYPE	2009 ACCRUALS	
17	TRAINING/CONSULTING FIRM	TRAINING	T&M	$ 126,884 32	N/A
18	TRAINING/CONSULTING FIRM	DEVELOPMENT OF INSTRUCTIONAL MATERIALS - MHA-C RELATED	T&M	$ 92,100 00	N/A
19	CONSULTING FIRM	UPDATE/CREATE INTERVIEW TOOLS	T&M	$ 10,983 00	N/A
20	PROFESSIONAL RECRUITING FIRM	RECRUITING	T&M	$ 129,065 29	N/A
				$ 20,241,312.56	

The FAA states that it is not a Federal procurement contract and is therefore not subject to the provisions of the Federal Property and Administrative Services Act (41 U.S.C. § § 251-260), the Federal Acquisition Regulations (48 CFR Chapter 1), or any other Federal procurement law which would require competitive bidding processes.

However, MHA-C utilizes Freddie Mac's competitive procurement processes to contract with third-parties to provide servicers.

Following those procedures, during 2009, MHA-C issued two RFPs that resulted in contracts for services, and one single-source procurement. MHA-C also contracted with vendors for staff augmentation.

RFPs: During 2009, MHA-C issued two RFPs that resulted in contracts for services.

- One RFP, issued March 16, 2009, solicited vendors for support related to the design and implementation of a compliance review and audit program. Four vendors, two industry-leading consulting firms and two major professional services firms, submitted proposals. MHA-C awarded a contract to one of the industry-leading consulting firms.

- The other RFP, issued April 28, 2009, solicited vendors for support related to the design and implementation of a loan-file review program. Four vendors, a major mortgage-servicing systems developer, a leading provider of mortgage-related due diligence resources, a provider of mortgage industry risk and servicing systems, and an integrated financial solutions company, submitted proposals. MHA-C awarded contracts to three of those vendors (the major mortgage-servicing systems developer, the leading provider of mortgage-related due diligence resources, and the provider of mortgage industry risk and servicing systems), one of which is a women-owned business.

MHA-C also issued two additional RFPs in 2009 for which MHA-C elected not to proceed with procurement contracts: RFPs regarding Management Compliance Audit support and third-party data analytics. The Management Compliance Audit work requirement will be revisited early in 2010.

Single-Source Procurements: During 2009, MHA-C entered into one contract through a single-source procurement process, following the established Freddie Mac process for single-source contracting of vendors, contracting with a leading model-analytics firm to facilitate testing of servicer NPV models within a target 30-day period.

Staff Augmentation Vendors: In addition to the RFPs and the single-source procurements, MHA-C "bids" its needs for staff augmentation, using the same process used by Freddie Mac generally for staff augmentation, communicating staffing needs to Freddie Mac's approved pool of contract worker vendors and considering all of the candidates submitted. Contracted staff is subject to Treasury business and conflict-of-interest approval prior to beginning their engagement.

Freddie Mac, as Treasury's Compliance Agent, is required to comply with Treasury's Interim Final Rule regarding Conflicts of Interest, 31 C.F.R. Part 31 ("COI IFR"). With the approval of Treasury, Freddie Mac has developed policies, processes and methods (collectively known as "mitigation plan") to detect, disclose, and mitigate organizational and personal conflicts as defined in the COI IFR. The mitigation plan applies to all employees of Freddie Mac, both in the core business and at MHA-C and contractors of the MHA-C. Key components to the mitigation plan include but are not limited to:

- Establishment of a separate, independent division ("MHA-C") which employs physical access restrictions and technology firewalls.
- Implementation of information / communication protocols used to monitor information flow between MHA-C and Freddie Mac's core business.

15. Please provide information concerning exactly which agency/entity ensures proper administration and compliance of Fannie Mae and Freddie Mac's application of MHA in modifying its GSE loans.

The Department of the Treasury and the Federal Housing Finance Agency (FHFA) have responsibilities to ensure proper administration and compliance by Fannie Mae and Freddie Mac in the application of the MHA Program. FHFA, as an independent regulatory agency and as Conservator for both Fannie Mae and Freddie Mac, is responsible for supervising Fannie Mae and Freddie Mac and preserving and conserving their assets. FHFA oversees and ensures coordination between and among Fannie Mae, Freddie Mac and Treasury to ensure that Fannie Mae's and Freddie Mac's assets are properly employed in the MHA program and the companies' participation is consistent with conserving and preserving their assets. FHFA also oversees their participation to ensure that it is consistent with financially safe and sound practices. Fannie Mae's and Freddie Mac's application of MHA in modifying loans owned or guaranteed by them (the GSE loans) is a component of Treasury's MHA program, but must satisfy standards required by FHFA in its role as regulator and Conservator. FHFA carries out its responsibilities to oversee MHA implementation at the Enterprises through its Division of Enterprise Regulation and its Office of Conservatorship Operations.

16. Please provide information related to the Second Look Program, and specifically, Freddie Mac's Making Home Affordable Compliance division and Treasury's Home Ownership Preservation (HOP) division concerning the following:

Second Look loan file reviews are conducted to assess those loans not offered a HAMP modification, to reasonably ensure the servicer undertook appropriate evaluation steps and correctly concluded that a HAMP modification was not appropriate. The files for Second Look represent a statistical sample based on the number of delinquent loans, including those that have been referred to foreclosure, in the servicers' book. To date, MHA-C has conducted or is in the process of conducting 9,137 Second Look file reviews. It is important to note that the Second Look review is an iterative process, with follow-up required between MHA-C and the servicers when the contents of the servicer file do not allow a conclusion to be formed. During these follow-up communications, servicers are reminded of their obligations not to proceed to foreclosure sales until an effective HAMP evaluation has occurred and been documented.

a. *The number of individual borrower files reviewed by 'in-house' staff. Please provide such information according to monthly totals during the year 2009 to present. Please do not submit information based upon cumulative totals.*

Files are selected for review periodically based on their delinquency or foreclosure status at the end of a selected month. To date, MHA-C has completed Second Look loan file reviews on files selected from July and August 2009 delinquency and foreclosure status reports (see answer below to 16e for details on timing). The Second Look reviews for files selected from October 2009 delinquency and foreclosure reports are in process. MHA-C has begun the selection of loans from December 2009 delinquency and foreclosure reports to be reviewed. The following table denotes the number of files chosen in the selected months:

2009 MHA-C Second Look Loan File Reviews			
	July (completed)	August (completed)	October (in process)
Loan File Reviews	2308	3136	3693

b. *The number of individual borrower files reviewed by contracted staff, if any, the name of the corresponding company and the type of work performed. Please provide such information according to monthly totals during the year 2009 to present. Please do not submit information based upon cumulative totals.*

Second Look loan file reviews are conducted by a combination of in-house MHA-C staff and contracted staff. Contracted staff conducts initial loan reviews, subject to supervisory oversight and quality control review by MHA-C in-house staff. MHA-C utilizes contracted staff from two nationally recognized organizations providing loan file review servicers, one of which is a women's owned business.

c. *The borrower files reviewed according to servicer. Please provide such information according to monthly totals during the year 2009 to present. Please do not submit information based upon cumulative totals.*

During July, MHA-C, in consultation with Treasury, decided to select a larger population of loans for Second Look reviews. This was helpful to calibrate the Second Look process. Currently, MHA-C generally requests approximately 100 loan files per servicer to review. This number represents a statistical sample based on the number of delinquent loans in the servicers' book and may be changed from time to time based on the size of the servicers' delinquent book. The table below shows the average number of loans reviewed per servicer for the July, August and October 2009 Second Look reviews.

2009 MHA-C Second Look Loan File Reviews per Servicer			
	July (completed)	August (completed)	October (in process)
Servicers	7	23	24
Average Files per Servicer	330	136	154

d. *The reason that each file review was performed. For instance, was the review initiated by legal complaints filed by homeowners or referred directly by Fannie Mae or a Federal Agency?*

Loan file reviews are an important component of the Compliance Program and are, generally, conducted as part of a periodic verification of servicers' obligations with HAMP guidelines. Second Look helps ensure that borrowers are solicited and properly evaluated for HAMP and is designed to minimize the likelihood that borrower applications are overlooked or that applicants are inadvertently denied a modification. Scheduling of Second Look reviews (like those of other compliance activities) use a risk-based approach, which include complaints as one of the factors. Through these reviews, MHA-C gains insight into servicers' processes for soliciting borrowers, forestalling foreclosure sales until HAMP eligibility can be determined, determining HAMP eligibility, and processing HAMP modifications. The results of these reviews help determine the types of other compliance activities and frequency for which those activities will be performed.

e. *The length of time for each file review.*

The Second Look loan file review process involves multiple steps, including: (1) identifying the servicer whose files are to be reviewed using a risk-based approach;(2) requesting and then receiving data delinquency and foreclosure reports to determine the sample population; (3) analyzing the data provided to select an appropriate sample; (4) requesting and receiving the specific loan files; (5) conducting the file reviews, including supervisory review and quality control activities; (6) conducting follow-up and review of additional information provided by the servicer, as necessary; and (7) summarizing results and discussing with Treasury. There is a distinct difference between actual time for each file review and the time it takes to complete all the files per servicers based on the iterative process. The elapsed time to complete all files is based on many factors including the amount of follow up contacts required to draw conclusions. Through estimates, MHA-C approximates the time it takes to conclude on a file, once all information is received, is generally 2 hours. However, it requires a total of 10 - 12 weeks of elapsed time from step 1 in the process to conclusion in step 7.

f. *The result of each file review and whether it was referred to Treasury. If the matter was referred to Treasury, please provide the length of time taken by Treasury to review the matter, the actions taken by Treasury to resolve the matter concerned, and the status of the current issue. Please provide information detailing whether Treasury hired contractors at any time to assist in resolving the matter concerned, and if so, please submit the solicitation issued (if any), the type of contract, the proposal (if any) submitted by prospective contractors, the cost of the contract, the corresponding contract entered into with the entity, and the number of contracted staff hired to perform such work.*

Treasury has formed a compliance committee for HAMP to review and understand servicers' compliance results and determine appropriate remedies. MHA-C refers results of Second Look reviews to the compliance committee. The compliance committee's actions range from requiring improperly rejected loans to be modified, to operational enhancements, and additional servicer oversight or monetary actions. Monetary remedies may include withholding or reducing incentive payments to servicers, or requiring repayments of prior payments made to servicers with respect to affected loans. In addition, underperforming or non-performing servicers may become subject to additional and stricter compliance reviews and monitoring. Remedial actions may be iterative in nature and, therefore, may require further information from the servicer or from further compliance activities to determine final disposition.

Treasury does not currently use contractors for this process.

g. *The number of field reviews performed by 'in-house' staff. Please provide such information according to monthly totals during the year 2009 to present. Please do not submit information based upon cumulative totals.*

The HAMP Compliance Program is designed to assess servicers' compliance with their obligations under the HAMP Servicer Participant Agreement ("SPA") and program guidance articulated in the Supplemental Directives, in order to provide a well-controlled program to assist as many deserving homeowners as possible to retain their homes while taking reasonable steps to prevent fraud, waste and abuse. To date, three types of field reviews have been conducted, which include:

- Servicer Readiness Assessments –These interview-based assessments were conducted in April 2009 with 11 of the largest servicers in the HAMP. Performed by MHA-C staff only, these assessments provided early insights into the process changes, implementation timeframes and challenges servicers were experiencing with the start-up of the program.

- On-site Reviews – These reviews consist of assessing the servicers' internal controls and processes associated with the implementation of HAMP requirements. For example, the following are some of the processes which may be included in the on-site review:
  - Solicitation
  - HAMP eligibility determination
  - Documentation tracking
  - Quality control
  - Investor participation
  - Incentive payment processing

  MHA-C began on-site reviews of servicers in July. Through year-end 2009, 11 reviews of the largest servicers in HAMP have been conducted. Recognizing that many of a servicer's processes are newly developed, these reviews have focused on a servicer's implementation activities, including internal controls related to HAMP implementation. As servicers' processes mature, MHA-Creviews will focus more on risk-based activities and compliance trend issues. On-site reviews are led by in house MHA-C management and predominately utilize in house MHA-C staff, with staff from a nationally recognized professional services firm providing supplemental support as well as quality control reviews. See monthly totals in Q16i.

- Targeted Reviews – These reviews focus on one or more specific processes at the servicer, and may be conducted remotely or on-site. More details for Targeted Reviews are discussed in answers to Q16 m-r.

h. *The number of field reviews performed by contracted staff, if any, the name of the corresponding company and the type of work performed. Please provide such information according to monthly totals during the year 2009 to present. Please do not submit information based upon cumulative totals.*

Servicer Readiness Assessment –This one-time set of assessment was conducted by MHA-C in-house staff only.

On-site Reviews –On-site reviews are led by in-house MHA-C management and predominately utilize in house MHA-C staff with a nationally recognized firm providing supplemental support as well as quality control reviews.

Targeted Reviews –Targeted reviews are led by in house MHA-C management and predominately utilize in-house MHA-C staff. A nationally recognized organization provided supplemental support for additional loan file reviews.

i. *The number of field reviews performed according to servicer. Please provide such information according to monthly totals during the year 2009 to present. Please do not submit information based upon cumulative totals.*

Servicer Readiness Assessments – 11 servicers were involved in this activity which took place in April and May 2009.

On-site Reviews –11 servicers occurred from July through December 2009. Field work was completed for eight between July and October 2009 and three between November and December 2009.

The monthly breakdown denotes when fieldwork began:

2009 MHA-C On-site Reviews Performed					
July	August	September	October	November	December
3	3	2	0	1	2

j. *The reason that each field review was performed. For instance, was the review initiated by legal complaints filed by homeowners or referred directly by Fannie Mae or a Federal Agency?*

Servicer Readiness Assessments – to gain insights into the process changes, implementation timeframes and challenges servicers were experiencing with the start-up of the Program.

On-site Reviews – initial SPA signers and those servicers where the volume was considered significant.

k. *The length of time for each field review.*

Servicer Readiness Assessments – Generally, this activity took a total of one month from planning through completion.

On-site Reviews – Typically have multiple steps – pre-planning, field work at servicers' location(s), follow up requests to complete documentation, drafting of report, MHA-C internal quality control reviews, delivery to Treasury for Treasury internal quality control reviews, report issuance to Treasury's compliance committee and, subsequently, servicers. Generally completion of these steps can take from 60-90 days depending on the number of servicer locations and the nature of the review results.

l. *The result of each field review and whether it was referred to Treasury. If the matter was referred to Treasury, please provide the length of time taken by Treasury to review the matter, the actions taken by Treasury to resolve the matter concerned, and the status of the current issue. Please provide information detailing whether Treasury hired contractors at any time to assist in resolving the matter concerned, and if so, please submit the solicitation issued (if any), the type of contract, the proposal (if any) submitted by prospective contractors, the cost of the contract, the corresponding contract entered into with the entity, and the number of contracted staff hired to perform such work.*

As discussed above, Treasury has formed a compliance committee for HAMP to review and understand servicers' compliance results and determine appropriate remedies. MHA-C refers results of Second Look to the compliance committee. The compliance committee's actions range from requiring improperly rejected loans to be modified, to operational enhancements, and additional servicer oversight or monetary actions. Monetary remedies may include withholding or reducing incentive payments to servicers, or requiring repayments of prior payments made to servicers with respect to affected loans. In addition, underperforming or non-performing servicers may become subject to additional, stricter compliance reviews and monitoring. Remedial actions may be iterative in nature and, therefore, may require further information from the servicer or from further compliance activities to determine final disposition.

Treasury performs a quality assessment of these types of reviews. Treasury has engaged a nationally recognized professional services organization to help with those reviews. However, Treasury does not currently use contractors to help with the compliance committee decisions.

m. *The number of 'target reviews' performed by 'in-house' staff. Please provide such information according to monthly totals during the year 2009 to present. Please do not submit information based upon cumulative totals.*

Targeted Reviews – These reviews focus on one or more specific processes at the servicer, and may be conducted remotely or on-site. Targeted Reviews may also occur due to identified compliance trends, risk analysis, or actual compliance activities results.

One such targeted review is for Net Present Value (NPV) calculations. These assessments consist of testing servicers' proprietary systems to determine if HAMP NPV requirements were appropriately implemented. Because NPV calculations are a key component to eligibility, Treasury requires servicers to participate in NPV testing with MHA-C before using the servicers' own applications. MHA-C has created a pre-implementation testing mechanism as well as a post-implementation compliance regime to help ensure servicers' NPV calculations and processes meet HAMP requirements. Through December 31, 2009, MHA-C conducted fourteen pre-implementation assessments. Targeted NPV reviews are led by in house MHA-C staff, predominately utilizing contractor staff. See monthly totals listed in Q16o.

One Targeted Review was conducted in December 2009 at the behest of the Treasury's compliance committee. The review was as a result of anomalies identified in July's Second Look results. This review was led by MHA-C staff supplemented by two nationally recognized organizations providing loan file review services, one of which is women's owned business. See monthly totals listed in Q16o.

n. *The number of target reviews performed by contracted staff, if any, the name of the corresponding company and the type of work performed. Please provide such information according to monthly totals during the year 2009 to present. Please do not submit information based upon cumulative totals.*

A nationally recognized quantitative analysis and consulting organization has provided model and testing support for pre-implementation NPV reviews.

For Targeted Reviews for Second Look, MHA-C utilizes contracted staff from two nationally recognized organizations providing loan file review servicers; one of which is a women's owned business.

Staffing for Targeted Reviews will depend on the focus of the review.

o. *The target reviews performed according to servicer. Please provide such information according to monthly totals during the year 2009 to present. Please do not submit information based upon cumulative totals.*

Targeted Reviews – 18 servicers for pre-implementation NPV assessments were conducted with 14 completed in August /September 2009 and the remaining over the course of October through December 2009.

2009 MHA-C Pre-Implementation NPV Assessments Performed				
August	September	October	November	December
11	4	1	3	1

The one servicer for targeted Second Look began in December 2009.

p. *The reason that each target review was performed. For instance, was it initiated by legal complaints filed by homeowners or referred directly by Fannie Mae or a Federal Agency?*

One targeted review was conducted in December 2009 based on Second Look loan file results, which indicated higher than average incidence of loan files not providing adequate evidence of HAMP consideration.

All Servicers who have chosen to implement the NPV logic in their servicing systems are required to have a pre-implementation NPV review performed and have positive results.

q. *The length of time for each target review;*

- Pre-implementation NPV assessment – takes approximately 2 – 3 weeks depending on the results and associated follow up required.
- Second Look targeted review – this review took approximately three weeks.

It is important to note, the time a targeted review requires depends on the focus and scope of the assessments.

r. *The result of each target review and whether it was referred to Treasury. If the matter was referred to Treasury, please provide the length of time taken by Treasury to review the matter, the actions taken by Treasury to resolve the matter concerned, and the status of the current issue. Please provide information detailing whether Treasury hired contractors at any time to assist in resolving the matter concerned, and if so, please submit the solicitation issued (if any), the type of contract, the proposal (if any) submitted by prospective contractors, the cost of the contract, the corresponding contract entered into with the entity, and the number of contracted staff hired to perform such work.*

As discussed above, Treasury has formed a compliance committee for HAMP to review and understand servicers' compliance results and determine appropriate remedies. MHA-C refers results of all of its compliance activities, including targeted reviews to the compliance committee. The compliance committee's actions range from requiring improperly rejected loans to be modified, to operational enhancements, and additional servicer oversight or monetary actions. Monetary remedies may include withholding or reducing incentive payments to servicers, or requiring repayments of prior payments made to servicers with respect to affected loans. In addition, underperforming or non-performing servicers may become subject to additional, stricter compliance reviews and monitoring. Remedial actions may be iterative in nature and, therefore, may require further information from the servicer or from further compliance activities to determine final disposition.

Treasury does not currently use contractors for this process.

17. Please submit Freddie Mac's Servicer Guide issued to the top 40 lending institutions detailing the MHA program.

All servicers who service mortgages for Freddie Mac are required follow Freddie Mac's Seller/Servicer Guide (the Guide), which can be found at http://www.freddiemac.com/sell/guide/. Chapter C65 provides the servicing requirements in connection with HAMP. The requirements for Freddie Mac's Home Affordable Refinance Program are located in Chapters A24 and B24 of the Guide.

In addition to these chapters, Freddie Mac periodically publishes updates to the *Single-Family Seller/Servicer Guide* (Guide) in the form of Guide Bulletins and Industry Letters. The Guide Bulletins and Industry Letters serve to notify servicers of changes to the Guide before Freddie Mac had the opportunity to change the Guide language itself. For the most recent changes regarding the MHA Program, please refer to Freddie Mac's Single Family Seller/Servicer Guide Bulletins and Industry Letters found at http://www.freddiemac.com/sell/guide/.

18. Please submit Fannie Mae's Servicer Guide issued by the HAMP Solution Center to all servicers.

The HAMP Solution Center primarily supports servicers interested or participating in the HAMP program for non-GSE loans, and who enter into formal Servicer Participation Agreements (SPAs) with Treasury. Treasury's Supplemental Directives and related materials on www.HMPadmin.com detail non-GSE guidance.

Fannie Mae servicers are contractually required to participate in HAMP, and are not required to sign a SPA. Fannie Mae issues Announcements and releases ongoing communication on HAMP guidelines for Fannie Mae loans. Announcements can be found on All Regs by date. The general Fannie Mae Servicing Guide may be found on efanniemae.com at www.efanniemae.com/sf/guides/ssg/#ssg.

19. Please provide information concerning Fannie Mae's HAMP Solution Center specifically regarding the following:

a. *Scope of responsibilities;*

The HAMP Solution Center (HSC) for modification of non-GSE loans is comprised of three teams – Registration, Contact Center, and Escalations. As a unit, these teams perform four key functions:

- Administration and execution of the Servicer Participation Agreement (SPA), including Treasury approvals;
- Management of the HAMP registration activities required to approve servicers for access to reporting tools, NPV material/ tools, and program materials;
- Handling and resolution of general inquiries regarding HAMP guidelines, modification process, and data; and,
- Facilitation and resolution of escalated inquiries and complaints from housing counselors, government offices, and other organizations authorized to work on behalf of borrowers with loans serviced by firms that have entered into a SPA.

b. *The total number of 'in house' and contractual staff, respectively, according to each month of 2009 to present. Please do not submit information based upon cumulative totals.*

As of December 31, 2009, the HSC was staffed by 19 'in house' Fannie Mae employees and 13 contractual staff. When the HSC opened in April 2009, it was staffed by two Fannie Mae employees and seven contractual staff. We do not maintain data that would allow us to provide month-by-month staffing levels for 2009 with respect to individual HAMP sub-components.

c. *Please also include the type of contract, the dollar value of each contract to provide such work, if any, and the type of work provided by such contractors from 2009 to present. Please include information detailing whether a solicitation was issued for the contract, and if so, the number of bids, name of each entity submitting a bid, and a copy of the related proposal that was submitted. Please also detail whether any precautionary measures were taken to ensure proper firewalls were developed to restrict the flow of*

information between the contractor and 'in house' staff at Fannie Mae's division that applies loss mitigation tools for its GSE loans

The chart below (Exhibit 19C) includes all vendors who are currently providing or have provided contractors for the HSC and the associated dollar value of each contract.

Exhibit 19C – HAMP Solution Center Vendors

CONTRACTOR DESCRIPTION	AMOUNT PAID	ESTIMATED CONTRACT VALUE	TYPE OF CONTRACT	TYPE OF WORK
Technology staffing firm	$81,263	$81,263	Service Agreements	Staff Augmentation
Technology staffing firm	$163,917	$1,931,294	Service Agreements	Staff Augmentation
Leading provider of on line branding and web site development services	$73,925	$358,200	Statement of Work under existing MSA - Web Site Development	Design and develop web sites.
Technology and financial staffing firm	$28,584	$676,673	Service Agreements	Staff Augmentation
Payroll services company	$23,969	$447,873	Service Agreements	Staff Augmentation
Technology staffing firm	$280,325	$530,873	Service Agreements	Staff Augmentation
Staffing firm	$31,960	$33,110	Service Agreements	Staff Augmentation
National technology consulting firm	$119,297	$3,196,316	Service Agreements	Staff Augmentation
Global Staffing firm	$59,621	$70,276	Service Agreements	Staff Augmentation
Large staffing firm	$64,622	$67,761	Service Agreements	Staff Augmentation
Technology staffing firm	$100,908	$191,912	Service Agreements	Staff Augmentation
Technology staffing firm	$36,444	$989,570	Service Agreements	Staff Augmentation
Leading technology staffing firm	$34,504	$3,226,448	Service Agreements	Staff Augmentation

For information regarding solicitations, the bid processes, and Fannie Mae's precautionary measures regarding firewalls, please see the response to Question No. 9.

20. The 'HOPE Hotline' – Please provide information detailing the number of 'in house' and contractual staff, respectively, according to each month of 2009 through the present. Please do not submit information based upon cumulative totals.

a. *Please also include the type of contract, the dollar value of each contract, and the type of work provided by such contractors on a monthly basis from 2009 through the present. Please include information detailing whether a solicitation was issued for the contract, and if so, the number of bids, name of each entity submitting a bid, and the related proposal that was submitted. Please also detail whether any precautionary measures were taken to ensure proper firewalls were developed to restrict the flow of information between the contractor and 'in house' staff at Fannie Mae's division that applies loss mitigation tools for its GSE loans. Please do not submit such information based upon cumulative monthly totals.*

The Homeowner's HOPE Hotline initiated call center support for HAMP on June 22, 2009, following a start-up pilot and testing in early June. In the second half of 2009, call volume exceeded 22,000 calls per week. While the majority of calls provide general information about foreclosure prevention, the script determines basic eligibility for HAMP based on loan size, occupancy status and date of origination. Callers may be transferred to a counselor for housing counseling, or to the MHA Help Team for assistance in filling out the HAMP application. Roughly 4% of the calls are referred to the "escalation team" if their servicer has been unresponsive or has given guidance contrary to HAMP guidelines. The escalation team will work directly with the servicer for resolution. In rare

cases, calls may also be referred to the HAMP Support Center. In these cases, Fannie Mae staff will work with the borrower and servicer to ensure that borrower issues are addressed.

The Homeowner's HOPE Hotline is principally administered by a nationally recognized not-for-profit corporation, ("Administrator"), which supports HAMP pursuant to a contract between Fannie Mae and the Administrator. This contract was entered into as an exception to the competitive bidding process described in the response to Q9 above. The number of contractors working in connection with the HOPE Hotline on a monthly basis varies with the call volume, but ranges between approximately 160 and 220 per month. This number includes individuals from a customer contact management company, the Administrator's subcontractor, who staff the call center. Approximately five in-house Fannie Mae staff support the HOPE Hotline, all of whom have additional responsibilities at Fannie Mae.

Exhibit 20A below includes all vendors who are currently providing or have provided contractors for the Homeowner's HOPE Hotline and the associated dollar value of each contract.

Exhibit 20A – Homeowner's HOPE Hotline Vendors

CONTRACTOR DESCRIPTION	AMOUNT PAID	ESTIMATED CONTRACT VALUE	TYPE OF CONTRACT	TYPE OF WORK
Nationally recognized not for profit corp.	$2,190,533	$12,000,000	Services Agreement	Call center.
Consulting firm	$75,440	$76,440	Consulting Services	Consulting support to optimize call centers.

For information regarding Fannie Mae's precautionary measures regarding firewalls, please see the response to Question No. 13.

b. *The types of phone calls received on a monthly basis from 2009 through the present from homeowners concerning federally sponsored foreclosure prevention programs.*

The Homeowner's HOPE Hotline initiated call center support for HAMP on June 22, 2009, following a start-up pilot and testing in early June. The total calls into the Hotline are noted below in the chart below as Exhibit 20B-1.

Exhibit 20B-1 – Total Homeowner's HOPE Hotline Calls

	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Total
Total HOPE Hotline Calls	31,138	102,458	100,937	98,462	93,643	82,924	103,310	612,872

Homeowners calling the Homeowner's HOPE Hotline are generally looking for foreclosure prevention assistance such as guidance on understanding whether they may be eligible for a modification/refinance under HAMP, what their next steps in pursuing a modification should be, where additional information can be found, or how to connect with free HUD-approved counselors. The primary types of calls handled by the Hotline are described below and their respective volumes are indicated in the chart that follows (Exhibit 20B-2).

- *Transferred to a Counselor Directly* – this category includes homeowners who call the Hotline and after basic contact information is captured, would be transferred to a counselor for reasons such as:
  - They have a trial modification and are required by the program to get counseling because their debt-to-income levels are greater than 55%;

- They would like to resume a prior counseling session or want to speak to a counselor over the phone or in person without going through other eligibility screening; or,
- They believe they have been the victim of a scam.

- *Transferred to MHA Help Team* – homeowners who ask for detailed assistance to fill out HAMP application forms, to better understand a Borrower Notice they may have received from servicers regarding their eligibility and/or missing documentation, or who have detailed questions pertaining to their particular circumstances.

- *Transferred to MHA Escalation Team* – homeowners who in the course of their discussion with the call center agent claim that they may have been told something by their servicer that seems like a misapplication of HAMP program guidelines (e.g., were told to miss payments to be eligible for a modification) are transferred to an escalation team for assistance in understanding the borrower's situation and to potentially connect with the servicer for resolution of any outstanding issues.

- *Transferred to a Counselor following eligibility screening* – this includes borrowers who after being guided through preliminary eligibility screening would like to speak with a counselor for additional assistance regarding their individual situation.

- *Ineligible* – this includes borrowers who after being guided through preliminary eligibility screening were determined to be ineligible for reasons such as having loan amounts greater than $729,750, loans originated after January 1, 2009, and housing expense to debt ratios of less than 31 percent.

- *Quick Questions/Other* – homeowners who call with quick questions and clarifications, hang-up prior to moving through the initial data capture process, or may have called the wrong number or thought they were contacting their servicer.

Exhibit 20B-2 – Type of Homeowner's HOPE Hotline Calls

Call Type	Jun*	Jul	Aug	Sept	Oct	Nov	Dec	Total
Transferred to Counselor Directly	10,414	35,984	39,464	40,803	40,375	35,691	40,839	243,570
MHA Help**						1,501	9,067	10,568
MHA Escalations		2,735	1,859	3,977	3,751	4,411	5,761	22,494
Transferred to Counselor After Confirming Potential Program Eligibility	5,748	12,875	11,133	8,886	9,816	12,220	14,165	74,841
Eligible but Did Not go to Counseling		14,970	13,942	12,454	8,811	3,305	3,644	57,126
Ineligible		8,672	8,198	6,753	6,337	5,181	5,351	40,492
Quick Questions/Other	7,827	27,222	26,341	25,789	24,553	20,815	24,483	156,830

**The reporting categories were revised in July 2009. Therefore, the category breakdown for June 2009 does not match exactly with those for succeeding months.*

***The MHA Help category was initiated on 11/13/09.*

c. *According to the type of complaint made by caller, please provide information detailing whether the matter was referred to Treasury, and/or other individuals or units within Fannie or Freddie, and if so, which entity and division. Please provide such information according to month and year. Please do not submit such information based upon cumulative monthly totals.*

The HOPE Hotline provides borrowers immediate access to an MHA Escalation team in instances where the borrower claims that:

- The servicer is charging upfront fees;
- The servicer said borrower must miss a payment;
- The servicer is improperly applying MHA guidelines; or
- He or she was wrongfully denied a loan modification.

In these instances, the borrower is transferred by phone to the MHA Escalation team, where they are connected with one of the counselors on the team. The Escalation team counselor discusses the borrower's situation and typically engages in a three-way conversation bringing the servicer into the call.

In cases where the borrower's issues are not satisfactorily resolved by the three-way conversation with the borrower, counselor, and servicer, the escalation counselor will first escalate to its management team to raise the issue with servicer management for resolution. If that does not resolve the issues in dispute, then the call is further elevated to Fannie Mae (for Fannie Mae loans), Freddie Mac (for Freddie Mac loans), or the HAMP Solution Center (for non-GSE loans), for final resolution. When appropriate, certain cases may be referred to Freddie Mac's MHA-Compliance team.

Our reports from the HOPE Hotline are compiled on a weekly basis.

See Exhibit 20c on following page.

Exhibit 20C – Escalations from the HOPE Hotline

Week	Total calls
08/31 - 09/06/2009	720
09/07 - 09/13/2009	791
09/14 - 09/20/2009	952
09/21 - 09/27/2009	963
09/28 - 10/04/2009	1,096
10/05 - 10/11/2009	789
10/12 - 10/18/2009	791
10/19 - 10/25/2009	870
10/26 - 11/01/2009	880
11/02 - 11/08/2009	1,229
11/09 - 11/15/2009	1,104
11/16 - 11/22/2009	1,064
11/23 - 11/29/2009	586
11/30 - 12/06/2009	1,765
12/07 - 12/13/2009	1,411
12/14 - 12/20/2009	1,398
12/21 - 12/27/2009	654
12/28 - 01/03/2010	1,028
01/04 - 01/10/2010	1,355
01/11 - 01/17/2010	1,144
01/18 - 01/24/2010	980
01/25 - 01/31/2010	1,326
02/01 - 02/07/2010	1,122
02/08 - 02/14/2010	951
02/15 - 02/21/2010	1,043

d. *Number of 'HOPE Hotline' contractors and 'in house' staff that are bilingual. Please also provide the number of phone calls received from non-English speaking homeowners concerning MHA.*

As of December 31, 2009, there were 42 bilingual call agent contractors (approximately 25 percent) taking calls for the Homeowner's HOPE Hotline. The number of phone calls to the HOPE Hotline received from borrowers requesting a Spanish-speaking representative was 57,329, equaling 9.4 percent of the overall call volume through 12/31/09. Additionally, there were 146 requests for languages other than English and Spanish since the HOPE Hotline implemented an expanded language translation service in mid-December.

21. Please provide, in paragraph form, a detailed explanation of each MHA denial code.

Every borrower is entitled to a clear explanation if they are determined to be ineligible for a HAMP modification. Treasury has established denial codes that require servicers to report the reason

for modification denials in writing to Treasury. Servicers are now required to use those denial codes as a uniform basis for sending letters to borrowers who were evaluated for HAMP but denied a modification. In those letters, borrowers will be provided with a phone number to contact their servicer as well as the Homeowner's HOPE Hotline, which has counselors who are trained to work with borrowers to help them understand reasons they may have been denied a modification and explain other modification or foreclosure prevention options that may be available to them.

MHA Denial Code		Description
1	Ineligible Mortgage	Loan is not eligible for modification under the HAMP because it does not meet one or more of the following basic program eligibility criteria: • Mortgage loan must be a first lien mortgage loan originated on or before January 1, 2009. • Current unpaid principal balance (UPB) of the mortgage loan prior to capitalization must be no greater than $729,750 for a one-unit property; $934,200 for a two-unit property; $1,129,250 for a three-unit property; or $1,403,400 for a four-unit property.
2	Ineligible Borrower - Current DTI Less than 31%	Borrower is not eligible for modification under the HAMP because their current monthly housing expense, which includes the monthly principal and interest payment on their first lien mortgage loan plus property taxes, hazard insurance and homeowner's dues (if any) is less than or equal to 31% of their gross monthly income (i.e. monthly income before taxes and other deductions).
3	Property Not Owner Occupied	Loan is not eligible for modification under the HAMP because the property secured by the mortgage loan is not occupied by the borrower as their primary residence.
4	Other Ineligible Property (i.e. Property Condemned, Property > 4 units)	Loan is not eligible for modification under the HAMP because the property secured by the mortgage loan is vacant, is condemned or has more than four dwelling units.
5	Investor Guarantor Not Participating	Loan cannot be modified under the HAMP because the investor of the subject mortgage loan has not provided contractual authority to modify the loan; the private mortgage insurance company insuring the subject mortgage loan has not approved the modification; or the guarantor of the subject mortgage loan has not approved the modification.
6	B/K Court Declined	Loan is not eligible for modification under the HAMP because the borrower has filed for bankruptcy protection and the proposed modified loan terms were not approved by the Bankruptcy Court.
7	Negative NPV	Loan is not eligible for modification under the HAMP because the result of the standardized Net Present Value (NPV) is "negative". The standardized NPV test compares the NPV result for a modification to the NPV result for no modification. If the NPV result for no modification is greater than NPV result for the modification scenario, the modification result is deemed "negative".
8	Offer Not Accepted by Borrower / Request Withdrawn	Borrower withdrew their modification request for consideration for either a Trial Period Plan or HAMP modification or did not accept either a Trial Period Plan or a HAMP modification offer. Failure of borrower to make the first trial period payment in a timely manner is considered non-acceptance of the Trial Period Plan.
9	Default Not Imminent	Loan is not eligible for modification under the HAMP because the subject loan is not delinquent or default is not reasonably foreseeable.

MHA Denial Code		Description
10	Previous Official HAMP Modification	Loan is not eligible for modification under the HAMP because the subject loan has been previously modified under the program.
11	Loan Paid off or Reinstated	Loan is not eligible for modification under the HAMP because the subject loan was completely paid off and there is no longer a debt obligation or the subject loan was reinstated. If the loan was reinstated, the borrower may request reconsideration under the MHA program if they experience a subsequent financial hardship.
12	Excessive Forbearance	Loan is not eligible for modification under the HAMP because the principal forbearance required to achieve a payment of no more than 31% of the borrower's monthly income resulted in a forbearance amount that exceeds program guidelines.
13	Request Incomplete	Borrower requested a modification under the HAMP but did not provide the financial and/or hardship verification documentation required to complete the evaluation of their request in a timely manner. As part of the MHA program procedures, servicers provide the borrower with a notice listing all documents needed to complete the evaluation and a date by which the information must be received before the borrower can become eligible for the MHA program. If the borrower fails to provide all required verification documentation by the date provided, the borrower is not eligible for a modification.
14	Trial Plan Default	Borrower accepted a Trial Period Plan under the HAMP but failed to make all the trial period payments by the end of the Trial Period Plan and is in default.

22. The goal set by Treasury and communicated to each servicer detailing the number of loans that they should have modified and/or utilized other loss mitigation tools according month for 2009 and 2010.

On July 29, 2009, Treasury communicated to all servicers participating in the HAMP program a goal of starting 500,000 trial modifications by November 1, 2009. Servicers, in aggregate exceeded this goal.

On December 1, 2009, Treasury set a goal for the top 7 servicers (Aurora, Bank of America, Citi Mortgage, GMAC, JP Morgan Chase, Saxon, Wells Fargo) to complete by December 31, 2009 the process of providing approvals or denials of permanent modifications for all 108,000 borrowers who had completed the documentation requirements. That same day, Treasury also set a goal for the top 7 servicers to obtain by December 31, 2009 all outstanding documents on an additional 107,000 trial plan borrowers. Servicers did not achieve this level of conversions, though conversions increased over 100% between November and December. Extending the review period through January 31, 2010, also allowed servicers to continue to collect documents and make significant progress in processing the backlog of loans in trial modifications.

23. A copy of the Operational Metrics and related timeline for implementation.

In December 2009, we issued a preliminary operational metrics survey to a handful of servicers. We received the servicers' responses to, and feedback on, the preliminary survey in January 2010. Based on our review of the initial responses and feedback, we are revising the survey to ensure that we are collecting the desired data and that servicers' responses are consistent and comparable. We expect to issue the revised survey to servicers in the coming weeks.

24. A copy of the survey that Treasury submitted to each servicer concerning the implementation of MHA.

See attachment C.

25. **The results of the Home Affordable Refinance Program, Second Lien Program, Home for Homeowners program, Short Sale/Deed in Lieu of program, Home Price Decline Protection Incentives program, and other foreclosure prevention tools offered through Treasury. Please provide information according to servicer participation, month and year of activity performed, and default rate. Please also submit information detailing whether measures were taken to make certain that activities related to these programs complied with the Fair Housing Act.**

The **Home Affordable Refinance Program ("HARP")** is a refinance program for existing Fannie Mae and Freddie Mac borrowers (Freddie Mac's program is sometimes referred to as the Relief Refinance Mortgage program). HARP Refinance Loans are defined as Fannie Mae to Fannie Mae, or Freddie Mac to Freddie Mac, refinance loans with limited or no cash out, owner occupied, and have loan-to-value ratios greater than 80 percent and less than or equal to 105 percent. On July 1, 2009, FHFA announced that the program would be expanded to include HARP loans with LTVs greater than 105 percent and less than or equal to 125 percent. Under the Home Affordable Refinance Program, Fannie Mae and Freddie Mac refinanced more than 190,000 loans through December 31, 2009.

On April 28, 2009, Treasury announced an expansion of the MHA Program, called the **Second Lien Modification Program or "2MP"**, which creates a comprehensive solution to help borrowers achieve greater affordability by lowering payments on both first lien and second lien mortgage loans. In addition to providing the basis for lien holders to share the cost of modifications, 2MP also supports efforts to reduce total borrower indebtedness by providing the option for second lien holders to receive lump sum payments to extinguish liens entirely. On August 13, 2009, Treasury published the 2MP Supplemental Directive to servicers of non-GSE loans. The program took some time to ramp up primarily because the top servicers, representing the majority of the second lien market, were waiting on regulatory guidance on how to deal with accounting for second liens. On January 27, 2010, Bank of America became the first mortgage servicer to sign an agreement to participate in the 2MP program and to our knowledge has not begun modifying second liens under the program.

On October 20, 2009, the Department of Housing and Urban Development (HUD) released comprehensive guidance on the Federal Housing Administration's (FHA) **HOPE 4 Homeowners or "H4H"** program in Mortgagee Letter 2009-43 (ML 2009-43), which provided an affordable refinance alternative for a broad spectrum of owner-occupant borrowers, including those whose first mortgage loans are not owned or securitized by the GSEs. H4H is designed to refinance borrowers out of unaffordable mortgages, and into safer FHA insured mortgages. H4H often involves some amount of principal reduction by the first mortgage lien holder and may also include full release of subordinate liens in exchange for partial payments provided by HUD/FHA. Borrowers who request evaluation for modification under HAMP may also be eligible for and achieve a better long term affordability solution through H4H.

On May 14, 2009, Treasury announced the **Home Affordable Foreclosure Alternatives Program ("HAFA")** to incentivize servicers and borrowers to pursue short sales and deeds-in-lieu of foreclosure where the borrower may be eligible for a HAMP modification but does not qualify or was unable to successfully complete the process. On November 30, 2009, Treasury published detailed guidance to assist servicers of non-GSE loans with adoption and implementation of the program. We are unable to report on HAFA at this time given that servicers have until April 5, 2010 to implement the program.

On the same day that HAFA was announced, Treasury issued a statement outlining the **Home Price Decline Protection Program ("HPDP")**. In May 2009 the Administration announced that HAMP would include Home Price Decline Protection (HPDP) incentives, designed to provide additional incentives for modifications where home price declines have been most severe. On July 31, 2009, we announced detailed guidelines for implementing HPDP. Servicers were

required to include the HPDP incentives in their NPV calculations as of September, allowing more borrowers in the geographic areas hardest hit by home price declines to obtain modifications. For this reason, we do not yet have data to report on the HPDP program at this time.

With respect to the Fair Housing Act, Fannie Mae has an ongoing comprehensive fair lending risk assessment program that is designed to ensure that its underwriting standards, business practices, repurchase requirements, pricing policies, fee structures, and procedures comply with the fair lending laws and promote fair and responsible lending. The HARP received this comprehensive fair lending risk assessment by Fannie Mae Legal. Please see the response to Q29 for a full description of measures taken to ensure that activities related to the MHA Program overall comply with the Fair Housing Act. Freddie Mac maintains a strong commitment to fair lending practices and reviews its procedures, policies and programs to ensure that they are consistent with the Fair Housing Act.

26. Please submit information concerning the compensation provided to Fannie Mae and Freddie Mac as administrator and compliance agent of MHA, respectively, and the role of the Federal Housing Finance Agency (FHFA) in negotiating compensation and/or related incentives. Please provide information detailing the exact compensation payments made by Treasury to Fannie Mae and Freddie Mac, respectively. Please submit such information according to month and year. Please do not submit information based upon cumulative monthly totals. Please also provide an explanation of how compensation was calculated.

The FAA Exhibit B, Sections 2 & 3 defines two methods for compensating the FAs. Section 2 defines the reimbursement method for services provided by the FA and Section 3 identifies the FA's eligibility to receive incentive payments based performance metrics.

With regard to Section 2, budgets for both FAs govern the level of compensation. As of December 31, 2009, Treasury paid Freddie Mac a total of $6,106,598.79, against 2 invoices submitted for work performed in FY2009. Additional invoices are in process for FY2009 services and no invoices have yet been submitted for FY2010. The following details both paid invoices.

Invoice #	Invoice Date	Work performed	Amount
MHAC-001	Oct 6, 2009	3/1 – 8/31/2009	$5,141,708.82
MHAC-002	Dec 3, 2009	9/01 – 9/30/09	$1,018,889.97

Fannie Mae has yet to submit invoices for work performed in either 2009 or 2010.

With respect to incentives, there have been no payments to date for incentives. At this time, performance metrics under the FAA have not been formally established and adopted. Fannie Mae, Freddie Mac, FHFA and Treasury have been in active discussions about incentive payments to the FAs which would be effective October 1, 2009 with the 2010 fiscal year.

The budgets for the compensation of Fannie Mae and Freddie Mac were drafted in early 2009, immediately after the Financial Agent Agreements were signed. The draft budgets were based on discussions between Treasury and the enterprises concerning the services requested and the level of effort expected. Fannie Mae, FHFA and Treasury have been in active discussions about the reimbursement for services.

Since that time, however, Treasury has established a HAMP Financial Agent Budget and Compensation Review Committee to review the compensation of the enterprises, and revise budgets in light of workload and program changes. FHFA is a non-voting member of that committee and has no official role in setting compensation. However, Treasury acknowledges FHFA's role as Conservator of Fannie Mae and Freddie Mac which includes oversight and supervision, and recognizes its interest in preserving and conserving the Enterprises assets with respect to their FA responsibilities regarding MHA. As with other non-voting members of the Committee their input is strongly considered.

27. **Dollar amount of any incentive payments issued by Treasury to Fannie Mae and/or Freddie Mac, respectively for MHA according to month and year. Please also provide a detailed explanation of what specific metric, benchmark, and/or rationale any such incentive payment was based upon. Additionally, please describe any plans for future incentive payments to Fannie Mae or Freddie Mac explain in detail the rationale upon which any future payments may be based.**

As of December 31, 2009, no incentive payments have been made to either Freddie Mac or Fannie Mae.

Treasury plans to install an initial form of incentive-based compensation for the Enterprises this fiscal year. The incentives will be similar to those in place for other Treasury Financial Agents; they will be based on quantitative performance measures that consider the accuracy and timeliness of processing, quality of deliverables, responsiveness and cost–containment. Treasury will use its HAMP Financial Agent Budget and Compensation Review Committee as the form for developing the structure for incentive payments.

28. **A list of the servicers with staff from Freddie Mac's compliance unit embedded on sight within the servicer's offices. Please provide the number of embedded staff at each servicer according to month from 2009 through the present. Please also provide information detailing whether contractors were used at any time as embedded staff at a servicer, and if so, please submit the solicitation issued (if any), the type of contract, the proposal (if any) submitted by prospective contractors, the contract, the corresponding cost and the number of contracted staff performing such a function. Please also provide an explanation as to why embedded staff were placed in the office of any and all servicers. For instance, did the compliance unit receive a higher volume of complaints on a specific matter related to failure to abide by MHA guidelines, and if so, what was the exact complaint? Who ultimately determines when and where to place embedded staff and/or contracted staff?**

Freddie Mac's MHA-C does not have staff embedded onsite within servicer offices. As described above (see answers to Q16 a – r), MHA-C uses a number of different techniques and methods to assess servicers' compliance. These activities are performed both on-site and off-site to ensure appropriate risked-based coverage of servicers' activities as well as efficiently and effectively assess servicers' implementation of HAMP requirements.

29. **Measures taken to ensure servicers participating in MHA comply with Fair Housing Act obligations. Please provide data related to permanent and trial modifications, respectively, granted to homeowners according to race and gender along with a detailed assessment of Fair Housing Act compliance as it relates to MHA activities. Please also include an account of all actions taken, according to month from 2009 through the present, to remedy any Fair Housing Act compliance issues.**

Treasury has required all HAMP servicers to comply with fair lending laws. Servicers are required by Supplemental Directive 09-01 to ensure that they do not treat a borrower less favorably than other borrowers on grounds such as race, religion, national origin, sex, marital or familial status, age, handicap, or receipt of public assistance income in connection with any loan modification. HAMP servicers also are required under the Servicer Participation Agreement to develop, enforce and review on a quarterly basis for effectiveness an internal control program designed to effectively monitor compliance with applicable consumer protection and fair lending laws.

Treasury has also required all HAMP servicers to collect and report specific borrower and loan data elements about trial and permanent modifications. Supplemental Directive 09-06 required servicers to begin collecting and reporting Government Monitoring Data to Fannie Mae, as HAMP program administrator, on or before January 4, 2010. The Government Monitoring Data includes borrower and co-borrower race, ethnicity, and sex. Freddie Mac, as Making Home Affordable

Compliance Agent for the Treasury, performs servicer reviews and oversight and is working at the direction of the Treasury Department to incorporate this expanded data reporting into its servicer reviews.

As Compliance Agent for the Treasury, Freddie Mac reviews compliance with HAMP requirements but does not separately review servicer compliance with laws and regulations, such as the Fair Housing Act. HAMP servicers are monitored by their respective primary federal and state regulatory and/or enforcement agencies for compliance with fair lending laws and regulations.

Treasury has taken numerous steps to prohibit servicers participating in MHA's programs, including the Home Affordable Modification Program (HAMP), the Second Lien Modification Program and the Home Affordable Foreclosure Alternatives Program, from discriminating because of race, color, religion, national origin, or sex. As noted below, however, servicers started collecting the government monitoring data December 1, 2009 per Supplemental Directive 09-06. The capability to report this data was available in the HAMP system of record (IR2) for the January reporting cycle. Servicers are finalizing their implementation of these transactions and data is beginning to be reported to IR2.

Fair Housing Act: The first Supplemental Directive 09-01 published on April 6, 2009, which provided guidance on adoption and implementation of HAMP for non-GSE mortgage loans, set forth that each servicer is required to comply with all federal, state, and local laws. Specifically, it provided that servicers must comply with the Fair Housing Act. This requirement is also stated in the Commitment to Purchase Financial Instrument and Servicer Participation Agreement (SPA) that each servicer must execute to participate in the HAMP.

In addition, the Treasury published Supplemental Directive 09-02 on April 12, 2009 which established agreements, on behalf of the Department of Housing and Urban Development (HUD), between Fannie Mae, in its capacity as a financial agent to Treasury, and participating loan servicers to collect and to report Government Monitoring Data consisting of race, ethnicity, and sex of borrowers. This data will enable HUD to monitor compliance with the Fair Housing Act and other applicable fair lending and consumer protection laws. Further guidance on collecting Government Monitoring Data is provided through periodic updates to the Frequently Asked Questions document, available on www.HMPadmin.com.

Supplemental Directive 09-06 published on September 11, 2009, provided servicers with specific data requirements designed to capture information under scenarios that may occur when a mortgage loan is evaluated for HAMP (including whether or not a trial modification plan is offered or accepted, whether or not an official HAMP modification is entered into, whether or not Government Monitoring Data has been collected, etc.). Servicers were required to collect the data fields in this Supplemental Directive starting on December 1, 2009 and report the information in the following month in which they were collected. Therefore, the first time the data elements were reported into the Treasury system of record was on or before January 4, 2010.

Equal Credit Opportunity Act: The first Supplemental Directive 09-01 instructed servicers to notify a borrower after determining that the borrower does not meet the underwriting and eligibility requirements in HAMP. Treasury also requires notices to borrowers advising them of the primary reason or reasons for a determination of ineligibility, thus ensuring that determinations of ineligibility are not based on race, color, religion, national origin, or sex. The notice requirement became effective January 1, 2010.

At the present time, data regarding the race and gender of homeowners in permanent and trial modifications is very limited due primarily to the fact that the reporting of Government Monitoring Data did not start until January 2010.

30. Measures taken to ensure non-English speaking homeowners are provided with information relating to foreclosure prevention measures by Fannie Mae, Freddie Mac and

Treasury. Please submit such information according to each loss mitigation program offered by Treasury.

Overview

Treasury has worked collaboratively with Fannie Mae, Freddie Mac, and with other partners to increase awareness of HAMP. The success of the program depends on reaching as many homeowners as possible—including homeowners who do not speak English—and ensuring they have maximum access to HAMP and foreclosure prevention information. We do this by providing a variety of ways for homeowners to get information, including the following:

- Printed program materials
- Web sites
- Call Centers and phone assistance
- Foreclosure prevention events for homeowners
- HAMP documents
- Media outreach
- Public awareness campaign
- Housing counselors

Printed Program Materials

Treasury, in collaboration with Freddie Mac and Fannie Mae, has developed, translated, and produced a variety of consumer-friendly printed promotional materials and other collateral to help educate borrowers about HAMP. The vast majority of these materials are available in multiple languages.

These materials have been developed, translated, and distributed by Treasury, Fannie Mae, and Freddie Mac both directly to homeowners at foreclosure prevention workshops, and also indirectly through public officials, housing counselors, nonprofit organizations, and others. Additionally, most of these materials can be downloaded by homeowners through the "Resources" tab of www.MakingHomeAffordable.gov. Servicers and counselors can download these materials through the "Resources" tab of www.HMPAdmin.com for distribution to homeowners.

		Eng	Span	Chinese	Hmong	Korean	Portuguese	Tagalog	Vietnamese
Brochure	Need Help With Your Mortgage?	X	X	X		X			X
Trifold	MHA Overview	X	X						
Fact Sheet	MHA Overview	X	X	X	X	X	X	X	X
Fact Sheet	HAMP Overview	X	X	X	X	X	X	X	X
Fact Sheet	HARP Overview	X	X	X	X	X	X	X	X
Presentation	MHA Overview	X	X						
Poster	MHA Overview	X	X						
Postcard	MHA Overview	X	X						

Web Sites

The primary website for HAMP is www.MakingHomeAffordable.gov. This web site, maintained by Treasury, encourages homeowners to determine their basic eligibility for the program, provides basic information about the program, warns homeowners of scams, and directs homeowners to the Homeowner's HOPE Hotline™ and to HUD-approved housing counselors for more direct assistance. Much of the information provided on www.MakingHomeAffordable.gov is currently available in both English and Spanish.

Treasury, with support from Fannie Mae, is in the process of developing additional information and tools in a variety of languages. We are adding, for example, six new landing pages in Portuguese, Chinese, Korean, Vietnamese, Tagalog, and Hmong. Additionally, on both MakingHomeAffordable.gov and www.YouTube.com/MakingHomeAffordable, we are adding a set of Spanish-language instructional videos to complement the current collection: "Your Path to a More Affordable Mortgage," "Driver's Seat," and "Your 'To Do' List for a Permanent Modification."

To support servicers' understanding and implementation of program guidelines we have also created www.HMPAdmin.com. On this site, which is managed by Fannie Mae, servicers—plus housing counselors and other borrower advocates—have direct access to the information and tools needed to participate in HAMP, including Treasury guidance through Supplemental Directives, learning/training opportunities, templates and tools, program news, and updates. In the section recently added for housing counselors, a program overview video is available in English and Spanish.

Fannie Mae's website promotes HAMP in multiple ways. From the Home page of www.FannieMae.com, HAMP is most prominently featured. It is also easy to find in the "Homeowners" tab. On this site, every related page can be accessed in either English or Spanish.

Freddie Mac's website (www.FreddieMac.com) also offers strong promotion of HAMP. In addition to offering every page in its "Making Home Affordable" and "Avoiding Foreclosure" sections in Spanish, there is a Spanish-language loan lookup tool that enables homeowners to determine whether Freddie Mac owns their mortgage, which is helpful to know when determining program eligibility or servicer participation. At www.YouTube.com/FreddieMacWeb, visitors can watch "Stop Foreclosure: Documents Your Lender Needs to Help You" in English or Spanish.

Call Centers & Phone Assistance

The Homeowner's HOPE Hotline (888-995-HOPE (4673)), created by the Homeownership Preservation Foundation, gives homeowners a way to speak with counselors about their concerns. Through the free help provided, homeowners get information about HAMP and determine their basic eligibility for the program. Treasury has established an additional Hotline resource to help homeowners who are having difficulty within the modification portion of HAMP. When those homeowners call the Hotline and ask for "MHA Help," they are connected to a dedicated team of HUD-approved housing counselors who are able to thoroughly explain program guidelines, review their cases, and work with their servicers to resolve their issues. Operators who speak English and Spanish are available around the clock, and services are available to callers in more than 160 additional languages by request. Treasury, Fannie Mae, and Freddie Mac all promote the Hotline. Fannie Mae manages Treasury's financial support of the Hotline and monitors training provided to Hotline staff.

Fannie Mae and Freddie Mac expanded their corporate call centers—800-7FANNIE and 800-FREDDIE respectively—to improve their ability to respond to homeowner inquiries about the Making Home Affordable program. Both call centers take calls in English and Spanish. Fannie Mae's call center also takes calls in 140+ other languages upon request.

Foreclosure Prevention Events for Homeowners

Treasury—in collaboration with Fannie Mae, Freddie Mac, HOPE Now, NeighborWorks America, and others—is engaged in a 40-city tour to promote MHA in communities nationwide. The centerpiece of each stop includes a foreclosure prevention event where distressed homeowners can speak face-to-face with their servicers, HUD-approved housing counselors, and Fannie Mae

and Freddie Mac staff. In promotion of these events, Treasury, Fannie Mae and Freddie Mac work together to design and distribute bilingual (Spanish/English, Vietnamese/English, Korean/English, and Tagalog/English) promotional flyers and postcards, and community outreach is done through local partners and multicultural media outlets to encourage borrowers to attend these foreclosure prevention workshops. At the events, MHA presentations to homeowners waiting to meet with servicers or counselors are presented in both English and Spanish. This year, we are planning to increase the number of ads we typically place on Spanish-language radio stations.

At past events, we have provided interpreters based on the anticipated needs of the community. At one event, for example, we secured interpreters onsite for Spanish, Chinese, Korean, and Vietnamese. Now, we more efficiently ensure that homeowners have onsite access to 160 languages through a third party translation service.

In support of these events, Freddie Mac distributes bilingual (Spanish/English) promotional flyers, provides bilingual staff at events, recruits bilingual volunteers, and conducts bilingual presentations to homeowners waiting to meet with servicers or counselors.

In addition to their support of Treasury's efforts, Fannie Mae and Freddie Mac also participate in a number of third-party hosted foreclosure prevention events where they distribute MHA collateral, primarily in English and Spanish. Outreach has also included distribution at local churches and public libraries within communities of color with the high foreclosure rates.

HAMP Documents

Treasury worked with Fannie Mae and Freddie Mac to develop Spanish translations and/or instructions for the following HAMP documents:

- HAMP Modification Agreement and authorized changes to the agreement
- Making Home Affordable Request for Modification and Affidavit
- HAMP Hardship Affidavit
- HAMP Trial Period Plan Notice
- IRS Form 4506T-EZ

Freddie Mac is also developing English and Spanish HAMP borrower solicitation letters, a trial modification package cover letter for borrowers solicited through their its Mortgage Solution Center, and a Spanish-language leave-behind for eligible borrowers as part of their ongoing door-knocking campaign.

Media Outreach

To broaden the reach of MHA foreclosure prevention efforts and to help educate homeowners about the help available through MHA, Treasury, Fannie Mae, and Freddie Mac actively pursue earned media. When Treasury sponsors a foreclosure prevention event, for example, Treasury and Fannie Mae work together to secure and conduct interviews with local English and Spanish-language media outlets targeting Latinos (including local and syndicated radio, TV and newspapers) and the Asian press before or during the event.

Shortly after the MHA program launch, Freddie Mac conducted a satellite media tour promoting MHA and targeting struggling borrowers via Hispanic print, radio, and television. Freddie Mac also circulated one national and four regional press releases in Spanish announcing the recent launch of Freddie Mac's Borrower Help Centers and Borrower Help Network. Additionally, the following camera-ready bylined articles are featured in English and Spanish in the Freddie Mac Media Room, and are expected to be circulated by NAPS to thousands of community newspapers, for viewing by millions of readers:

- New Program Offers Mortgage Modification
- New Program to Aid Mortgage Holders
- Tips on Avoiding Mortgage Fraud and Scams

Public Awareness Campaign

Treasury, with support from Fannie Mae, is working with the Ad Council on a two-part PSA campaign initiative. First, we partnered with the Ad Council, NeighborWorks America and HUD to refresh an existing foreclosure prevention PSA campaign. This refreshed PSA campaign is available for airing in English on television and radio stations across the country. We are developing a brand-new campaign in partnership with the Ad Council to launch in the second quarter of 2010. This new campaign will feature English and Spanish PSAs on television, radio, outdoor, and internet, and other print promotional materials. Promotion of the campaign will include outreach to Spanish-language press.

Housing Counselors

Treasury worked with Freddie Mac to produce an MHA overview training video to help housing counselors work with homeowners who need help. The video was produced in English and Spanish, and is accessible to housing counselors through HMPAdmin.com.

Freddie Mac also established Borrower Help Centers and a Borrower Help Network, in which non-profit organizations offer holistic counseling services in English, Korean, Spanish, and Vietnamese.

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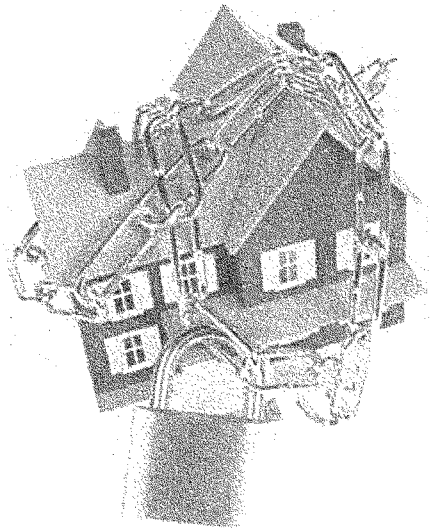
COALITION NCRC



Foreclosure Prevention Service Providers: What Consumers Should Know & Red Flags to Avoid

A compliance white paper based on client interviews, literature review and a comprehensive fair lending audit.

March 2010

THE NATIONAL COMMUNITY REINVESTMENT COALITION

The National Community Reinvestment Coalition is an association of more than 600 community-based organizations that promote access to basic banking services, including credit and savings, to create and sustain affordable housing, job development, and vibrant communities for America's working families. Our members include community reinvestment organizations, community development corporations, local and state government agencies, faith-based institutions, community organizing and civil rights groups, minority- and women-owned business associations, and social service providers from across the nation. Their work serves primarily low- and moderate-income neighborhoods and communities.

NCRC is a recognized United States Department of Housing & Urban Development National Housing Counseling Intermediary Organization who, with its affiliates, provides foreclosure prevention, pre-purchase, landlord tenant, fair housing, reverse mortgage, consumer credit and financial education services at no cost to consumers.

The Board of Directors would like to express its appreciation to the NCRC professional staff that contributed to this publication, and continue to serve as an invaluable resource to all of us committed to promoting responsible lending and a financially inclusive society. For more information, please contact:

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Table of Contents

Executive Summary 5

Background & Recommendations 7

Foreclosure Rescue Scams: A Nightmare Complicating the American Dream 8
How the Scams Work: 9
Documented Mortgage Scams 10
  Reverse Mortgage Fraud 10
  Phantom Help 10
  Mortgage-Related Identity Theft 10
  Short Sale Fraud 11
  Bait And Bump 11
  Equity Stripping Or Skimming 11
  Lease Buy-Back 11
  Bankruptcy Foreclosure 12
Ten "Red Flags" ..... **Error! Bookmark not defined.**
How Can Consumer's Avoid Becoming a Victim? 14
Foreclosure Modification Scams: NCRC Fair Lending Audit 15
Fair Lending Audit Methodology 16
Companies Tested 17
Audit Findings & Analysis: 20
  Fees for Services 20
  Types of Services 21
  Documents Needed 22
  Service Providers' Recommendations 23
    Vignette I 24
    Vignette II 24
    Vignette III 25
  Other Issues 25
    Vignette IV 25
Recent Legislative Initiatives 25
Regulatory Developments & Best Practices 27
  FTC "Casenotes:" 28
State Action 31
Research 33
State Laws Regarding Foreclosure Rescue & Loan Modification 35

Executive Summary

Foreclosure prevention and rescue modification scams present a growing concern for the consumer protection community. Numerous consumer complaints and NCRC's mystery shopping investigation confirm that companies that pose as "rescuers" are a pervasive threat to community stability and sustainable homeownership. This report identifies common scams perpetrated against consumers, including phantom help, reverse mortgages, title theft, and short sale fraud, and highlights those important red flags that every homeowner must know. In addition, NCRC's findings demonstrate that an aggressive legislative solution and added public and private oversights and enforcement is necessary to prevent consumers from being harmed.

Over 80% of the companies "tested" in this study gave consumers problematic advice and offered little or no guarantees for their "professional" services. They quoted consumers an average fee of $2600 for the same services that could be readily obtained from HUD Certified Counseling Agencies or by dealing directly with mortgage servicers. Furthermore, many companies were truly out to scam homeowners, looking to strip equity, steal title, or sell services that would allow the company to profit at the expense of consumers and lead to foreclosure and irreparable harm to the consumers' credit and financial situation. Less than 20 percent followed Federal Trade Commission (FTC) guidance that requires companies to inform consumers of alternatives such as nonprofit organizations that provide foreclosure prevention services for free. In about a quarter of the mystery shopping calls, the shoppers were advised not to pay their mortgage or have any contact with their lender.

Foreclosure modification scams have been a problem for years. However, with the recent increase in foreclosures, scams have become more prevalent and present a significant consumer protection concern.

Background & Recommendations

Solving the foreclosure crisis is critical for the economic health of this country. Since the onset of this crisis, $7 trillion in household wealth has been lost. This translates into reduced consumer spending, depressed business activity, a lower gross national product, lower property tax receipts, and higher local and state budget deficits. Foreclosures do not only impact individual homeowners but entire neighborhoods through declining property values, increases in abandonment, decay, crime, and vandalism. In short, the continued failure to adequately address this crisis multiplies the profound social, cultural, and economic injury to our nation.

The foreclosure tsunami has been further compounded by the highest unemployment rates in the last quarter center. In a vicious cycle, the record rates of unemployment and reduction in wages are now feeding continued foreclosures.

In the face of this "Great Recession" the Bush Administration encouraged the private sector to create the HOPE Now Alliance with the purpose of coordinating the foreclosure prevention efforts of counseling organizations, servicers, and other financial institutions. While the HOPE Now Alliance recorded 3.1 million loan workouts during 2007 and 2008, two-thirds of these workouts only deferred or re-scheduled borrower payments without lowering monthly payments. Meanwhile, the foreclosure crisis worsened.

Subsequently, the Obama Administration created two programs, the Home Affordable Modification Program (HAMP) and the Home Affordable Refinance Program (HARP) that aimed to increase the number of loan modifications and refinances by offering public subsidies to financial institutions and borrowers. Using $75 billion of funding from the Troubled Asset Relief Program (TARP), HAMP's goal is to reach 3 million to 4 million borrowers.

Unfortunately, these current programs are not keeping pace with foreclosures. Today, after almost a year of its launching, the HAMP program has fallen short of this goal. While it

has offered homeowners almost 1.35 million trial modifications, only 170,207 or 12.5 percent, have been converted into permanent modifications. In addition, the HARP program has assisted only 200,000 borrowers refinance into lower cost loans. The fact of the matter is that these federal government programs and the good faith efforts of servicers alone are not sufficient to reduce the volume of foreclosures that last year displaced 2.9 million households and this year economists estimate may reach as many as 4.5 million mortgage holders as Option ARM resets and interest rate adjustments hit.

As consumers struggle to maintain their housing, "predatory" for-profit foreclosure prevention service providers are undermining the legitimate efforts of the Administration, mortgage servicers, the HOPE Now Alliance, HUD Counseling Intermediaries and their affiliated state and local counseling agencies who work with consumers at no cost.

Testing of foreclosure prevention service providers reveals that consumers experience a wide range of treatment. In the best-case scenario, consumers receive fair advice, and cost-effective strategies for preserving homeownership. However, many companies have been revealed to be sources of misinformation. Further testing is needed to fully assess the nature of the problem, but many avenues for consumer-protection enforcement are already apparent.

The testing results underscore the need for an effective legislative solution and increased public and private sector oversight combined with effective education and outreach to ensure consumers work with responsible providers. Modification companies are often operating in a regulatory vacuum, without any accountability, and may be preventing consumer access to the Home Affordable Mortgage Program and the Home Affordable Refinance Program.

Foreclosure Rescue Scams: A Nightmare Complicating the American Dream

Each year counselors within the NCRC Housing Counseling Network assist thousands of consumers. These United States Department of Housing & Urban Development certified Housing Counselors understand that for each and every family we counsel, the possibility of losing their home to foreclosure is real and terrifying. However, the reality that scam artists are preying on the vulnerability of desperate homeowners is equally frightening. This is why NCRC commissioned over 200 mystery shops of for-profit foreclosure prevention providers in 2009.

NCRC frequently receives "eleventh hour" requests from consumers who facing imminent foreclosure and have been taken advantage of by so-called foreclosure rescue companies or foreclosure assistance firms. They operate under a bait-and-switch technique, promising homeowners that they can save their home. Many inform consumers that they can more effectively navigate the maze of federal and state foreclosure assistance programs and speed the process along with their mortgage servicer. Many were brazen enough to offer a money-back guarantee without placing the assurance in writing. Unfortunately, once a foreclosure fraudster takes homeowners' money, they leave consumers much the worse for wear.

It is NCRC's counselors' experience that fraudulent foreclosure "rescue" professionals use half-truths and outright lies to sell services that promise relief and then fail to deliver. Their goal is to make a quick profit through the fees or mortgage payments they collect from consumers, but do not pass onto the lender. Sometimes, they even assume ownership of the property by deceiving the homeowner. Then, when it's too late to save our client's home, they take the property or siphon off the equity. Ultimately, the consumer, who thought that they were working with a reputable firm, loses their home to foreclosure despite their best intentions.

How the Scams Work

Foreclosure rescue firms use a variety of tactics to find homeowners in distress. Some sift through public foreclosure notices in newspapers and on the Internet, or through public files at local government offices, and send personalized letters to homeowners. Others take a broader approach through ads on the Internet, on television, in the newspaper, with posters on telephone poles, median strips and bus stops, or with flyers or business cards at your front door. The scam artists use simple and straight-forward messages, including:

"Stop Foreclosure Now!"

"We guarantee to stop your foreclosure."

"Keep Your Home. We know your home is scheduled to be sold. No Problem!"

"We have special relationships within many banks that can speed up case approvals."

"We Can Save Your Home. Guaranteed. Free Consultation"

"We stop foreclosures everyday. Our team of professionals can stop yours this week!"

Once they have a customer's attention, they use a variety of tactics that have been well-documented by the National Community Reinvestment Coalition, Housing Counselors, the Federal Trade Commission, State Attorney Generals, The United States Department of Housing & Urban Development, the National Consumer Law Center, and the media.

Documented Mortgage Scams

NCRC's Housing Counselors have reported and NCRC fair lending "testers" or "mystery shoppers" have documented the following scenarios that consumers should be aware of and avoid:

Reverse Mortgage Fraud

Method: Elderly people who may have lost retirement funds sometimes turn to a reverse mortgage, which allows them to take a new mortgage out on a house they've already paid off. While this is sometimes a helpful tool, industry watchers and government officials warn about people charging sky-high fees.

Result: Elderly people are either cheated by high fees or, in worst-case scenarios, lose their house because they signed documents they did not understand. NCRC has testified on this issue before the House Financial Services and Judiciary Committees.

Phantom Help

Method: A type of foreclosure rescue scam in which a fraudster collects an upfront fee from homeowners trying to save their homes from foreclosure -- and then disappears.

Result: Criminals do nothing and pocket the fee.

Mortgage-Related Identity Theft

Method: Perpetrators use stolen identities to buy properties outright or take out mortgages.

Result: Victims find out they are on the hook for mortgages and loans, even though they believed that they were released from their mortgage obligation.

Short Sale Fraud

Method: A buyer colludes with real estate agents or others to give faulty appraisals or broker price opinions to banks and convinces them a property is worth less than it is.

Result: Banks are defrauded and surrounding property values can drop. This is a growing problem, and NCRC is very concerned about the use of BPOs in the Obama administration's new Make Home Affordable Foreclosure Alternatives initiative.

Bait And Bump

Method: Lenders or brokers dangle attractive loans in front of desperate homeowners. But when it comes time to close, buyers are told that they do not qualify or that it's too late to switch.

Result: Homeowners are left with mortgages they can't pay for or end up signing away their homes.

Equity Stripping Or Skimming

Method: There are several definitions for this, one of which is synonymous with lease buy-back (see below). Another iteration occurs when a fraudster convinces people to invest in or buy properties, using their credit to get loans for inflated property values, but walks away.

Result: Investors are left with properties, which often have been neglected and have gone into foreclosure.

Lease Buy-Back

Method: Homeowners facing foreclosure sign over the deed to a company or individual who promises to sell it back after a period of time, during which the homeowners can

get their finances in order. In the meantime, they are told they will be allowed to rent the house.

Result: The scammer evicts the original homeowner-turned-renter and keeps or sells the property.

Bankruptcy Foreclosure

Method: The scam artist may promise to negotiate with the lender or to get refinancing on the consumer's behalf if they pay an up-front fee. Instead of contacting the lender or refinancing the loan, the scam artist pockets the fee and files a bankruptcy case in the consumer's name – sometimes without their knowledge.

Result: While this bankruptcy filing may stop the home foreclosure, it will only temporarily due so. Further, the bankruptcy process is complicated, expensive, and unforgiving. For example, if the consumer fails to attend the first meeting with the creditors, the bankruptcy judge will dismiss the case and the foreclosure proceedings will continue. Ultimately, the consumer will lose the money he or she paid to the scam artist as well as the home. Also, a bankruptcy stays on your credit report for 10 years, and can make it difficult to obtain credit, buy a home, get life insurance, and sometimes get a job.

10 "Red Flags"

If you're looking for foreclosure prevention help, *avoid* any business that:

1. Guarantees to stop the foreclosure process – no matter what your circumstances;
2. Instructs you not to contact your lender, lawyer, or credit or housing counselor;
3. Collects a fee before providing you with any services;
4. Accepts payment only by cashier's check or wire transfer;
5. Encourages you to lease your home so you can buy it back over time;
6. Tells you to make your mortgage payments directly to it, rather than your lender;
7. Tells you to transfer your property deed or title to it;
8. Offers to buy your house for cash at a fixed price that is not set by the housing market at the time of sale;
9. Offers to fill out paperwork for you; or
10. Pressures you to sign paperwork you haven't had a chance to read thoroughly or that you don't understand.

How Can Consumers Avoid Becoming a Victim?

- Be skeptical of people who make unsolicited contact.
- Do not hesitate to ask as many questions as you need until you understand what you are signing.
- Do not sign blank forms.
- Check to make sure your name is correctly on documents and matches your identification.
- Check company, mortgage agent, real estate agent and lawyer's certifications through state agencies.
- Review the value of the home by comparing it with others nearby, and go over the sales history of the home to see whether the value has been inflated through multiple sales.
- Remember, if it's too good to be true, it probably is. All HAMP, HARP and FHA assistance programs are time consuming and servicers are overwhelmed by requests for assistance. Do not believe any providers representations that we will be able to fast track your application at a cost.

Foreclosure Modification Scams: NCRC Fair Lending Audit

Foreclosure modification scams have been a problem for years. However, with the recent increase in foreclosures, scams have become more prevalent and present a significant consumer protection concern. By promising an easy fix for a fee, scammers mislead homeowners into believing that they will get a modification that significantly lowers their payment, or stabilizes an exploding adjustable rate mortgage ("ARM"). Consumers are encouraged to deal only with the for-profit company or mortgage service provider, and sometimes are advised to cease making payments as they are contractually obligated to do. Scammers often fail to deliver the services they advertise, and consumers are left in a worse position than before -- further behind on their home loan, with no recourse or hope of a refund. More vulnerable than ever, consumers may fall prey to other schemes, such as a transfer of title without a release of the mortgage obligation. Directed to make rental payments to the new owner, the home may still fall into foreclosure. At the end of the process, consumers find themselves without equity, with scarred credit, and with nothing to fall back on. Community ties are ruptured and neighborhoods become more prone to blight, disinvestment, and elevated crime.

To address the concerns surrounding rescue scams, NCRC conducted a research study for three months in mid-2009 by using "fair lending matched pair testing" or "mystery shopping" to assess the extent of the problem. Our findings demonstrate that an aggressive legislative solution and added public and private oversights and enforcement are necessary to prevent consumers from being harmed.

Fair Lending Audit Methodology

Mystery shoppers called national and local foreclosure prevention service providers to ascertain:

1. The fees for their services;
2. The types of services offered;
3. The documentation that was required to receive services; and
4. The types of agreements/arrangements troubled homeowners must enter to receive services and/or keep their homes, and other recommendations that were made.

The mystery shoppers posed as distressed borrowers who were delinquent in their mortgage payments and needed foreclosure prevention assistance.

Shoppers informed service providers of a scenario in which they had received an interest-only loan that was initially affordable, but had adjusted sharply to rates above the current market. After several years in their homes, the shoppers had lost at least 20 percent of their property value, but could afford their mortgage balance under the initial terms of the loan, and under current market rates. These troubled borrowers had missed the previous month's payment and had been yet unable to pay the current month's payment, making them 31 to 59 days behind, depending on when the test was carried out. No shoppers were yet in foreclosure, and a loan modification would be a sustainable solution to ensure continued homeownership.

Mystery shoppers were instructed to only disclose information about their financial hardship, and not to disclose personal information such as property address, date of birth, last name, home phone number, social security number and loan number.

In this study, our intent was to replicate the behavior of a troubled borrower who is on the cusp of foreclosure, is seeking help, and is a viable candidate for assistance. In total, over 200 "shops" of foreclosure prevention service providers were conducted.

NCRC's Housing Counseling Network and National Neighbors professional staff used the internet, radio advertisements, complaint and intake logs and in-house database repositories to research and identify national and local foreclosure prevention providers. From this research, a list of 115 of service providers was generated. Seventeen of these were found to have invalid phone numbers, indicating the "fly-by-night" nature of this emergent industry.

Companies Tested

123 Fix My Loan
877 You Keep
Access Loss Mitigation
Advantage Loan Modification
All Options
American Executive Mortgage Group
American Foreclosure Prevention
American Foreclosure Specialists
American Loan Modification Agency
American Mitigation Group
Apply 2 Save
Avoiding Mortgage Foreclosure
Benjamin Law
Chase Colby
Clear Home Relief
Debt Negotiation.com
Debt Plan/Consumer Credit Counseling
Diversified Real Estate Consultants
Emitigation
EnTrust Home Solutions
Federal Loan Modification
Federal Loan Modification Bureau
Federal Loan Modification Service
FHA Refinance Loans
FHA.com
Financial Restoration, Inc

Fleischman Consumer Law Center

Foreclosure Assistance of America

Foreclosure End

Foreclosure Shield

Fransen & Molinaro

Free Loan Modification

Fresh Start Financial Solutions

Fresh Start Mortgage Solutions

Green Credit Solutions

Griswold & Agdeppa

Heartland Loss Mitigation

Help for Homeowners

HELP Me Stop Foreclosure

Help U Modify

Home Foreclosure Fighter

Home Loan Modification Advisors

Home Payments Made Easy

Home Relief Assistance

Home Rescue Center

Home Solutions of North America

Homeowner Help 2009

Hope for Homeowners and Hope Now Mortgage

HopeNow Mortgages

Intellichoice Mortgage Services

Ioannou and Ioannou

Jack I. Hyatt, Attorney at Law

Keep A Home

Keep Your Payment Low.com

Law Office of J. Scott Morse, LLC

Legal Loan Bailout

Lend Sure

Liberty American

Loan Mediate.com

Loan Modification Hope

Loan Savings Solutions

Loan Shrink

Loan Workout

MD Loan Modifiers

MDF Financial Services

Merrimac Mortgage Co. Inc

Mitigation Online Consultants

Modification Center

Mortgage Assistance Now

Mortgage-Relief.info

MortgageRelief 411

My Loan Counts.com

National Foreclosure Assistance

National Foreclosure Relief Services

National Mortgage Help

Nationwide Foreclosure Prevention Center LLC

No Bull Financial, LLC

Omni Mortgage Corp.

One Stop Attorneys, PLLC

Parsa Law Group

Pro Loan Finders, LLC

Rapid Law

Raymond, Louis & Fitch

Repair Your Loan

Rodis Law Group

Save My Home Now

Save My Home USA

Save Your Dream

Save Me From Foreclosure.com

Saving the American Dream

Sirody, Freiman & Feldman, PC

Sky Business Solutions

Slade Law Center/HomeShield

Start A Loan Mod

Stop Foreclosure

Stop Foreclosure 2 Day

Stop Foreclosure Center

Stop Foreclosure Help Today

Stop Home Foreclosure Help

Stopping Foreclosures

The Debt Advocacy Center, LLC

The Home Loan Modification Center

The Lilly Law Group

The Mortgage Bailout Company

Trinity Debt Management

United Capital Mortgage Assistance

United States Mortgage Repair

US Home Help

US HUD.com

US Loan Assistance Center

Walk Away Plan, LLC

Web Loan Mods

Weissman Law Firm, PLLC

Wilshire Holding Group, Inc

Wisdom Companies , LL

Audit Findings & Analysis

Fees for Services

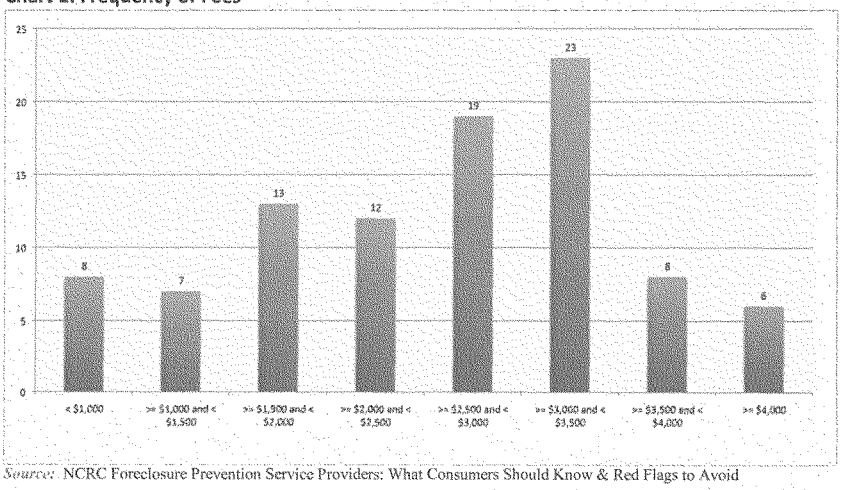
Fees were found to vary greatly across the project, from $199 for a do-it-yourself foreclosure prevention kit, to a modification fee of $5,600 over four months.

Table I: Fees Quoted to Testers

Median Fee	$2,900
Average Fee	$2,600
Most Frequently Quoted Fee	$3,000

Source: NCRC Foreclosure Prevention Service Providers: What Consumers Should Know & Red Flags to Avoid

Chart 1: Frequency of Fees

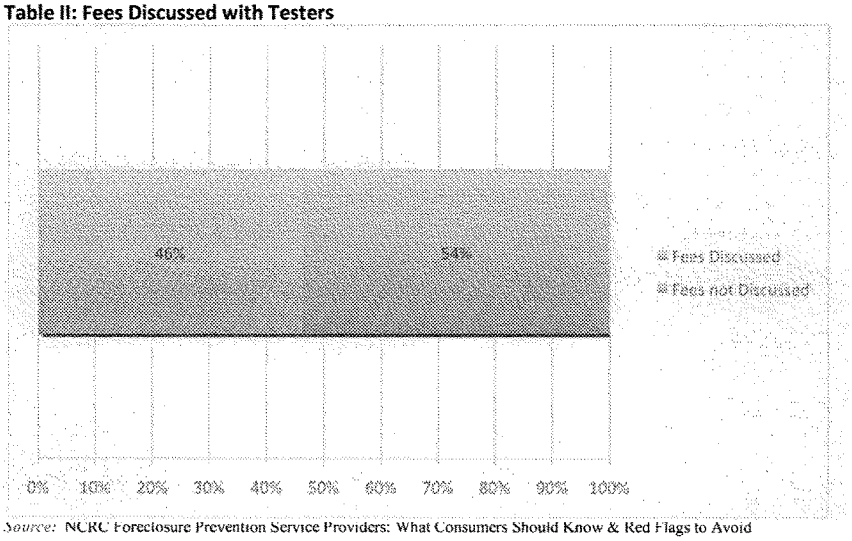


Source: NCRC Foreclosure Prevention Service Providers: What Consumers Should Know & Red Flags to Avoid

Offers of service at steep fees were often tempered by refund policies, or reassurances of help. When a refund policy was described, it was most frequently for 100% of the initial

payment. One company even advised one of NCRC's testers that they would not only refund the entire fee if they could not help, but that an additional $200 would be provided due to any inconvenience. However, it is notable that less than half of the testers were informed about fees, and only in a handful of cases did the company offer them in writing. Further testing is necessary to track this trend.

Table II: Fees Discussed with Testers



Source: NCRC Foreclosure Prevention Service Providers: What Consumers Should Know & Red Flags to Avoid

Types of Services

With few exceptions, service providers recommended testers pursue loan modifications. A small number of companies followed recent FTC guidance by advising consumers that there were other options at their disposal, such as nonprofit assistance, or governmental help. However, this occurred in only 20% of the calls. It is important to note that at the time of this testing, the Home Affordable & Refinance Mortgage programs had recently

been announced, while the FHA & Hope Now Programs were operating. Despite this, it is our counselors' experience that while for-profit corporations today are working with the HAMP and HARP programs, they are not assessing the consumers' qualifications for the respective programs before charging them a fee. This is another area for follow-up testing.

Furthermore, companies frequently advertised assistance, but did not state their actual service area. When contacting these companies, testers were sometimes told that the company was not licensed locally. In ten instances they were referred to other resources, including 995-HOPE and their state attorney general's office.

Other companies, such as a bankruptcy law firm that advertised assistance with loan modification, created confusion when they were contacted and offered only bankruptcy services.

Few companies represented that an applicant was certain to receive a successful resolution. Instead, companies frequently advised consumers that they were able to help a significant portion, such as 98%, of their applicants, or made vague statements about the vast majority of their clients having positive outcomes. Still others declined to guarantee successful resolutions, but said that all of the clients they *accepted* were helped, citing pre-screening policies. Many companies also claimed to have a positive Better Business Bureau rating.

Documents Needed

As a part of their profile, testers were instructed to ask what documentation would be necessary to complete a modification process. Some foreclosure prevention service providers said that it would be like documenting a mortgage refinance, or that a list of needed items would be provided at a later date. About a third of the time, testers were told specifically what items were needed. Most frequently, service providers requested information about the

existing mortgage (e.g. a monthly statement) or about income (e.g. paystubs, W2s, or tax returns). Some service providers also asked for a monthly budget or a hardship letter.

As a model of what a responsible loss mitigation program should include, NCRC referenced a list of standard documents that are routinely requested by HUD-Certified Counseling Agencies, NeighborWorks affiliates, and the Hope Now Alliance, all of whom do not charge for their services. These documents include:

- Proof of income (W2's, pay stubs, or bank statements);
- Reason for default;
- Monthly expenses (heating, phone, gas and electric utility bills, and food costs);
- Unsecured debt (credit cards, personal loans, car payment, additional mortgages);
- Medical expenses; and
- Insurance;

Overall, when documentation was requested - which was less then 50% of the time - the items requested by modification companies did not deviate from what is required under HUD-Certified Counseling Agency, NeighborWorks, and the Hope Now Alliance programs. However, without full file review, the quality of the services offered is very much in question.

Service Providers' Recommendations

Several companies told testers that their rate adjustment would not be perceived as a hardship, because it was a risk they took by obtaining an adjustable rate loan. This is inaccurate advice. One representative instructed a tester to write a hardship letter that said her mother

had been ill, because the loss of income would not be verified. This clearly, is inappropriate advice under this testing profile.

More problematic, however, was the fact that in over 50% of the tests service providers advised testers that they should not pay their mortgage. This raises a significant consumer protection problem. The examples below illustrate the kinds of misrepresentations that present a concern.

Vignette I

When testing a service provider in California, the tester was told that upon receipt of her application, her bank would be contacted and that she would not have to make her mortgage payment for 90 days. Instead, she was to pay the service provider. When the tester expressed concern about what would happen to her credit during that time period, she was told that here would be no reporting while the company was working on her application.

Vignette II

In a test of a company in Ohio, an agent emphasized that the control tester should not speak to her bank, and that if she gave them financial information, it would hurt her chances of receiving assistance. The agent said that he would give the bank what information they needed to know, and that the tester should not make her payment while he negotiated.

Vignette III

A company in Florida told a protected tester that she would not have to make her mortgage payment for the two or three months it would take for them to arrange a modification for her. The agent told the tester that it would not hurt her credit while they would be representing her.

Other Issues

A significant number of tests showed that companies were unreachable or unwilling to assist consumers who did not provide their last names, home addresses, or other personal information. This leaves consumers at a disadvantage when they are attempting to contact multiple companies to find the best deal.

Vignette IV

One prominent entity maintains several differently-branded websites offering modification assistance, all with the same phone number. When tested, this company was revealed to be a source of leads for purchase for other service providers. Testers could not move ahead without revealing personal details, but were told that they would be matched to the "best" service provider in their local area.

Recent Legislative Initiatives

Recently, Representative Gwen Moore (D-WI-4) introduced the Foreclosure Rescue Fraud Act of 2009, H.R. 1231. This bill places restrictions on "foreclosure consultants" in an

attempt to ensure that consumers are treated fairly in foreclosure rescue transactions, and gives servicers the responsibility of warning delinquent consumers about rescue scams and companies that might prey on them.

A strong federal standard is needed to protect consumers in foreclosure. In a number of states, legislators have already responded to the foreclosure rescue scam crisis by passing new legislation that addresses licensing or similar issues. For example, Nevada recently passed a bill that requires foreclosure rescue companies to be licensed in the manner of mortgage brokers.[1] While the Moore bill does not preempt stronger state and local laws, it may give consumers a false sense of security and exacerbate the problem if passed as written.

The bill contains a significant loophole by exempting attorneys and licensed real estate brokers from the obligations and responsibilities placed on foreclosure consultants. NCRC's investigation has confirmed that many law firms, former subprime lenders and other real estate professionals have diverted their talents to foreclosure assistance services. These players, with their extensive knowledge of mortgages and the financial system, also have a greater ability to abuse the trust of consumers. The Moore bill provides a weaker standard than some states in terms of protecting consumers from industry experts.

The bill also fails to address a number of issues that NCRC finds to be of the highest concern. Unfortunately, foreclosure rescue companies frequently mislead consumers through advertising that suggests that they are not-for-profit, or governmentally affiliated. Names including "Federal," "National," or "Bureau" confuse consumers, especially in conjunction with marketing pieces that include eagles or shields traditionally associated with accountable federal institutions. With a confusing flurry of official bailout plans in the news, consumers are vulnerable to companies mimicking governmental rescue resources.

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[1] See AB 152 at http://www.leg.state.nv.us/75th2009/Bills/AB/AB152_EN.pdf

However, the Foreclosure Rescue Fraud Act of 2009 does offer a number of provisions that should serve as a model for foreclosure rescue best practices. The bill prohibits foreclosure consultants from receiving compensation before contractual services are performed, and would prevent them from acquiring any interest in their clients' properties. Consultants would be required to provide their clients with written contracts that detail their obligations, compensation and contact information. Most significantly, all contracts would be required to have a three-day rescission period, a protection similar to the one that consumers enjoy with refinance transactions on their primary residences, and must be written in the same language used to solicit the consumer. This is particularly important in that it provides additional protections to consumers with limited English proficiency.

Furthermore, the Foreclosure Rescue Fraud Act of 2009 places an important obligation on mortgage servicers. In cases where consumers are two payments behind on their home loan, servicers would be required to notify them of potentially fraudulent solicitations. In a statement provided in both English and Spanish, consumers would be encouraged to contact the servicer, or a legitimate, HUD-certified counseling agency, and warned of suspicious promises to save homes. As delinquent consumers are often faced with a barrage of marketing materials when their financial troubles become public, this provision will encourage consumers to seek help that is in their best interest. Mortgage servicers would be well-advised to go beyond the provisions of the Moore bill, and include this statement in all correspondence about a delinquent account.

Regulatory Developments & Best Practices

The Federal Trade Commission has been extremely proactive to address the mortgage scam issue.

- The FTC reports that "mortgage modification and foreclosure relief" complaints skyrocketed from only 1 complaint filed in 2008 to 7,927 last year.[2]
- The FTC created "Operation Stolen Hope" as part of a continuing federal-state crackdown on mortgage foreclosure rescue and loan modification scams. The operation involves 118 actions by 26 federal and state agencies.[3] A total of 28 cases has been brought by the FTC under "Operation Stolen Hope."[4]
- These cases include the First Universal Lending matter where the FTC complaint alleged that the defendant charged consumers huge up-front fees, sometimes as much as $7,000, and told consumers that if they stopped paying their mortgages it would help them in negotiations with lenders.
- The FTC also recently announced five law enforcement actions targeting perpetrators of mortgage-related scams. According to the FTC, these schemes typically operate in the following way. First, they use terms like "guarantee" and "97% success rate" to mislead consumers about the mortgage modification or foreclosure relief services they can provide. They then charge up-front fees for these "services" – fees legitimate nonprofit organizations do not charge. They use copycat names or look-alike Web sites to appear to be a nonprofit or government entity. Often, after collecting the fee, these companies do little or nothing to help consumers.

FTC "Casenotes:"

Federal Loan Modification Law Center (FedMod). FedMod marketed mortgage loan modification and foreclosure relief services to homeowners who were in financial distress, delinquent on their mortgages, or in danger of losing their homes to foreclosure. According

[2] http://ecreditdaily.com/2010/02/foreclosure-crisis-spurs-soaring-mortgage-relief-scams/
[3] http://www.ftc.gov/opa/2009/11/stolenhope.shtm
[4] http://www.ftc.gov/opa/2009/11/stolenhope.shtm

to the FTC's complaint, FedMod charged consumers from $1,000 to $3,000 in fees for these services, much of which must be paid up-front, but failed in numerous instances to obtain the promised loan modifications. In radio advertisements, the FTC alleges, FedMod induced homeowners to call its toll-free number by misrepresenting that it is part of or affiliated with the federal government. According to the complaint, FedMod often failed to answer or return consumers' calls or provide updates about the status of their loan modifications, and assured consumers that negotiations with their lenders were proceeding when, in fact, little or no effort had been made to contact the lender.

Bailout.hud-gov.us. According to the FTC's complaint, defendant Thomas Ryan used a foreign Internet registrar to falsely register two sites – bailout.hud-gov.us and bailout.dohgov.us. The sites were used to entice financially strapped consumers to seek mortgage loan modification services under the guise that the services were associated with, or were actually, the U.S. government, including HUD and the Treasury Department. The FTC alleges that the defendant misled consumers nationwide. A federal district court granted the FTC's motion for a temporary restraining order which required the Internet Service Provider ("ISP") hosting the sites to immediately remove them from the Internet. The FTC and the defendant stipulated to a preliminary injunction prohibiting him from holding himself out as an agency of any U.S., state, or local government, or as being affiliated with any such agency.

Home Assure d/b/a Expert Foreclosure. In this case, the FTC alleged that the defendants promised consumers facing imminent home foreclosure that they could stop foreclosure, regardless of the amount the consumer owed his or her lender. The defendants are charged with falsely claiming that they have special relationships with lenders, have helped thousands of consumers avoid foreclosure, and will provide a 100 percent satisfaction money-back guarantee. They typically charged consumers an up-front fee of $1,500 to $2,500 but, the FTC alleges, did little or nothing to help them avoid foreclosure and failed

to give refunds when foreclosures are not stopped.

Hope Now Modifications LLC and New Hope Property LLC d/b/a New Hope Modifications LLC. On March 24, the FTC announced two related cases alleging that the defendants misled consumers about their ability to provide mortgage loan modification and foreclosure relief, and misrepresented that they were affiliated with or part of the HOPE NOW Alliance, the non-profit, HUD-endorsed organization that is a broad-based coalition of credit and home ownership counselors, lenders, and other mortgage market participants. In each case, the court issued a temporary restraining order with an asset freeze and set dates for a preliminary injunction hearing. The New Jersey Attorney General also filed state court actions against both sets of defendants. These cases are in litigation. The FTC's press release is available at: http://www.ftc.gov/opa/2009/03/newhope.shtm.\

FTC Warning Letters for Potentially Deceptive Mortgage Relief Ads. The Commission announced that it has sent warning letters to 71 companies that are marketing potentially deceptive mortgage modification and foreclosure assistance programs. The letters inform these companies that their ads may violate federal law. The ads were identified during a nationwide review of Internet, direct mail, and spam advertisements that focused on mortgage relief targeting financially distressed homeowners. These advertisements contain potentially deceptive claims, touting guaranteed results, success rates of over 90 percent, and claiming affiliation with homeowners' lenders, with the HOPE NOW Alliance, or with federal government programs.

FTC & HUD Consumer Outreach Efforts. The FTC & HUD recently announced a new education initiative to reach borrowers directly with the help of a broad array of government, non-profit organizations, and mortgage industry members. Through this initiative, borrowers will receive materials about how to spot and avoid mortgage rescue scams at housing counseling outreach centers, directly from their mortgage companies, and online. Joining the FTC and HUD the effort are the HOPE NOW Alliance, the Homeowners

Preservation Foundation, and NeighborWorks America, all of which are non-profit organizations working to help distressed homeowners get free assistance and counseling through HUD-certified housing counselors or by directly working with borrowers to help consumers stay in their homes.

Several national mortgage companies, including Chase Home Lending, Suntrust Mortgage, and GMAC Mortgage, will be voluntarily sending consumer education information directly to consumers through a variety of methods, including during loan counseling sessions, in monthly statements, in correspondence to delinquent borrowers, and on their websites. Freddie Mac also is distributing consumer education materials to its servicing partners.

The United States Department of Housing & Urban Development. HUD has created a new website www.preventloanscams.org with the Loan Modification Scam Prevention Network (including NCRC) to protect consumers. Members of the network include federal, state and local law enforcement, as well as national, state and local housing, legal aid, consumer protection and civil rights non-profit organizations.

State Action

To find more information about state action under "Operation Stolen Hope," go to the FTC's website. http://www.ftc.gov/os/2009/11/091124stolenhopecase.pdf

California

- In Los Angeles, five people who conned homeowners facing foreclosure out of millions of dollars have been sentenced to prison in Los Angeles. Victims lost the titles to their homes and were cheated out of more than $12 million in equity. [5]

[5] http://www.mercurynews.com/breaking-news/ci_14424039

- A Downey, California woman who orchestrated a real estate fraud scheme that caused nearly $13 million in losses after falsely promising to help homeowners in default on their mortgages has been sentenced to 10 years in federal prison.[6]

Idaho

- Idaho foreclosures soared 89 percent from 2008 to 2009, and as a result, Idaho consumers filed 353 complaints related to mortgage modification businesses. The state has entered into settlement agreements with three mortgage modification and foreclosure rescue consultants, and recovered $60,935 in restitution for consumers related to mortgage modification and foreclosure rescue and other housing complaints.[7]

Illinois

- In 2009, the AG has filed 31 lawsuits targeting mortgage rescue scams.[8]

Florida

- Within the last year, the state Attorney General's Office has filed 20 lawsuits and is actively investigating nearly 90 companies for potential violations of Florida Statute 501.1377.[9]

Kansas

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[6] http://nationalmortgageprofessional.com/news15996/califonrnians-sentenced-role-foreclosure-rescue-scam

[7] http://www.dsnews.com/articles/idaho-and-illinois-attorney-generals-plagued-with-mortgage-complaints-2010-03-01

[8] http://www.dsnews.com/articles/idaho-and-illinois-attorney-generals-plagued-with-mortgage-complaints-2010-03-01

[9] http://www.myfloridalegal.com/newsrel.nsf/newsreleases/FFBBA28CF1480B42852576E000648BC4

- Kansas Attorney General reports a jump in complaint about foreclosure scams from 71 complaints in 2007-2008 to 171 last year.[10]

Missouri

- Missouri Attorney General reports a jump in complaint about foreclosure scams from 25 complaints in 2007-2008 to 256 last year.[11]

Nevada

- Jeffery Brown of DB Financial was indicted on four counts of theft and one felony count of forgery in a mortgage fraud case.

Pennsylvania

- Shirley Matthews, 54, of Willingboro, N.J., was ordered to serve six months to two years in prison on the theft by deception conviction for bilking a Tunkhannock man out of $8,000. Ms. Matthews will serve that sentence after she finishes a 2- to 5-year prison term on similar charges from Monroe County. In all of the cases, Ms. Matthews was accused of taking payments from homeowners in exchange for helping solve mortgage foreclosure problems, then failing to follow through.[12]

Research

The Financial Crimes Enforcement Network (FinCEN), an overseer of financial activities for the US Treasury, created a study[13] of scammers and reports the following:

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[10] http://www.kctv5.com/news/22780304/detail.html
[11] http://www.kctv5.com/news/22780304/detail.html
[12] http://thetimes-tribune.com/news/n-j-woman-gets-2-to-5-years-in-prison-for-taking-from-people-facing-foreclosure-1.673506
[13] http://www.fincen.gov/news_room/nr/pdf/20100218.pdf

- In the third quarter of 2009, depository institution filers submitted 15,697 mortgage loan fraud Suspicious Activity Reports, a 7.5% increase over the same period in 2008;
- The two most common forms of borrower scams involve conning homeowners into signing quit-claim deeds to their properties. Scammers would then sell homes from under the former owners to straw borrowers and the homeowners subsequently received eviction notices. In other instances, scammers falsely claim affiliations with lenders to convince distressed home-owners to pay large advance fees for modification services, but then do nothing to keep the borrowers in their homes; and
- California and Florida originated the most overall mortgage loan SARs, at 6,444 and 5,077 respectively. New York is a distant third at 1,614;[14]

[14] http://www.housingwire.com/2010/02/18/fincen-sees-spike-in-possible-foreclosure-scams/

State Laws Regarding Foreclosure Rescue & Loan Modification

A number of states have special laws aimed specifically at foreclosure rescue scams. They include:

California: Cal. Civ. Code §§ 1695.1 to 1695.17, 2945.1 to 2945.11;

Colorado: Colo. Rev. Stat. §§ 6-1-1101 to 6-1-1120;

Connecticut: Public Act 9-208 §§ 23 to 33; (Passed by the legislature but not yet signed by the Governor, as of July 7, 2009.)

District of Columbia: D.C. Code §§ 42-2431 to 42-2435;

Georgia: Ga. Code Ann. § 10-2-393(b)(20);

Hawaii: Haw. Rev. Stat. §§ 480E-1 to 480E-5;

Idaho: Idaho Code §§ 45-1505, 45-1602;

Iowa: Iowa Code §§ 714E.1 to 714E.4, 714F.1 to 714F.9;

Illinois: 765 Ill. Comp. Stat. §§ 940/1 to 940/65;

Indiana: Ind. Stat. 24-5.5-1-1 to 24-5.5-6-6;

Maryland: Md. Real Prop. Code Ann. §§ 7-105(A-1), 7-301 to 7-321;

Minnesota: Minn. Stat. Ann. §§ 325N.01 to 325N.18;

Missouri: Mo. Stat. Ann. §§ 407.935 to 407.943;

Nebraska: Neb. Rev. Stat. §§ 76-2701 to 76-2728;

Nevada: Nev. Rev. Stat. §§ 645F.300 to 645F.450;

New Hampshire: N.H. Rev. Stat. §§ 479-B:1 to 479–B:11;

New York: New York Real Prop. Law § 265-a;

North Carolina: N.C. Gen. Stat. § 14-423 (adding foreclosure assistance to activities covered by state debt adjustment law);

Oregon: 2008 Oregon Laws 1st Sp. Sess. Ch. 19 (H.B. 3630);

Rhode Island: R.I. Gen. Laws §§ 5-78-1 to 5-79-9;

Tennessee: Tenn. Code Ann. §§ 47-18-5401 to 47-19-5402;

Virginia: Va. Code § 59.1-200.1;

Washington: Wash. Rev. Code §§ 61.34.010 to 61.34.900;

Wisconsin: Wis Stat. §§ 846.40 to 846.45.

In addition, the Massachusetts Attorney General has issued a regulation under the state's UDAP authority targeting the scams: 940 Code Mass. Reg. § 25.00. Michigan has a credit repair statute that is broad enough to encompass foreclosure rescue scams: Mich. Comp. Laws §§ 445.1822 to 445.1825. Florida has a statute that regulates only those who offer to purchase the surplus at a foreclosure sale: Fla. Stat. §§ 45.031 to 45.035.

Proposed Legislation

Maryland State Law - H.B. 392[15] aims to prohibit a person from offering, providing, or attempting to provide debt services in the State except as allowed under the Act. It would prohibit a debt settlement services provider from receiving payments, except for specified fees for specified services, until a debt settlement services agreement is executed and the debt settlement services are completed.

California recently passed a law prohibiting debt settlement service providers from charging up-front fees.[16]

A New Jersey measure (A-359), entitled the "Foreclosure Rescue Fraud Prevention Act," would establish specific practices that foreclosure consultants and other purchasers of distressed property would have to adhere to when contracting with New Jersey homeowners on the brink of foreclosure.[17]

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[15] http://mlis.state.md.us/2010rs/billfile/hb0392.htm
[16] http://www.nbcactionnews.com/content/cfa/story/Foreclosure-Scams-Changing/UWCKH3H6iEe-9Z5in043Zg.cspx
[17] http://www.politickernj.com/jsverapa/37444/foreclosure-rescue-fraud-prevention-act-released-assembly-committee.

Where to Find Legitimate Help

If you're having trouble paying your mortgage or you have gotten a foreclosure notice, contact your lender immediately. You may be able to negotiate a new repayment schedule. Remember that lenders generally don't want to foreclose; it costs them money.

Other foreclosure prevention options, including a reinstatement and forbearance, are explained in *Mortgage Payments Sending You Reeling? Here's What to Do*, a publication from the FTC. Find it at www.ftc.gov.

A coalition of federal agencies, national nonprofits, servicers and GSEs, recently announced the Loan Modification Scam Network. The Network's objective is to prevent loan modification fraud through a coordinated national outreach and enforcement campaign led by Fannie Mae, Freddie Mac, NeighborWorks® America and the Lawyers' Committee for Civil Rights Under Law. The National Community Reinvestment Coalition is a participant in this initiative. More information can be found at www.preventloanscams.org.

The NCRC Housing Counseling Network has also launched, with support from the United States Department of Housing & Urban Development, a nationwide training program for HUD Counselors to equip with them with the knowledge and tools to identify mortgage fraud, scams and fair lending issues. More information can be found at www.NCRC.org.

You also may contact a HUD Certified Housing Counseling Agency (see www.HUD.gov) , a private not for profit fair housing agency, the Homeownership Preservation Foundation (HPF), a nonprofit organization that operates the national 24/7 toll-free hotline (1.888.995.HOPE) with free, bilingual, personalized assistance to help at-risk homeowners avoid foreclosure. HPF is a member of the HOPE NOW Alliance of mortgage servicers, mortgage market participants and counselors. More information about HOPE NOW is at www.hopenow.com.

National Resources for Reporting Mortgage Fraud and Scams

The Federal Trade Commission (FTC)
600 Pennsylvania Avenue, NW
Washington, D.C. 20580

Identity Theft Clearinghouse: (877)-438-4338.
Consumer Response Center: (877)382-4357
http://www.ftc.gov/ and FTC Identity Theft site

Filing a Complaint with the FTC
While the FTC does not actually resolve an individual consumer's problem, it does investigate mortgage fraud with the aim of leading to law enforcement action. The FTC is especially active regarding homeowner and mortgage 'identity theft'.

Federal Bureau of Investigation (FBI)
935 Pennsylvania Avenue, NW
Washington, D.C. 20535
Phone: 202-324-3000
http://www.fbi.gov/whitecollarcrime.htm

In conjunction with the 'White Collar Crime' department, the FBI investigates mortgage fraud, which often involves many professionals working in collusion: bank loan officers, real estate agents, appraisers, accountants, and mortgage brokers.

Frequently Asked Questions

Q: Are frauds like these new?

A: No, many of these methods have been around for decades.

Q: Why are we just hearing about them now?

A: A few reasons are often cited: the falling economy strips away the financial cover some of these perpetrators may have had, leaving more people with mounting losses; companies are reporting fraud more frequently; and state and federal agencies are stepping up enforcement.

Q: Are the victims always innocent?

A: No, sometimes -- but not always or often -- victims can be partial participants. They get a cash payment and do not ask questions or agree to falsify information. The key, however, is that the licensed professional who ought to know better is helping them along.

Q: Does a prosecution prevent a company from doing business?

A: Not necessarily. Unless there is an injunction, the companies might be able to solicit customers and operate websites until proven guilty or until their licenses are stripped away.

Q: What is being done?

A: A half-dozen federal agencies are investigating these frauds -- including the FBI, the Secret Service, the Department of Housing and Urban Development and the IRS. So are states'

attorneys general. The number of FBI special agents assigned to mortgage fraud has increased between 2007 and 2010.

Q: Why aren't banks doing more?

A: Some say the banks do not want to investigate their own loans for fear it will taint them or open them up to lawsuits because their loans have been packaged into mortgage-backed securities made with certain promises against fraud.

Q: Why aren't more of these cases being prosecuted?

A: Criminals can be difficult to pin down, since many businesses have gone bankrupt or perpetrators have skipped the state.

If you're having trouble paying your mortgage or you have gotten a foreclosure notice, contact your lender or a not for profit HUD Certified Housing Counseling Agency immediately.

Mortgage Bankers National Delinquency Survey- All Loans

	Outstanding Loans	Total Past Due	30-Day	60-Day	90+-Day	In Foreclosure Rate
				Rates		
2009 Q4	44,426,246	10.4%	3.6%	1.7%	5.1%	4.6%
2009 Q3	44,645,717	9.9%	3.8%	1.8%	4.4%	4.5%
2009 Q2	44,721,256	8.86%	3.57%	1.62%	3.67%	4.30%
2009 Q1	44,979,733	8.22%	3.27%	1.56%	3.39%	3.85%
2008 Q4	45,396,181	8.63%	3.85%	1.78%	3.00%	3.30%
2008 Q3	45,474,524	7.29%	3.61%	1.49%	2.20%	2.97%
2008 Q2	45,422,515	6.22%	3.23%	1.24%	1.75%	2.75%
				Unadjusted Loan Counts		
2009 Q4	44,426,246	4,638,100	1,612,673	768,574	2,261,296	2,034,722
2009 Q3	44,645,717	4,437,784	1,692,073	790,229	1,955,482	1,995,664
2009 Q2	44,721,256	3,962,303	1,596,549	724,484	1,641,270	1,923,014
2009 Q1	44,979,733	3,697,334	1,470,837	701,684	1,524,813	1,731,720
2008 Q4	45,396,181	3,917,690	1,747,753	808,052	1,361,885	1,498,074
2008 Q3	45,474,524	3,315,093	1,641,630	677,570	1,000,440	1,350,593
2008 Q2	45,422,515	2,825,280	1,467,147	563,239	794,894	1,249,119
				Adjusted Loan Counts[a]		
2009 Q4	55,532,808	5,797,625	2,015,841	960,718	2,826,620	2,543,403
2009 Q3	55,807,146	5,547,230	2,115,091	987,786	2,444,353	2,494,579
2009 Q2	55,901,570	4,952,879	1,995,686	905,605	2,051,588	2,403,768
2009 Q1	56,224,666	4,621,668	1,838,547	877,105	1,906,016	2,164,650
2008 Q4	56,745,226	4,897,113	2,184,691	1,010,065	1,702,357	1,872,592
2008 Q3	56,843,155	4,143,866	2,052,038	846,963	1,250,549	1,688,242
2008 Q2	56,778,144	3,531,601	1,833,934	704,049	993,618	1,561,399

[a]The MBA National Delinquency Survey is based off of a sample of loans. Their coverage is about 80 percent of t
higher for FHA loans.

Source: Mortgage Bankers Association; Adjusted Loan Counts, HUD/FHA

Foreclosures Started	Seriously Delinquent (90 + Foreclosure inventory)
1.2%	9.7%
1.4%	8.9%
1.36%	7.97%
1.37%	7.24%
1.08%	6.30%
1.07%	5.17%
1.08%	4.50%
533,115	4,296,018
633,969	3,951,146
608,209	3,564,284
616,222	3,256,533
490,279	2,859,959
486,577	2,351,033
490,563	2,044,013
666,394	5,370,022
792,461	4,938,932
760,261	4,455,355
770,278	4,070,666
612,848	3,574,949
608,222	2,938,791
613,204	2,555,016

he entire mortgage market but

Making Home Affordable Program

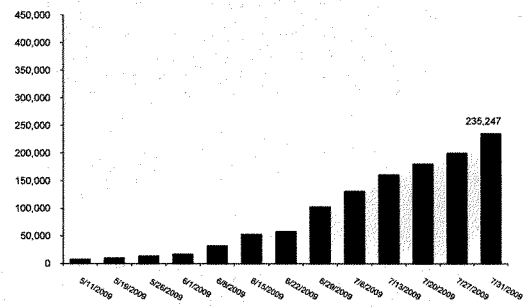
Servicer Performance Report through July 2009

Home Affordable Modification Program (HAMP) Snapshot through July 2009[1]

Number of Trial Modifications Started[2] (Cumulative)	235,247
Number of Trial Period Plan Offers Extended to Borrowers (Cumulative)	406,542
Number of Requests for Financial Information Sent to Borrowers (Cumulative)	1,387,218

[1]Source: Survey data provided by servicers.
[2] Trial modifications start when the first trial payment is received.

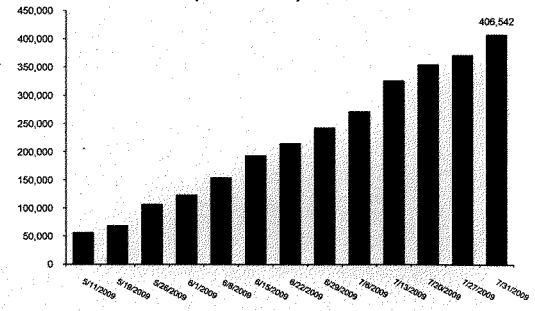
HAMP Trial Modifications Started (Cumulative)



HAMP Participating Servicers

- Approximately 85% of mortgages are covered by HAMP participating servicers.
- 38 servicers have signed servicer participation agreements to modify loans under HAMP. These participants service loans owned or guaranteed by Fannie Mae or Freddie Mac, loans held in portfolio, or loans serviced on behalf of other investors.
- Approximately 2,300 participants service loans owned or guaranteed by Fannie Mae or Freddie Mac. These servicers automatically participate in HAMP.

HAMP Trial Plans Extended to Borrowers (Cumulative)



MAKING HOME AFFORDABLE

Additional information on HAMP can be found on MakingHomeAffordable.gov or call the Homeowner's HOPE Hotline at 1-888-995-HOPE (4673).

Making Home Affordable Program

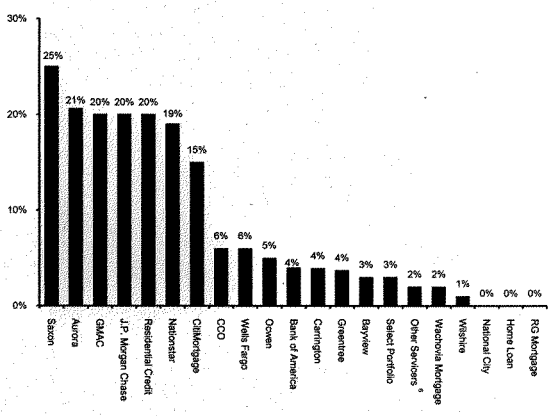
Servicer Performance Report through July 2009

HAMP Modification Activity by Servicer

Servicer	Participation Date	Estimated Eligible 60+ Day Delinquency[1]	Trial Plan Offers Extended	Trial Plan Offers as Share of Estimated Eligible 60+ Day Delinquencies	Trial Modifications Started	Trial Modifications as Share of Estimated Eligible 60+ Day Delinquencies
American Home Mortgage Servicing Inc.[5]	7/22/2009	153,097	NA	NA	NA	NA
Aurora Loan Services, LLC	5/4/2009	72,638	25,965	36%	15,320	21%
Bank of America, NA[2]	4/17/2009	796,467	99,649	13%	27,986	4%
Bayview Loan Servicing, LLC	7/1/2009	4,425	225	5%	148	3%
Carrington Mortgage Services, LLC	4/27/2009	14,128	988	7%	597	4%
CCO Mortgage	6/17/2009	3,818	402	11%	237	6%
J.P. Morgan Chase Bank, NA[3]	4/13/2009	394,075	117,259	30%	79,304	20%
CitiMortgage, Inc.	4/13/2009	185,418	38,673	21%	27,571	15%
Citizens First Wholesale Mortgage Company	6/26/2009	26	8	31%	7	27%
Farmers State Bank	7/17/2009	8	NA	NA	NA	NA
First Bank[5]	7/29/2009	848	NA	NA	NA	NA
First Federal Savings and Loan	6/18/2009	18	1	6%	1	6%
GMAC Mortgage, Inc.	4/13/2009	61,328	20,924	34%	12,546	20%
Green Tree Servicing LLC	4/24/2009	5,228	461	9%	209	4%
Home Loan Services, Inc.	4/20/2009	53,193	0	0%	0	0%
IBM Southeast Employees' Federal Credit Union	7/10/2009	72	4	6%	4	6%
Lake National Bank	7/10/2009	1	0	0%	1	100%
Mission Federal Credit Union	7/22/2009	34	NA	NA	NA	NA
MortgageIT, Inc.	7/17/2009	2,198	NA	NA	NA	NA
Mortgage Center, LLC	7/22/2009	233	NA	NA	NA	NA
National City Bank	6/26/2009	37,126	92	0%	4	0%
Nationstar Mortgage LLC	5/28/2009	25,690	11,443	45%	4,854	19%
Ocwen Financial Corporation, Inc.	4/16/2009	55,516	6,502	12%	2,517	5%
PNC Bank, National Association	7/17/2009	724	NA	NA	NA	NA
Purdue Employees Federal Credit Union[5]	7/29/2009	11	NA	NA	NA	NA
Residential Credit Solutions	6/12/2009	1,304	301	23%	268	20%
RG Mortgage Corporation	6/17/2009	3,309	72	2%	0	0%
Saxon Mortgage Services, Inc.	4/13/2009	84,130	30,817	37%	21,156	25%
Select Portfolio Servicing	4/13/2009	57,450	11,499	20%	1,849	3%
Shore Bank[5]	7/11/2009	223	NA	NA	NA	NA
Technology Credit Union	6/26/2009	10	0	0%	0	0%
Wachovia Mortgage, FSB	7/1/2009	62,852	2,023	3%	1,356	2%
Wachovia Bank, NA	7/29/2009	2,993	NA	NA	NA	NA
Wells Fargo Bank, NA	4/13/2009	328,065	38,673	12%	20,219	6%
Wescom Central Credit Union	6/19/2009	136	40	29%	38	28%
Wilshire Credit Corporation	4/20/2009	3,411	621	18%	38	1%
Other GSE Servicers[6]		314,283			19,071	6%
Total		2,705,302	406,542	15%	235,247	9%

Note: NA denotes a newly signed servicer that has not yet started reporting.

Trial Modification Tracker: Trial Modification Starts as a Share of Estimated Eligible 60 Plus Day Delinquencies



[1] Estimated eligible sixty plus day delinquent loans include loans:

- in foreclosure and bankruptcy.
- with a current unpaid principal balance less than $729,750 on a one unit property, $934,200 on a two unit property, $1,129,250 on a three unit property and $1,403,400 on a four unit property.
- on a property owner-occupied at origination.
- originated prior to January 1, 2009.

Estimated eligible sixty plus day delinquent loans excludes:

- FHA and VA loans.
- loans that are current or less than 60 days delinquent, which may be eligible for HAMP if a borrower is in imminent default.

[2] Bank of America, NA includes Countrywide Home Loans Servicing LP.
[3] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[4] Includes approximately 2,300 participants that service loans owned or guaranteed by Fannie Mae and Freddie Mac.
[5] Estimated Eligible 60+ Day delinquencies based on the servicer registration form.
[6] Other Servicers include entities with less than 1,000 Estimated Eligible 60+ Day Delinquencies.

MAKING HOME AFFORDABLE

Making Home Affordable Program

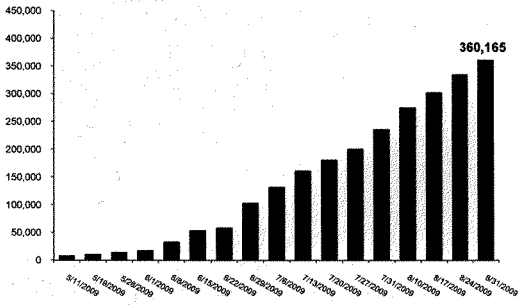
Servicer Performance Report through August 2009

Home Affordable Modification Program (HAMP) Snapshot through August 2009[1]

Number of Trial Modifications Started[2] (Cumulative)	360,165
Number of Trial Period Plan Offers Extended to Borrowers (Cumulative)	571,354
Number of Requests for Financial Information Sent to Borrowers (Cumulative)	1,883,108

[1]Source: Survey data provided by servicers.
[2] Trial modifications start when the first trial payment is received.

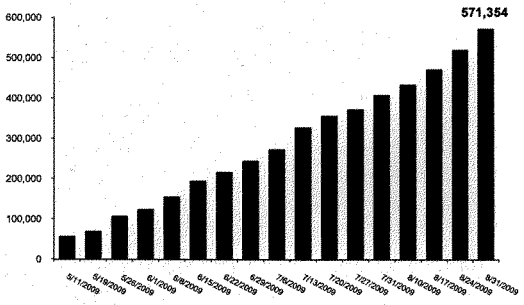
HAMP Trial Modifications Started (Cumulative)



HAMP Participating Servicers

- Approximately 85% of eligible mortgages are covered by HAMP participating servicers.
- 47 servicers have signed servicer participation agreements to modify loans under HAMP. These participants service loans owned or guaranteed by Fannie Mae or Freddie Mac, loans held in portfolio, or loans serviced on behalf of other investors.
- Approximately 2,300 participants service loans owned or guaranteed by Fannie Mae or Freddie Mac. These servicers automatically participate in HAMP.

HAMP Trial Plans Extended to Borrowers (Cumulative)



Additional information on HAMP can be found on MakingHomeAffordable.gov or by calling the Homeowner's HOPE Hotline at 1-888-995-HOPE (4673).

MAKING HOME AFFORDABLE

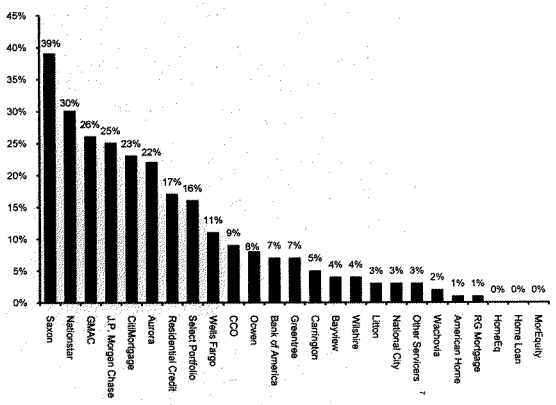
Making Home Affordable Program

Servicer Performance Report through August 2009

HAMP Modification Activity by Servicer

Servicer	Participation Date	Estimated Eligible 60+ Day Delinquency[1]	Trial Plan Offers Extended	Trial Plan Offers as Share of Estimated Eligible 60+ Day Delinquencies	Trial Modifications Started	Trial Modifications as Share of Estimated Eligible 60+ Day Delinquencies
American Home Mortgage Servicing Inc	7/22/2009	98,754	900	1%	497	1%
Aurora Loan Services, LLC	5/1/2009	71,680	42,480	59%	16,044	22%
Bank of America, NA[2]	4/17/2009	835,680	125,339	15%	59,891	7%
Bayview Loan Servicing, LLC	7/1/2009	5,987	718	12%	218	4%
Carrington Mortgage Services , LLC	4/27/2009	15,975	1,308	8%	876	5%
CCO Mortgage	6/17/2009	4,401	634	14%	376	9%
CitiMortgage, Inc.	4/13/2009	191,125	59,916	31%	44,750	23%
Citizens First Wholesale Mortgage Company	6/26/2009	23	9	39%	8	35%
Farmers State Bank	7/17/2009	7	0	0%	0	0%
First Bank	7/29/2009	547	0	0%	0	0%
First Federal Savings and Loan	6/19/2009	20	3	15%	3	15%
GMAC Mortgage, Inc.	4/13/2009	67,561	26,210	39%	17,347	26%
Green Tree Servicing LLC	4/24/2009	5,343	618	11%	369	7%
HomeEq Servicing	8/5/2009	30,521	3	0%	0	0%
Home Loan Services, Inc.	4/20/2009	38,530	0	0%	0	0%
IBM Southeast Employees' Federal Credit Union	7/10/2009	69	4	6%	1	1%
J.P. Morgan Chase Bank, NA[3]	4/13/2009	417,341	139,450	33%	108,268	25%
Lake City Bank	6/5/2009	40	18	45%	2	5%
Lake National Bank	7/10/2009	1	0	0%	1	100%
Union Loan Servicing LP	8/12/2009	103,871	6,960	7%	2,803	3%
Mission Federal Credit Union	7/22/2009	20	1	5%	0	0%
MorEquity, Inc.	7/17/2009	2,223	0	0%	0	0%
Mortgage Center, LLC	7/22/2009	251	2	1%	1	0%
National City Bank	6/26/2009	37,936	5,381	14%	1,115	3%
Nationstar Mortgage LLC	5/26/2009	27,798	13,404	48%	8,219	30%
Oakland Municipal Credit Union	8/5/2009	14	0	0%	1	7%
Ocwen Financial Corporation, Inc.	4/16/2009	57,203	9,092	16%	4,785	8%
OneWest Bank[4]	8/26/2009	129,934	NA	NA	NA	NA
Pennymac Loan Services, Inc.	8/12/2009	903	0	0%	0	0%
PNC Bank, National Association	7/17/2009	756	6	1%	3	0%
Purdue Employees Federal Credit Union	7/29/2009	11	0	0%	0	0%
Residential Credit Solutions	6/12/2009	1,585	320	20%	274	17%
RG Mortgage Corporation	6/17/2009	3,378	149	4%	36	1%
Roundpoint Mortgage Servicing Corporation[5]	8/28/2009	67	NA	NA	NA	NA
Saxon Mortgage Services, Inc.	4/13/2009	75,694	35,622	48%	29,011	38%
Select Portfolio Servicing	4/13/2009	59,184	25,115	42%	9,600	16%
Servis One, Inc.	8/12/2009	258	3	1%	7	3%
Shore Bank	7/17/2009	247	0	0%	24	10%
Stanford Federal Credit Union[6]	8/28/2009	15	NA	NA	NA	NA
Technology Credit Union	8/26/2009	1	0	0%	0	0%
Wachovia Mortgage, FSB[4]	7/1/2009	74,231	2,470	3%	1,812	2%
Wells Fargo Bank, NA	4/13/2009	292,513	71,718	25%	33,172	11%
Wescom Central Credit Union	6/15/2009	163	65	40%	46	28%
Wilshire Credit Corporation	4/20/2009	19,280	3,428	18%	749	4%
Other GSE Servicers[5]		299,833	NA	NA	22,147	7%
Total		2,965,900	571,354	19%	360,165	12%

Trial Modification Tracker: Trial Modification Starts as a Share of Estimated Eligible 60+ Day Delinquencies



Note: NA denotes a newly signed servicer that has not yet started reporting

[1] Estimated eligible 60+ day delinquent mortgages as of July 31, 2009 include loans:

- in foreclosure and bankruptcy.
- with a current unpaid principal balance less than $729,750 on a one unit property, $934,200 on a two unit property, $1,129,250 on a three unit property and $1,403,400 on a four unit property.
- on a property owner-occupied at origination.
- originated prior to January 1, 2009.

Estimated eligible 60+ day delinquent loans excludes:

- FHA and VA loans.
- loans that are current or less than 60 days delinquent, which may be eligible for HAMP if a borrower is in imminent default.

[2] Bank of America, NA includes Countrywide Home Loans Servicing LP.
[3] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[4] Wachovia Mortgage FSB includes Wachovia Bank NA.
[5] Includes approximately 2,300 participants that service loans owned or guaranteed by Fannie Mae and Freddie Mac.
[6] Estimated Eligible 60+ Day delinquencies based on the servicer registration form.
[7] Other Servicers include entities with less than 1,000 Estimated Eligible 60+ Day Delinquencies.

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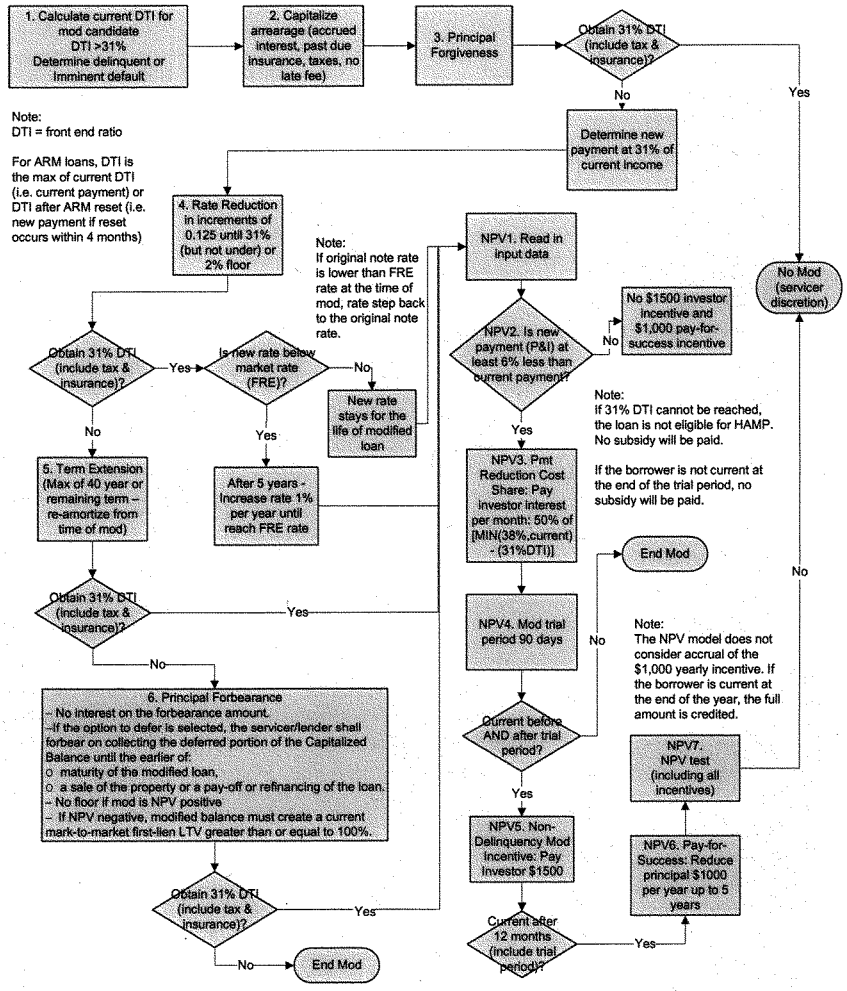
Figure 2

HAMP Logic Flow



Making Home Affordable Program

Servicer Performance Report Through September 2009

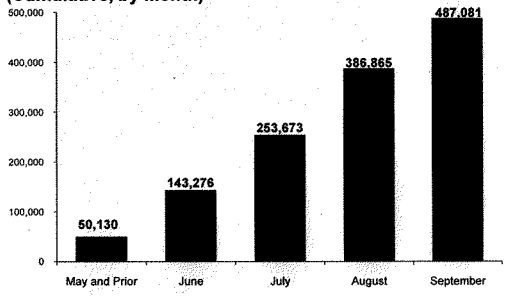
Home Affordable Modification Program (HAMP) Snapshot through September 2009

Number of Trial Modifications[1]	487,081
Number of Trial Period Plan Offers Extended to Borrowers (Cumulative)[2]	757,955
Number of Requests for Financial Information Sent to Borrowers (Cumulative)[2]	2,484,783

[1] Trial and permanent modifications as of September 30; based on numbers reported by servicers to the HAMP system of record.

[2] Source: Survey data provided by servicers, through October 1.

HAMP Trial Modifications (Cumulative, by Month)

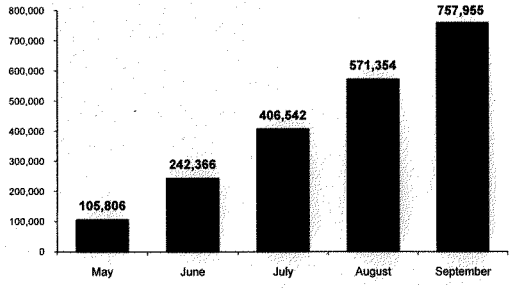


Source: Trial and permanent modifications as of September 30; based on numbers reported by servicers to the HAMP system of record.

HAMP Participating Servicers

- Approximately 85% of eligible 60-plus day delinquent mortgage debt outstanding is covered by HAMP participating servicers.
- 63 servicers have signed servicer participation agreements to modify loans under HAMP. These participants service loans owned or guaranteed by Fannie Mae or Freddie Mac, loans held in portfolio, or loans serviced on behalf of other investors.
- Approximately 2,300 participants service loans owned or guaranteed by Fannie Mae or Freddie Mac. These servicers automatically participate in HAMP.

HAMP Trial Plans Extended to Borrowers (Cumulative, by Month)



Source: Survey data provided by servicers. September data includes October 1.

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MAKING HOME AFFORDABLE

Making Home Affordable Program

Servicer Performance Report Through September 2009

HAMP Modification Activity by Servicer

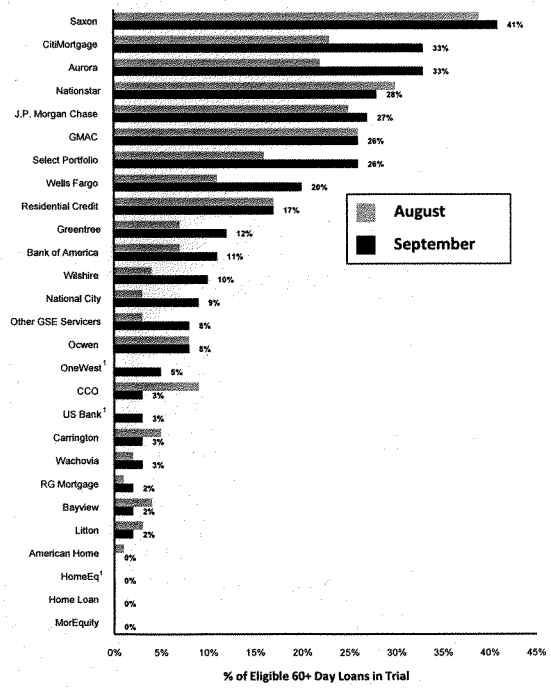
Servicer	Participation Date	Estimated Eligible 60+ Day Delinquency[1]	Trial Plan Offers Extended	Trial Plan Offers as Share of Estimated Eligible 60+ Day Delinquencies	Trial Modifications Started[2]	Trial Modifications as Share of Estimated Eligible 60+ Day Delinquencies
American Home Mortgage Servicing Inc	7/22/09	114,272	6,817	6%	440	0%
Aurora Loan Services, LLC	5/1/29	72,912	37,831	52%	23,889	33%
Bank of America, NA[3]	4/17/29	875,917	156,120	18%	94,916	11%
Bayview Loan Servicing, LLC	7/1/09	8,987	2,158	24%	196	2%
Carrington Mortgage Services LLC	4/27/09	17,149	1,584	9%	584	3%
CCO Mortgage	6/17/09	4,648	879	19%	158	3%
CitiMortgage, Inc.	4/13/09	208,427	88,472	42%	68,248	33%
Franklin Credit Management Corporation	8/11/09	2,635	0	0%	NA[8]	NA
GMAC Mortgage, Inc.	4/13/09	73,498	31,720	43%	19,331	26%
Green Tree Servicing LLC	4/24/09	4,114	810	20%	474	12%
HomeEq Servicing	8/5/09	39,934	444	1%	0	0%
Home Loan Services, Inc.	4/20/09	45,822	276	1%	26	0%
J.P. Morgan Chase Bank, NA[4]	4/13/09	437,652	163,617	37%	117,196	27%
Litton Loan Servicing LP	8/12/09	107,341	13,567	13%	2,229	2%
MorEquity, Inc.	7/17/09	2,244	11	0%	0	0%
National City Bank	6/26/09	40,582	9,267	23%	3,845	9%
Nationstar Mortgage LLC	5/28/09	29,846	16,974	57%	8,413	28%
Ocwen Financial Corporation, Inc.	4/16/09	68,088	10,650	16%	5,193	8%
OneWest Bank	8/28/09	109,222	23,017	21%	5,217	5%
Residential Credit Solutions	8/12/09	1,831	364	20%	313	17%
RG Mortgage Corporation	6/17/09	3,473	173	5%	64	2%
Saxon Mortgage Services, Inc.	4/13/09	79,921	38,332	48%	32,931	41%
Select Portfolio Servicing	4/13/09	60,848	32,024	53%	15,706	26%
US Bank NA	9/9/09	28,356	6,925	24%	863	3%
Wachovia Mortgage, FSB[5]	7/1/09	75,074	2,896	4%	2,019	3%
Wells Fargo Bank, NA	4/13/09	310,716	106,427	34%	62,989	20%
Wilshire Credit Corporation	4/20/09	29,153	6,412	22%	2,929	10%
Other SPA servicers[6]	–	4,684	185	4%	102	2%
Other GSE Servicers[7]	–	242,959	NA	NA	18,808	8%
Total		**3,100,305**	**757,955**	**24%**	**487,081**	**16%**

[1] Estimated eligible 60+ day delinquent mortgages as of August 31, 2009 include loans:
- in foreclosure and bankruptcy,
- with a current unpaid principal balance less than $729,750 on a one-unit property, $934,200 on a two-unit property, $1,129,250 on a three-unit property and $1,403,400 on a four-unit property,
- on a property that was owner-occupied at origination,
- originated prior to January 1, 2009.

Estimated eligible 60+ day delinquent loans excludes:
- FHA and VA loans,
- loans that are current or less than 60 days delinquent, which may be eligible for HAMP if a borrower is in imminent default.

[2] Trial and permanent modifications as reported into the HAMP system of record.
[3] Bank of America, NA includes Countrywide Home Loans Servicing LP.
[4] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[5] Wachovia Mortgage FSB includes Wachovia Bank NA.
[6] Other SPA servicers are entities with less than 1,000 estimated eligible 60+ day delinquencies that have signed participation agreements with Treasury and Fannie Mae. Those servicers are: Allstate Mortgage Loans and Investments; AMS Servicing, LLC; Bay Federal Credit Union; Central Florida Educators Federal Credit Union; Central Jersey Federal Credit Union; Citizens First Wholesale Mortgage Company; CUC Mortgage Corp.; Farmers State bank; First Bank; First Federal Savings and Loan; Glass City Federal Credit Union; Horizon Bank; IBM Southeast Employees' Federal Credit Union; Lake City Bank; Lake National Bank; Metropolitan National Bank; Mission Federal Credit Union; Mortgage Center LLC; Oakland Municipal Credit Union; ORNL Federal Credit Union; PennyMac Loan Services LLC; PNC Bank, NA; Purdue Employees Federal Credit Union; Roundpoint Mortgage Servicing Corp.; Schools Financial Credit Union; SEFCU; Servis One, Inc.; Shore Bank; Stanford Federal Credit Union; Technology Credit Union; Vantium Capital, Inc.; Wescom Central Credit Union; and Yadkin Valley Bank.
[7] Includes approximately 2,300 participants that service loans owned or guaranteed by Fannie Mae and Freddie Mac.
[8] NA denotes a newly signed servicer not yet fully reporting into the program.

Trial Modification Tracker: Trial Modifications as a Share of Estimated Eligible 60+ Day Delinquencies



[1] HomeEq, OneWest and USBank began participation after July 31, 2009.
Note: August trials as a share of 60+ day delinquencies on July 31, 2009.
September trials as a share of 60+ day delinquencies on August 31, 2009.

MAKING HOME AFFORDABLE

Making Home Affordable Program

Servicer Performance Report Through October 2009

Overview of Administration Housing Stability Initiatives

Initiatives to Support Access to Affordable Mortgage Credit and Housing

Lower Mortgage Rates and Access to Credit:

- Continued financial support to maintain affordable mortgage rates through the Government Sponsored Enterprises (GSEs)
- Access to sustainable mortgages through the Federal Housing Administration (FHA)
- Support for mortgage funding through Treasury's Mortgage-Backed Security (MBS) purchase program as well as purchases by the Federal Reserve

State and Local Housing Initiatives:

- Access for Housing Finance Agencies (HFAs) to provide mortgages to first-time homebuyers, refinancing opportunities to at-risk borrowers, and help in developing affordable rental housing

Tax Credits for Housing:

- First-time homebuyer credit to help more homebuyers buy a new home
- Low-Income Housing Tax Credit (LIHTC) programs to support affordable rental housing

Initiatives to Prevent Avoidable Foreclosures and Stabilize Neighborhoods

Making Home Affordable – Modifications:

- Goal of offering 3-4 million homeowners lower mortgage payments through a modification over three years

Making Home Affordable – Refinancing:

- Refinancing flexibility and low mortgage rates, which have allowed over 3 million borrowers to refinance, saving an estimated $150 per month on average and more than $6 billion dollars in total over the first year

Hope for Homeowners:

- Sustainable refinancing opportunity for some homeowners to restore equity as integrated component of MHA

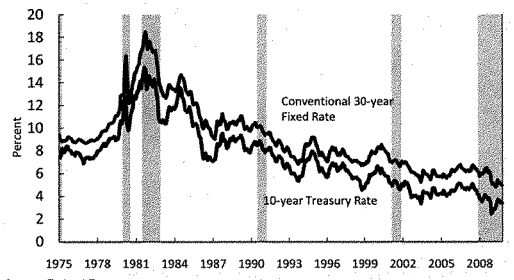
Neighborhood Stabilization and Community Development Programs:

- Support for the hardest hit communities to help stabilize neighborhoods

Making Home Affordable Program

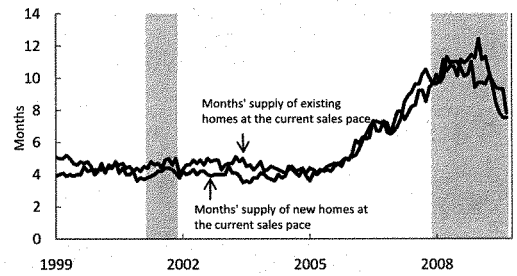
Servicer Performance Report Through October 2009

Mortgage Rates



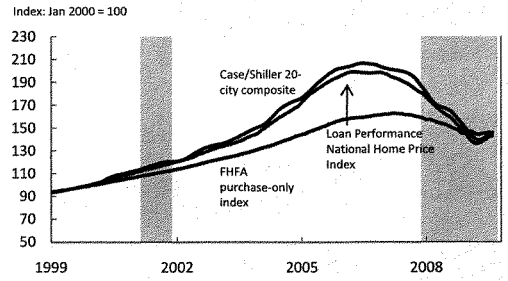
Source: Federal Reserve.

Housing Inventory



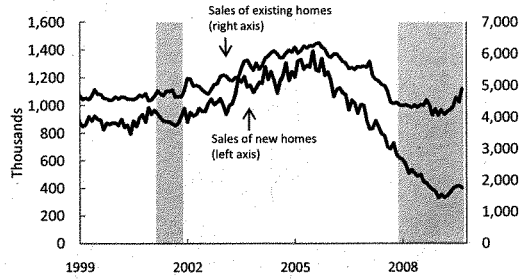
Source: National Association of Realtors.

Home Prices



Sources: S&P/Case-Shiller Home Price Index; LP/Haver Analytics; FHFA.

New and Existing Home Sales



Source: National Association of Realtors, Census Bureau.

Note: Shaded areas indicate recessions.

MAKING HOME AFFORDABLE

Making Home Affordable Program

Servicer Performance Report Through October 2009

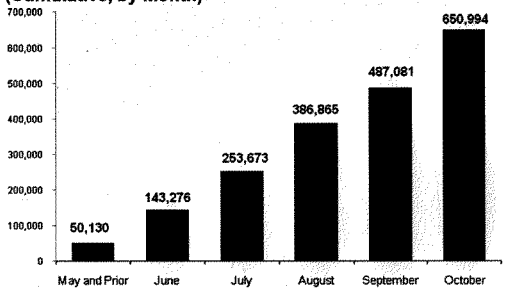
Home Affordable Modification Program (HAMP) Snapshot through October 2009

Number of Trial Modifications[1]	650,994
Number of Trial Period Plan Offers Extended to Borrowers (Cumulative)[2]	919,965
Number of Requests for Financial Information Sent to Borrowers (Cumulative)[2]	2,776,740

[1] Active trial and permanent modifications as of October 31; based on numbers reported by servicers to the HAMP system of record.

[2] Source: Survey data provided by servicers, through October 29.

HAMP Trial Modifications (Cumulative, by Month)

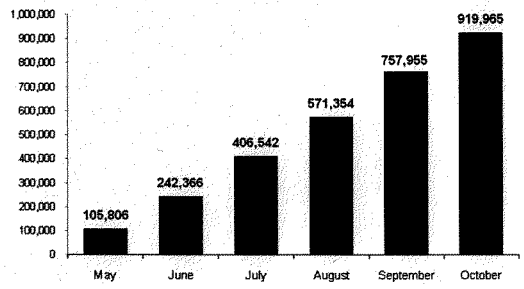


Source: Active trial and permanent modifications as of October 31; based on numbers reported by servicers to the HAMP system of record.

HAMP Participating Servicers

- Approximately 85% of eligible mortgage debt outstanding is covered by HAMP participating servicers.
- 71 servicers have signed servicer participation agreements to modify loans under HAMP. These participants service loans owned or guaranteed by Fannie Mae or Freddie Mac, loans held in portfolio, or loans serviced on behalf of other investors.
- Approximately 2,300 lenders service loans owned or guaranteed by Fannie Mae or Freddie Mac. These servicers are automatically eligible to participate in HAMP.

HAMP Trial Plans Offered to Borrowers (Cumulative, by Month)



Source: Survey data provided by servicers. September data includes October 1. October data is 10/2 through 10/29.

Additional information on HAMP can be found on MakingHomeAffordable.gov or by calling the Homeowner's HOPE Hotline at 1-888-995-HOPE (4673).

MAKING HOME AFFORDABLE

Making Home Affordable Program

Servicer Performance Report Through October 2009

HAMP Modification Activity by Servicer

Servicer	Participation Date	Estimated Eligible 60+ Day Delinquency[1]	Trial Plan Offers Extended	Trial Plan Offers as Share of Estimated Eligible 60+ Day Delinquencies	Active Trial Modifications[2]	Trial Modifications as Share of Estimated Eligible 60+ Day Delinquencies
American Home Mortgage Servicing Inc	7/22/09	116,742	9,649	8%	5,082	4%
Aurora Loan Services, LLC	5/1/29	74,846	39,897	53%	24,491	33%
Bank of America, NA[3]	4/17/29	990,628	212,753	21%	138,994	14%
Bank United	10/23/09	9,045	0	0%	0	0%
Bayview Loan Servicing, LLC	7/1/09	9,639	2,672	28%	2,116	22%
Carrington Mortgage Services LLC	4/27/09	18,217	1,981	11%	1,135	6%
CCO Mortgage	6/17/09	4,662	1175	25%	789	17%
CitiMortgage, Inc.	4/13/09	221,916	110,796	50%	88,968	40%
Franklin Credit Management Corporation	9/11/09	2,643	0	0%	0	0%
GMAC Mortgage, Inc.	4/13/09	65,946	35,890	54%	23,078	35%
Green Tree Servicing LLC	4/24/09	4,034	1028	25%	694	17%
HomEq Servicing	8/5/09	40,766	1348	3%	91	0%
J.P. Morgan Chase Bank, NA[4]	4/13/09	422,807	182,622	43%	133,988	32%
Litton Loan Servicing LP	8/12/09	110,027	17,784	16%	13,093	12%
MorEquity, Inc.	7/17/09	2,299	123	5%	3	0%
National City Bank	6/26/09	42,504	15,621	37%	7,906	19%
Nationstar Mortgage LLC	5/28/09	31,736	20,110	63%	10,154	32%
Ocwen Financial Corporation, Inc.	4/16/09	67,912	13,196	19%	7,636	11%
OneWest Bank	8/28/09	110,496	30,331	27%	14,044	13%
Residential Credit Solutions	6/12/09	1,524	379	25%	350	23%
RG Mortgage Corporation	6/17/09	3,237	337	10%	70	2%
Saxon Mortgage Services, Inc.	4/13/09	80,477	38,327	48%	35,027	44%
Select Portfolio Servicing	4/13/09	62,094	37,695	61%	18,156	29%
US Bank NA	9/9/09	29,654	8,590	29%	4,477	15%
Wachovia Mortgage, FSB[5]	7/1/09	78,272	5,162	7%	2,363	3%
Wells Fargo Bank, NA	4/13/09	323,198	132,182	41%	93,652	29%
Other SPA servicers[6]	–	5,134	337	7%	213	4%
Other GSE Servicers[7]	–	288,747	NA	NA	26,424	9%
Total		**3,219,192**	**919,965**	**29%**	**660,994**	**20%**

[1] Estimated eligible 60+ day delinquent mortgages as reported by servicers as of September 30, 2009 include loans:
- in foreclosure and bankruptcy.
- with a current unpaid principal balance less than $729,750 on a one-unit property, $934,200 on a two-unit property, $1,129,230 on a three-unit property and $1,403,400 on a four-unit property.
- on a property that was owner-occupied at origination.
- originated prior to January 1, 2009.

Estimated eligible 60+ day delinquent loans excludes:
- FHA and VA loans.
- loans that are current or less than 60 days delinquent, which may be eligible for HAMP if a borrower is in imminent default.

For servicers enrolling after October 1, delinquency counts are taken from the servicer registration form.

[2] Active trial and permanent modifications as reported into the HAMP system of record by servicers.

[3] Bank of America, NA includes Countrywide Home Loans Servicing LP, Home Loan Services and Wilshire Credit Corporation.

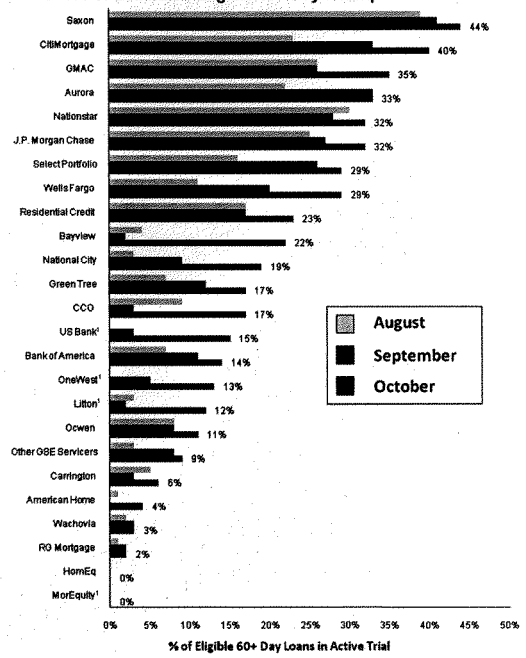
[4] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.

[5] Wachovia Mortgage FSB includes Wachovia Bank NA.

[6] Other SPA servicers are entities with less than 1,000 estimated eligible 60+ day delinquencies that have signed participation agreements with Treasury and Fannie Mae. Those servicers are: Allstate Mortgage Loans and Investments; AMS Servicing, LLC; Bay Federal Credit Union; Central Florida Educators Federal Credit Union; Central Jersey Federal Credit Union; Citizens First Wholesale Mortgage Company; CUC Mortgage Corp.; DuPage Credit Union; Farmers State Bank; First Bank; First Federal Savings and Loan; Glass City Federal Credit Union; Great Lakes Credit Union; Harleysville National Bank & Trust; Horizon Bank; IBM Southwest Employees' Federal Credit Union; IC Federal Credit Union; Lake City Bank; Lake National Bank; Members Mortgage Company Inc.; Metropolitan National Bank; Mission Federal Credit Union; Mortgage Center LLC; Mortgage Clearing Corp.; Oakland Municipal Credit Union; ORNL Federal Credit Union; PennyMac Loan Services LLC; PNC Bank, NA; Purdue Employees Federal Credit Union; Roundpoint Mortgage Servicing Corp.; Schools Financial Credit Union; SEFCU; Servis One, Inc.; Shore Bank; Stanford Federal Credit Union; Technology Credit Union; United Bank Mortgage Corp.; Vantium Capital, Inc.; Wescom Central Credit Union; and Yadkin Valley Bank.

[7] Includes approximately 2,300 participants that service loans owned or guaranteed by Fannie Mae and Freddie Mac.

Trial Modification Tracker: Active Trial Modifications as a Share of Estimated Eligible 60+ Day Delinquencies



[1] HomeEq, Litton, OneWest and USBank began participation after July 31, 2009. Bank United is excluded from this list as it began participation on October 23.

Note: Servicer rollups are the same as the table at left.

August trials as a share of 60+ day delinquencies on July 31, 2009.

September trials as a share of 60+ day delinquencies on August 31, 2009.

October trials as a share of 60+ day delinquencies on September 30, 2009.

MAKING HOME AFFORDABLE

Making Home Affordable Program

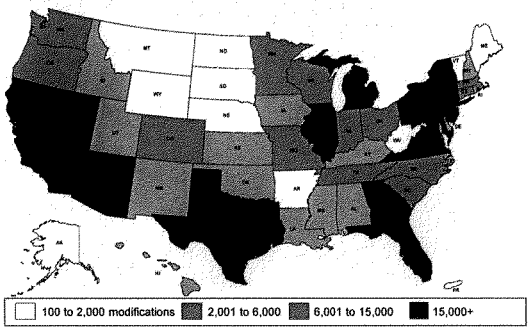
Servicer Performance Report Through October 2009

Active Trial Modifications by State

State	Modifications	State	Modifications
Alabama	4,651	Montana	897
Alaska	431	Nebraska	1,110
Arizona	34,424	Nevada	17,566
Arkansas	1,850	New Hampshire	3,003
California	134,609	New Jersey	22,102
Colorado	9,657	New Mexico	2,268
Connecticut	8,446	New York	28,773
Delaware	2,184	North Carolina	13,654
District of Columbia	1,177	North Dakota	170
Florida	82,614	Ohio	14,132
Georgia	25,675	Oklahoma	2,022
Hawaii	2,331	Oregon	7,560
Idaho	2,660	Pennsylvania	15,223
Illinois	33,514	Rhode Island	3,058
Indiana	7,449	South Carolina	7,194
Iowa	2,095	South Dakota	324
Kansas	2,006	Tennessee	7,712
Kentucky	2,928	Texas	21,260
Louisiana	4,061	Utah	5,427
Maine	1,766	Vermont	494
Maryland	21,634	Virginia	16,981
Massachusetts	14,677	Washington	12,869
Michigan	22,031	West Virginia	1,180
Minnesota	12,933	Wisconsin	6,679
Mississippi	2,774	Wyoming	352
Missouri	8,105	Other*	575

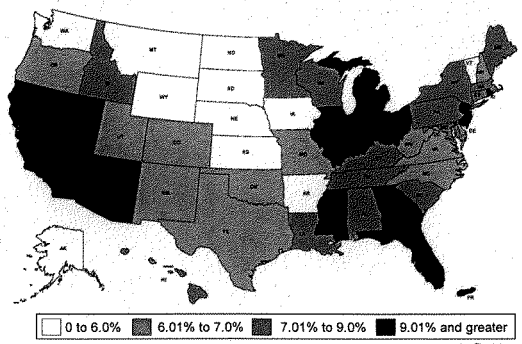
* Includes Puerto Rico and the U.S. Virgin Islands.
Note: Figures include active trial and permanent modifications through November 5.

HAMP Activity by State



Note: Includes active trial and permanent modifications from the official HAMP system of record.

60+ Day Delinquent Loans as a % of Outstanding Mortgage Loans



Source: Mortgage Bankers Association.

MAKING HOME AFFORDABLE

Making Home Affordable Program

Servicer Performance Report Through November 2009

Overview of Administration Housing Stability Initiatives

Initiatives to Support Access to Affordable Mortgage Credit and Housing

Lower Mortgage Rates and Access to Credit:

- Continued financial support to maintain affordable mortgage rates through the Government Sponsored Enterprises (GSEs)
- Access to sustainable mortgages through the Federal Housing Administration (FHA)

State and Local Housing Initiatives:

- Access for Housing Finance Agencies (HFAs) to provide mortgages to first-time homebuyers, refinancing opportunities to at-risk borrowers, and help in developing affordable rental housing

Tax Credits for Housing:

- First-time homebuyer credit to help more homebuyers buy a new home
- Low-Income Housing Tax Credit (LIHTC) programs to support affordable rental housing

Initiatives to Prevent Avoidable Foreclosures and Stabilize Neighborhoods

Making Home Affordable – Modifications:

- Goal of offering 3-4 million homeowners lower mortgage payments through a modification over three years

Making Home Affordable – Refinancing:

- Refinancing flexibility and low mortgage rates, which have allowed over 3 million borrowers to refinance, saving an estimated $150 per month on average and more than $6 billion dollars in total over the first year

Hope for Homeowners:

- Sustainable refinancing opportunity for some homeowners to restore equity as integrated component of MHA

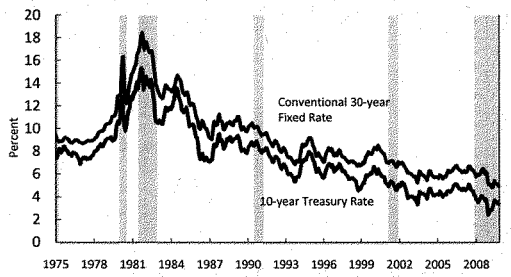
Neighborhood Stabilization and Community Development Programs:

- Support for the hardest hit communities to help stabilize neighborhoods

Making Home Affordable Program

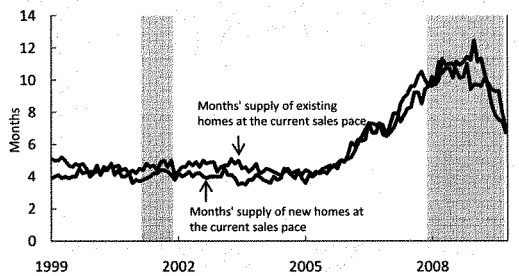
Servicer Performance Report Through November 2009

Mortgage Rates



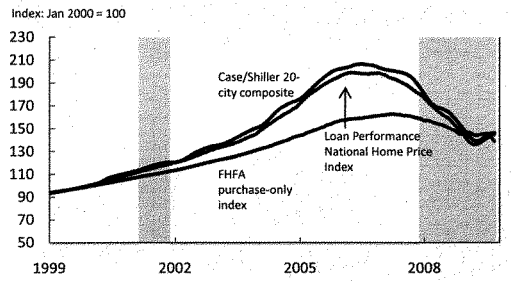
Source: Federal Reserve.

Housing Inventory



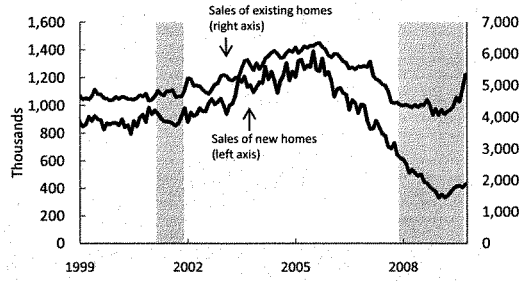
Source: National Association of Realtors.

Home Prices



Sources: S&P/Case-Shiller Home Price Index; LP/Haver Analytics; FHFA.

New and Existing Home Sales



Source: National Association of Realtors, Census Bureau.

Note: Shaded areas indicate recessions.

Making Home Affordable Program

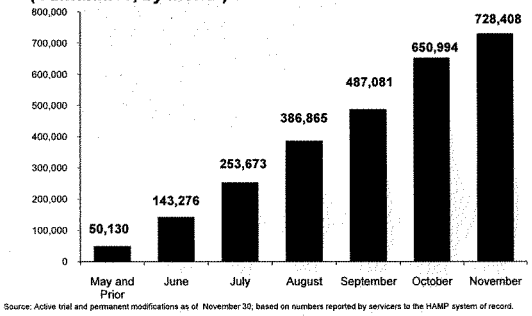
Servicer Performance Report Through November 2009

Home Affordable Modification Program (HAMP) Snapshot through November 2009

Number of Requests for Financial Information Sent to Borrowers (Cumulative) [1]	3,137,548
Number of Trial Period Plan Offers Extended to Borrowers (Cumulative) [1]	1,032,837
All HAMP Trials Started Since Program Inception[2]	759,058
All Active Modifications (Trial and Permanent)	728,408
Number of Active Trial Modifications[2]	697,026
Number of Permanent Modifications[3]	31,382

[1] Source: Survey data provided by servicers. November data is through Nov. 26.
[2] As reported by the HAMP system of record.
[3] Active permanent modifications as reported by servicers into the HAMP system of record. Includes 16,261 permanent modifications receiving incentive payments to servicers in November.

HAMP Active Trial and Permanent Modifications (Cumulative, by Month)

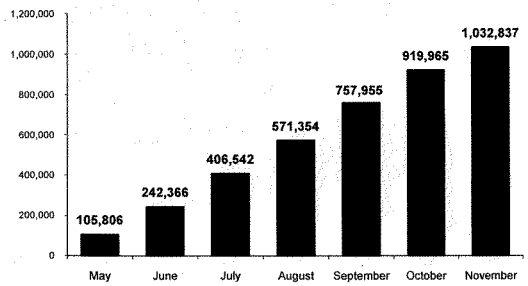


Source: Active trial and permanent modifications as of November 30, based on numbers reported by servicers to the HAMP system of record.

HAMP Program Highlights

- Approximately 85% of eligible mortgage debt outstanding is covered by HAMP participating servicers.
- 78 servicers have signed servicer participation agreements to modify loans under HAMP. These participants service loans owned or guaranteed by Fannie Mae or Freddie Mac, loans held in portfolio, or loans serviced on behalf of other investors.
- Approximately 2,300 lenders service loans owned or guaranteed by Fannie Mae or Freddie Mac. These servicers are automatically eligible to participate in HAMP.
- The Administration has launched a month-long conversion campaign to ensure that servicers increase focus on the hundreds of thousands of borrowers eligible to move from the trial to the permanent modification phase at the end of December.

HAMP Trial Plans Offered to Borrowers (Cumulative, by Month)



Source: Survey data provided by servicers. September data includes October 1. October data is 10/2 through 10/29. November data is through Nov. 26.

Additional information on HAMP can be found on MakingHomeAffordable.gov or by calling the Homeowner's HOPE Hotline at 1-888-995-HOPE (4673).

MAKING HOME AFFORDABLE

Making Home Affordable Program

Servicer Performance Report Through November 2009

HAMP Modification Activity by Servicer

Servicer	Participation Date	Estimated Eligible 60+ Day Delinquency[1]	Trial Plan Offers Extended	All HAMP Trials Started	Active Trial Modifications[2]	Permanent Modifications[2]	Active Trials + Permanents as Share of Eligible 60+ Day Delinquencies
American Home Mortgage Servicing Inc	7/22/09	120,767	12,621	7,642	7,430	201	6%
Aurora Loan Services, LLC[3]	5/1/09	75,829	38,110	32,794	21,717	3,622	33%
Bank of America, NA[4]	4/17/09	1,018,192	244,139	158,462	156,864	98	15%
Bank United	10/23/09	5,102	672	0	0	0	0%
Bayview Loan Servicing, LLC	7/1/09	9,908	3,638	2,995	2,864	50	30%
Carrington Mortgage Services LLC	4/27/09	18,413	2,298	1,491	1,198	293	8%
CCO Mortgage	6/17/09	5,173	1,353	789	789	0	15%
CitiMortgage, Inc.[5]	4/13/09	233,924	127,594	103,478	100,126	271	43%
Franklin Credit Management Corporation	9/11/09	9,612	0	0	0	0	0%
GMAC Mortgage, Inc.	4/13/09	67,539	39,657	26,275	19,559	7,111	39%
Green Tree Servicing LLC	4/24/09	4,072	1,154	754	692	2	17%
HomEq Servicing	8/5/09	40,969	1,987	657	657	0	2%
J.P. Morgan Chase Bank, NA[6]	4/13/09	448,815	199,033	143,027	136,686	4,302	31%
Litton Loan Servicing LP	8/12/09	109,614	22,702	16,909	16,870	39	15%
MorEquity, Inc.	7/17/09	2,283	392	49	49	0	2%
Nationstar Mortgage LLC	5/28/09	47,586	22,251	11,717	11,286	358	24%
Ocwen Financial Corporation, Inc.	4/16/09	66,351	15,961	9,763	5,515	4,252	15%
OneWest Bank	8/28/09	111,674	35,313	19,623	19,623	0	18%
PNC Mortgage[7]	6/26/09	45,240	17,526	10,591	9,902	18	22%
Residential Credit Solutions	6/12/09	2,189	399	368	270	98	17%
RG Mortgage Corporation	6/17/09	3,223	348	90	67	23	3%
Saxon Mortgage Services, Inc.	4/13/09	80,309	39,145	35,608	35,565	42	44%
Select Portfolio Servicing	4/13/09	61,615	42,244	26,806	19,552	218	32%
US Bank NA	9/9/09	26,354	9,084	6,518	6,480	38	25%
Wachovia Mortgage, FSB[8]	7/1/09	82,457	6,542	2,371	1,980	351	3%
Wells Fargo Bank, NA	4/13/09	334,949	148,240	104,808	96,137	3,537	30%
Other SPA servicers[9]	--	4,779	434	432	251	167	8%
Other GSE Servicers[10]	--	262,842	NA	33,021	24,877	6,291	NA
Total		**3,299,780**	**1,032,837**	**759,058**	**697,026**	**31,382**	**24%**

[1] Estimated eligible 60+ day delinquent mortgages as reported by servicers as of October 31, 2009 include loans:

- in foreclosure and bankruptcy.
- with a current unpaid principal balance less than $729,750 on a one-unit property, $934,200 on a two-unit property, $1,129,250 on a three-unit property and $1,403,400 on a four-unit property.
- on a property that was owner-occupied at origination.
- originated prior to January 1, 2009.

Estimated eligible 60+ day delinquent loans excludes:

- FHA and VA loans.
- loans that are current or less than 60 days delinquent, which may be eligible for HAMP if a borrower is in imminent default.

Servicers enrolling after November 1 did not participate in the 60+ day delinquency survey.

[2] Active trial and permanent modifications as reported into the HAMP system of record by servicers.

[3] Aurora Loan Services, LLC includes Aurora Financial Group.

[4] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loans Services and Wilshire Credit Corporation.

[5] CitiMortgage, Inc. includes CitiMortgage, Inc. Master Servicing Division.

[6] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.

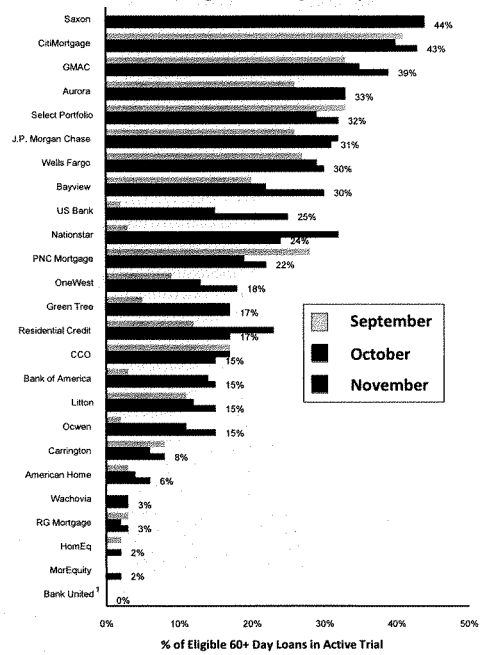
[7] Formerly National City Bank.

[8] Wachovia Mortgage FSB includes Wachovia Bank NA.

[9] Other SPA servicers are entities with less than 1,000 estimated eligible 60+ day delinquencies that have signed participation agreements with Treasury and Fannie Mae. Those servicers are: Allstate Mortgage Loans and Investments; AMS Servicing, LLC; Bay Federal Credit Union; Central Florida Educators Federal Credit Union; Central Jersey Federal Credit Union; Citizens First Wholesale Mortgage Company; CUC Mortgage Corp.; DuPage Credit Union; Farmers State Bank; First Bank; First Federal Savings and Loan; First Keystone Bank; Glass City Federal Credit Union; Great Lakes Credit Union; Harleysville National Bank & Trust; Hillsdale County National Bank; Horizon Bank; IBM Southeast Employees' Federal Credit Union; IC Federal Credit Union; Lake City Bank; Lake National Bank; Los Alamos National Bank; Marix Servicing LLC; Members Mortgage Company Inc.; Metropolitan National Bank; Mission Federal Credit Union; Mortgage Center LLC; Mortgage Clearing Corp.; Oakland Municipal Credit Union; ORNL Federal Credit Union; PennyMac Loan Services LLC; Purdue Employees Federal Credit Union; Qlending Inc.; Quantum Servicing Corp.; Roundpoint Mortgage Servicing Corp.; Schools Financial Credit Union; SEFCU; Servis One, Inc.; Shore Bank; Stanford Federal Credit Union; Technology Credit Union; United Bank Mortgage Corp.; Vantium Capital, Inc.; Wescom Central Credit Union; and Yadkin Valley Bank.

[10] Includes approximately 2,300 participants that service loans owned or guaranteed by Fannie Mae and Freddie Mac.

Trial Modification Tracker: Active Modifications as a Share of Estimated Eligible 60+ Day Delinquencies



[1] Bank United began participation on October 23, 2009.
Note: Includes active trial and permanent modifications. Servicer combinations are the same as the table at left.
September trials as a share of 60+ day delinquencies on August 31, 2009.
October trials as a share of 60+ day delinquencies on September 30, 2009.
November trials as a share of 60+ day delinquencies on October 31, 2009.

MAKING HOME AFFORDABLE

Making Home Affordable Program

Servicer Performance Report Through November 2009

HAMP Portfolio Composition (20 Largest Servicers)

Servicer	GSE	Private	Portfolio	Total
Bank of America, NA[1]	99,351	53,662	5,449	158,462
JP Morgan Chase NA[2]	61,321	60,893	20,813	143,027
CitiMortgage, Inc.	67,538	6,557	29,383	103,478
Wells Fargo Bank, NA	81,003	0	23,805	104,808
Saxon Mortgage Services Inc.	1,117	34,137	354	35,608
GMAC Mortgage, Inc.	15,624	12,651	0	28,275
Aurora Loan Services, LLC	19,413	13,013	368	32,794
Select Portfolio Servicing	622	23,358	2,826	26,806
OneWest Bank	12,981	5,757	885	19,623
Litton Loan Servicing LP	2,607	0	14,302	16,909
Nationstar Mortgage LLC	7,346	4,206	165	11,717
PNC Mortgage[3]	9,546	6	1,039	10,591
Ocwen Financial Corporation, Inc.	1,075	8,702	6	9,783
American Home Mortgage Servicing Inc	643	6,999	0	7,642
US Bank NA	5,615	6	897	6,518
Bayview Loan Servicing, LLC	0	2,896	99	2,995
Wachovia Mortgage, FSB[4]	1,519	93	759	2,371
Carrington Mortgage Services LLC	0	1,491	0	1,491
CCO Mortgage	589	0	200	789
Green Tree Servicing LLC	655	94	5	754
Remainder of HAMP Servicers	33,526	664	427	34,617
Total	**422,091**	**235,185**	**101,782**	**759,058**

[1] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loans Services and Wilshire Credit Corporation.
[2] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[3] Formerly National City Bank.
[4] Wachovia Mortgage FSB includes Wachovia Bank NA.

Note: Figures reflect all HAMP trials started.

HAMP Activity by State

State	Modifications	State	Modifications
Alabama	5,086	Montana	982
Alaska	439	Nebraska	1,238
Arizona	37,208	Nevada	19,247
Arkansas	2,055	New Hampshire	3,301
California	148,350	New Jersey	24,299
Colorado	10,574	New Mexico	2,506
Connecticut	9,327	New York	32,305
Delaware	2,410	North Carolina	15,037
District of Columbia	1,304	North Dakota	182
Florida	90,575	Ohio	16,107
Georgia	28,305	Oklahoma	2,256
Hawaii	2,575	Oregon	8,241
Idaho	2,939	Pennsylvania	16,848
Illinois	37,552	Rhode Island	3,399
Indiana	8,224	South Carolina	7,940
Iowa	2,338	South Dakota	352
Kansas	2,181	Tennessee	8,492
Kentucky	3,240	Texas	23,963
Louisiana	4,496	Utah	6,073
Maine	1,985	Vermont	534
Maryland	23,930	Virginia	18,652
Massachusetts	16,401	Washington	14,193
Michigan	24,626	West Virginia	1,285
Minnesota	14,154	Wisconsin	7,421
Mississippi	3,050	Wyoming	383
Missouri	9,026	Other*	645

* Includes Guam, Puerto Rico and the U.S. Virgin Islands.
Note: Figures include active trial and permanent modifications. They do not include 177 loans that did not have identifiable state data.

MAKING HOME AFFORDABLE

Making Home Affordable Program

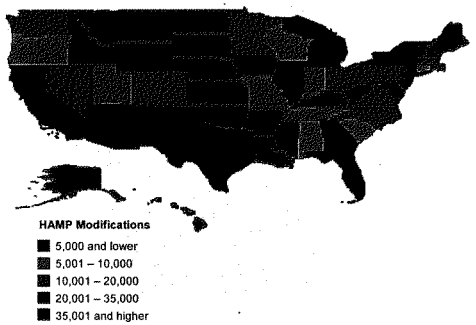
Servicer Performance Report Through November 2009

15 Metropolitan Areas With Highest HAMP Activity

Metropolitan Statistical Area	Modifications	% of Total
New York-Northern New Jersey-Long Island, NY-NJ-PA	43,873	6.0%
Los Angeles-Long Beach-Santa Ana, CA	42,777	5.9%
Chicago-Naperville-Joliet, IL-IN-WI	36,208	5.0%
Miami-Fort Lauderdale-Pompano Beach, FL	34,860	4.8%
Riverside-San Bernardino-Ontario, CA	34,688	4.8%
Phoenix-Mesa-Scottsdale, AZ	30,830	4.2%
Washington-Arlington-Alexandria, DC-VA-MD-WV	25,318	3.5%
Atlanta-Sandy Springs-Marietta, GA	22,893	3.1%
Las Vegas-Paradise, NV	16,003	2.2%
Detroit-Warren-Livonia, MI	15,237	2.1%
Orlando-Kissimmee, FL	14,609	2.0%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	12,758	1.8%
Minneapolis-St. Paul-Bloomington, MN-WI	11,627	1.6%
Boston-Cambridge-Quincy, MA-NH	11,615	1.6%
Tampa-St. Petersburg-Clearwater, FL	11,334	1.6%

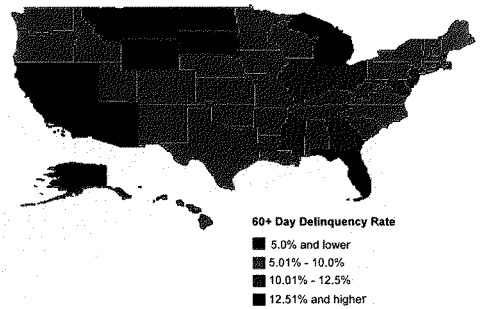
Note: Figures include active trial and permanent modifications.

HAMP Activity by State



Note: Includes active trial and permanent modifications from the official HAMP system of record.

Mortgage Delinquency Rates by State



Source: Mortgage Bankers Association. Data is as of 3rd Quarter 2009.

Making Home Affordable Program

Servicer Performance Report Through December 2009

Overview of Administration Housing Stability Initiatives

Initiatives to Support Access to Affordable Mortgage Credit and Housing

Lower Mortgage Rates and Access to Credit:

- Continued financial support to maintain affordable mortgage rates through the Government Sponsored Enterprises (GSEs)
- Interest rates down a full percentage point over the past year. Every 1% reduction in interest rate saves a borrower a median of $1500 annually in mortgage payments.
- Access to sustainable mortgages through the Federal Housing Administration (FHA).

State and Local Housing Initiatives:

- Access for Housing Finance Agencies to provide mortgages to first-time homebuyers, refinance opportunities for at-risk borrowers, and affordable rental housing.

Tax Credits for Housing:

- Homebuyer credit to help homebuyers buy new homes.
- Low-Income Housing Tax Credit (LIHTC) programs to support affordable rental housing.

Initiatives to Prevent Avoidable Foreclosures and Stabilize Neighborhoods

Making Home Affordable – Modifications:

- Goal of offering 3-4 million homeowners lower mortgage payments through a modification through 2012.
- Over 900,000 homeowners have started trial modifications and over 1 million offers for trial modifications have been extended to borrowers.
- Homeowners in permanent modifications are saving a median of over $500 per month on mortgage payments. In aggregate, homeowners have saved over $1.5 billion through modifications.

Making Home Affordable – Refinancing:

- Refinancing flexibility and low mortgage rates, which have allowed over 3.8 million borrowers to refinance, saving an estimated $150 per month on average and more than $6.8 billion in total over the first year.

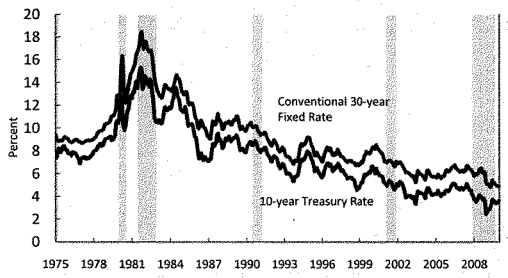
Neighborhood Stabilization and Community Development Programs:

- Support for the hardest hit communities to help stabilize neighborhoods.

Making Home Affordable Program

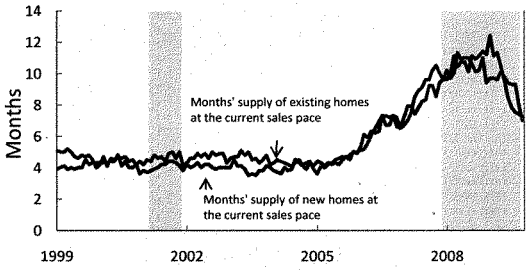
Servicer Performance Report Through December 2009

Mortgage Rates



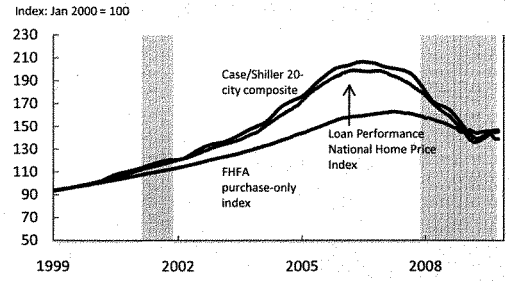
Source: Federal Reserve.

Housing Inventory



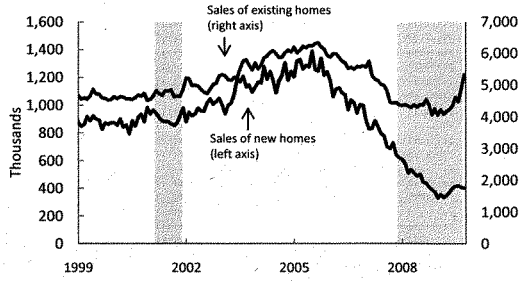
Source: National Association of Realtors.

Home Prices



Sources: S&P/Case-Shiller Home Price Index; LP/Haver Analytics; FHFA.

New and Existing Home Sales



Source: National Association of Realtors, Census Bureau.

Note: Shaded areas indicate recessions.

Making Home Affordable Program

Servicer Performance Report Through December 2009

Home Affordable Modification Program (HAMP) Snapshot through December 2009

Number of Trial Period Plan Offers Extended to Borrowers (Cumulative) [1]	1,164,507
All HAMP Trials Started Since Program Inception[2]	902,620
All Active Modifications (Trial and Permanent)	853,696
Active Trial Modifications[2]	787,231
Permanent Modifications[3]	66,465
Permanent Modifications Pending Borrower Acceptance[4]	46,056
Total Permanent Modifications Approved by Servicers[5]	112,521

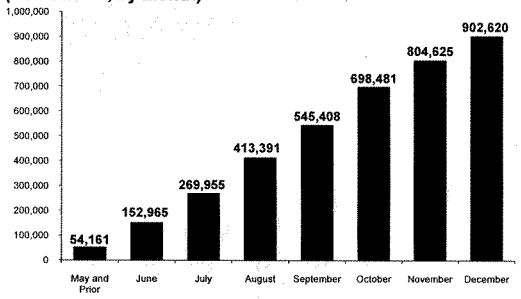
[1] Source: Survey data provided by servicers.
[2] As reported by the HAMP system of record.
[3] Active permanent modifications as reported by servicers into the HAMP system of record.
[4] As reported by servicers in Treasury's Conversion Campaign. Pending permanent modifications are those pending final signature of the borrower plus completed modifications not yet in the HAMP system of record. While pending, modifications are reflected in the count of active trials.
[5] Permanent modifications in the HAMP system of record and pending modifications as reported by servicers in Treasury's Conversion Campaign. Pending permanent modifications are those pending final signature of the borrower plus completed modifications not yet in the HAMP system of record. While pending, modifications are reflected in the count of active trials.

HAMP Program Highlights

- Approximately 89% of eligible mortgage debt outstanding is covered by HAMP participating servicers.
- During the 4th quarter, the number of servicers who have signed servicer participation agreements to modify loans under HAMP rose from 63 to 102. In addition, approximately 2,300 lenders service loans owned or guaranteed by Fannie Mae or Freddie Mac. These servicers are automatically eligible to participate in HAMP.
- In the 4th quarter, the volume of active trial and permanent modifications rose by more than 75% from the 3rd quarter.
- The December Conversion Campaign resulted in an increase in the number of permanent modifications of more than 100%. In addition, more than 46,000 offers for permanent modifications have been sent to borrowers and will be reported to the HAMP system of record once they have been signed and returned to the servicer.

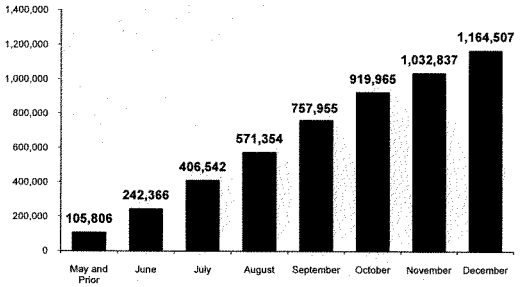
Additional information on HAMP can be found on MakingHomeAffordable.gov or by calling the Homeowner's HOPE Hotline at 1-888-995-HOPE (4673).

HAMP Trials Started (Cumulative, by Month)



Source: All trial modifications started by month first payment posted; based on numbers reported by servicers to the HAMP system of record.

HAMP Trial Plans Offered to Borrowers (Cumulative, by Month)



Source: Survey data provided by servicers. September data includes October 1. October data is 10/2 through 10/29. November data is through Nov. 26.

MAKING HOME AFFORDABLE

Making Home Affordable Program

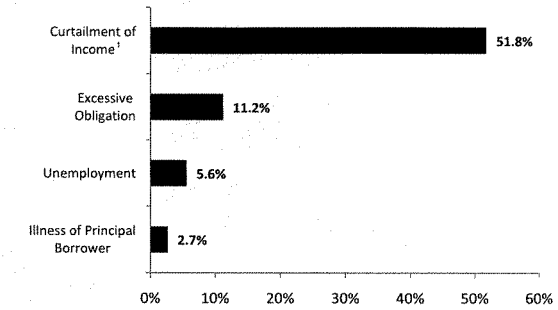
Servicer Performance Report Through December 2009

- Borrowers in active trial and permanent modifications have saved more than $1.5 billion through HAMP modifications.
- Loss of income is the primary borrower hardship.

Permanent Modifications by Waterfall Step:

Interest Rate Reduction	100%
Term Extension	43.2%
Principal Forbearance	26.6%

Predominant Hardship Reasons for Permanent Modifications



[1] Curtailment of income refers to borrowers who are employed but have faced a reduction in hours and/or wages.
Note: Does not include 19.3% of permanent modifications reported as Other.

Select Median Characteristics of Permanent Modifications

Loan Characteristic	Before Modification	After Modification	Decrease
Front-End Debt-to-Income Ratio[1]	45.0%	31.0%	-14.1 pct pts
Back-End Debt-to-Income Ratio[2]	72.2%	55.1%	-14.7 pct pts
Median Monthly Payment[3]	$1,418.93	$829.96	-$516.14

[1] Ratio of housing expenses (principal, interest, taxes, insurance and homeowners association and/or condo fees) to monthly gross income. Decrease cited is median decrease.
[2] Ratio of total monthly debt payments (including mortgage principal and interest, taxes, insurance, homeowners association and/or condo fees, plus payments on installment debts, junior liens, alimony, car lease payments and investment property payments) to monthly gross income. Decrease cited is median decrease.
[3] Decrease cited is median decrease.

Making Home Affordable Program

Servicer Performance Report Through December 2009

HAMP Modification Activity by Servicer

Servicer	Estimated Eligible 60+ Day Delinquency[1]	Trial Plan Offers Extended	All HAMP Trials Started	Active Trial Modifications[2]	Permanent Modifications[2]	Permanent Modifications Pending[3]	Active Trials + Permanents as Share of Eligible 60+ Day Delinquencies
American Home Mortgage Servicing Inc	124,262	14,243	10,918	10,658	232		9%
Aurora Loan Services, LLC[4]	78,225	41,259	36,618	21,912	4,682	2,737	34%
Bank of America, NA[5]	1,046,008	292,305	206,775	200,287	3,183	9,178	19%
Bank United	5,422	959	685	683	2		13%
Bayview Loan Servicing, LLC	10,183	4,170	3,653	3,398	106		34%
Carrington Mortgage Services LLC	18,937	2,598	1,507	899	608		8%
CCO Mortgage	5,304	1,474	1,132	1,127	5		21%
CitiMortgage, Inc.[6]	241,981	139,812	119,097	107,999	4,999	6,968	47%
Franklin Credit Management Corporation	9,557	32	0	0	0		0%
GMAC Mortgage, Inc.	69,281	42,411	32,159	20,672	9,872	2,733	44%
Green Tree Servicing LLC	10,927	4,838	3,455	3,268	87		31%
HomEq Servicing	41,817	2,630	1,753	1,662	0		4%
J.P. Morgan Chase Bank, NA[7]	424,965	210,553	156,359	146,828	7,139	5,518	36%
Litton Loan Servicing LP	111,260	25,641	21,113	17,377	959		16%
Nationstar Mortgage LLC	49,026	21,902	14,588	12,176	1,277		27%
Ocwen Financial Corporation, Inc.	64,797	17,557	12,884	7,427	5,332	2,256	20%
OneWest Bank	112,846	41,950	24,284	23,012	1,226		21%
PNC Mortgage[8]	41,136	19,413	13,237	12,153	61		30%
Saxon Mortgage Services, Inc.	72,709	39,843	36,406	30,914	2,497	5,853	46%
Select Portfolio Servicing	63,690	46,918	29,280	17,399	4,675		35%
US Bank NA	28,524	10,103	7,404	6,984	418		26%
Wachovia Mortgage, FSB[9]	82,990	9,199	2,437	2,046	344	725	3%
Wells Fargo Bank, NA	350,169	172,541	126,413	110,284	8,424	10,088	34%
Other SPA servicers[10]	20,463	2,156	1,414	928	457		7%
Other GSE Servicers[11]	272,365	NA	39,049	27,138	9,880		14%
Total	**3,356,844**	**1,164,507**	**902,620**	**787,231**	**66,465**	**46,056**	**25%**

[1] Estimated eligible 60+ day delinquent mortgages as reported by servicers as of November 30, 2009 include conventional loans:
- in foreclosure and bankruptcy,
- with a current unpaid principal balance less than $729,750 on a one-unit property, $934,200 on a two-unit property, $1,129,250 on a three-unit property and $1,403,400 on a four-unit property.
- on a property that was owner-occupied at origination.
- originated prior to January 1, 2009.

Estimated eligible 60+ day delinquent loans excludes:
- FHA and VA loans.
- loans that are current or less than 60 days delinquent, which may be eligible for HAMP if a borrower is in imminent default.

Servicers enrolling after December 1 did not participate in the 60+ day delinquency survey; their delinquency count is from the servicer registration form.

[2] Active trial and permanent modifications as reported into the HAMP system of record by servicers.

[3] As reported by servicers targeted in Treasury's Conversion Campaign. Includes permanent modifications pending final signature of the borrower plus completed modifications not yet reported into the HAMP system of record. While pending, modifications are reflected in the count of active trials.

[4] Aurora Loan Services, LLC includes Aurora Financial Group.

[5] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loan Services and Wilshire Credit Corporation.

[6] CitiMortgage, Inc. includes CitiMortgage, Inc. Master Servicing Division.

[7] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.

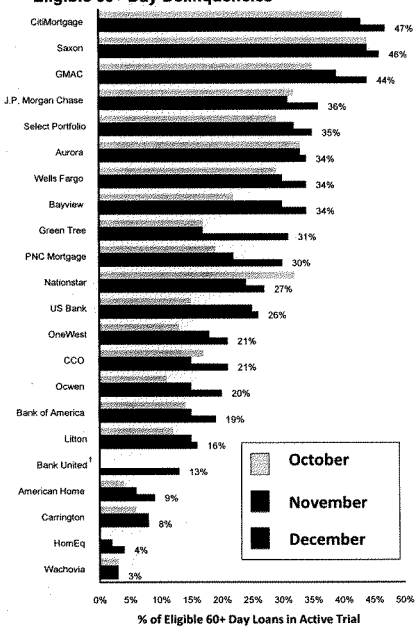
[8] Formerly National City Bank.

[9] Wachovia Mortgage FSB includes Wachovia Bank NA.

[10] Other SPA servicers are entities with less than 5,000 estimated eligible 60+ day delinquencies that have signed participation agreements with Treasury and Fannie Mae. A list of those servicers is available online at *http://www.makinghomeaffordable.gov/contact_servicer.html*

[11] Includes servicers of loans owned or guaranteed by Fannie Mae and Freddie Mac.

Active Modifications as a Share of Estimated Eligible 60+ Day Delinquencies



[1] Bank United began participation on October 23, 2009.
Note: Includes active trial and permanent modifications. Servicer combinations are the same as the table at left.
October trials as a share of 60+ day delinquencies on September 30, 2009.
November trials as a share of 60+ day delinquencies on October 31, 2009.
December trials as a share of 60+ day delinquencies on November 30, 2009.

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Making Home Affordable Program

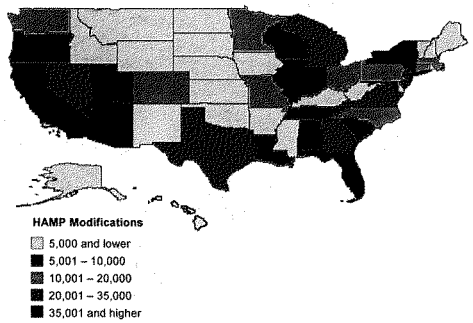
Servicer Performance Report Through December 2009

HAMP Activity by State

State	Active Trials	Permanent Modifications	Total
AK	459	34	493
AL	5,521	435	5,956
AR	2,182	228	2,410
AZ	38,989	4,137	43,126
CA	158,935	13,353	172,288
CO	11,170	1,072	12,242
CT	10,063	802	10,865
DC	1,428	105	1,533
DE	2,560	250	2,810
FL	96,703	8,405	105,108
GA	31,147	2,627	33,774
HI	2,714	240	2,954
IA	2,554	174	2,728
ID	3,167	308	3,475
IL	41,793	3,149	44,942
IN	8,821	718	9,539
KS	2,428	172	2,600
KY	3,479	258	3,737
LA	4,990	289	5,279
MA	17,817	1,619	19,436
MD	25,847	2,270	28,117
ME	2,120	190	2,310
MI	26,777	2,326	29,103
MN	14,813	1,527	16,340
MO	9,980	668	10,648
MS	3,210	307	3,517
MT	1,052	88	1,140
NE	1,291	116	1,407
NC	16,401	1,535	17,936
ND	190	15	205
NH	3,498	351	3,849
NJ	26,490	2,027	28,517
NM	2,806	239	3,045
NV	20,597	1,942	22,539
NY	36,308	1,974	38,282
OH	17,489	1,477	18,966
OK	2,530	178	2,708
OR	8,888	875	9,763
PA	18,459	1,388	19,847
RI	3,694	338	4,032
SC	8,636	699	9,335
SD	376	30	406
TN	8,997	752	9,749
TX	27,092	1,485	28,577
UT	6,599	637	7,236
VA	19,791	1,898	21,689
VT	571	53	624
WA	15,455	1,515	16,970
WI	7,873	767	8,640
WV	1,372	120	1,492
WY	423	43	466
Other*	611	222	833

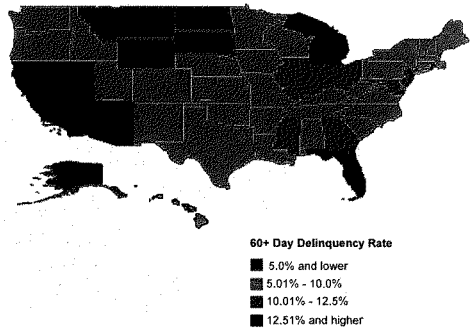
* Includes Guam, Puerto Rico and the U.S. Virgin Islands.
Note: Figures include active trial and permanent modifications. They do not include 113 loans that did not have identifiable state data.

HAMP Activity by State



Note. Includes active trial and permanent modifications from the official HAMP system of record.

Mortgage Delinquency Rates by State



Source: Mortgage Bankers Association. Data is as of 3rd Quarter 2009.

MAKING HOME AFFORDABLE

Making Home Affordable Program

Servicer Performance Report Through December 2009

15 Metropolitan Areas With Highest HAMP Activity

Metropolitan Statistical Area	Active Trials	Permanent Modifications	Total HAMP Activity	% of All HAMP Activity
New York-Northern New Jersey-Long Island, NY-NJ-PA	48,692	3,056	51,748	6.1%
Los Angeles-Long Beach-Santa Ana, CA	45,945	3,469	49,414	5.8%
Chicago-Naperville-Joliet, IL-IN-WI	40,291	3,036	43,327	5.1%
Miami-Fort Lauderdale-Pompano Beach, FL	37,261	2,987	40,248	4.7%
Riverside-San Bernardino-Ontario, CA	36,671	3,383	40,054	4.7%
Phoenix-Mesa-Scottsdale, AZ	32,075	3,453	35,528	4.2%
Washington-Arlington-Alexandria, DC-VA-MD-WV	27,201	2,446	29,647	3.5%
Atlanta-Sandy Springs-Marietta, GA	25,107	2,165	27,272	3.2%
Las Vegas-Paradise, NV	17,187	1,531	18,718	2.2%
Detroit-Warren-Livonia, MI	16,687	1,336	18,023	2.1%
Orlando-Kissimmee, FL	15,516	1,400	16,916	2.0%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	13,994	1,125	15,119	1.8%
Boston-Cambridge-Quincy, MA-NH	12,596	1,184	13,780	1.6%
Minneapolis-St. Paul-Bloomington, MN-WI	12,136	1,237	13,373	1.6%
Tampa-St. Petersburg-Clearwater, FL	12,044	1,159	13,203	1.5%

Note: Figures include active trial and permanent modifications.

A complete list of HAMP activity for all MSAs is available at *http://www.financialstability.gov/docs/press/MSA%20Data%20December.pdf*

HAMP Modifications by Investor Type (20 Largest Servicers)

Servicer	GSE	Private	Portfolio	Total
Bank of America, NA[1]	128,699	65,404	9,367	203,470
JP Morgan Chase NA[2]	68,140	63,956	21,871	153,967
Wells Fargo Bank, NA	90,757	22,910	5,041	118,708
CitiMortgage, Inc.	74,098	7,252	31,648	112,998
Saxon Mortgage Services Inc.	1,206	31,882	323	33,411
GMAC Mortgage, Inc.	17,089	13,455	0	30,544
Aurora Loan Services, LLC	15,647	10,639	308	26,594
OneWest Bank	14,937	8,012	1,289	24,238
Select Portfolio Servicing	522	19,118	2,434	22,074
Litton Loan Servicing LP[3]	2,228	15,443	665	18,336
Nationstar Mortgage LLC	8,845	4,485	123	13,453
Ocwen Financial Corporation, Inc.	2,508	10,231	20	12,759
PNC Mortgage[4]	10,868	7	1,339	12,214
American Home Mortgage Servicing Inc	723	10,167	0	10,890
US Bank NA	6,041	7	1,354	7,402
Bayview Loan Servicing, LLC	0	3,461	43	3,504
Green Tree Servicing LLC	3,156	190	9	3,355
Wachovia Mortgage, FSB[5]	1,500	97	793	2,390
HomEq	0	1,662	0	1,662
Carrington Mortgage Services LLC	0	1,507	0	1,507
Remainder of HAMP Servicers	38,454	14	1,752	40,220
Total	**485,418**	**289,899**	**78,379**	**853,696**

[1] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loans Services and Wilshire Credit Corporation.
[2] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[3] Loans previously reported as portfolio have been restated as private per supplemental guidance from Treasury.
[4] Formerly National City Bank.
[5] Wachovia Mortgage FSB includes Wachovia Bank NA.

Note: Figures reflect active trials and permanent modifications.

Making Home Affordable Program

Servicer Performance Report Through January 2010

Report Highlights

Number of Permanent Modifications Nearly Doubles Over Previous Month

- In addition to the 116,000 permanent modifications, an additional 76,000 permanent modifications have been approved by servicers and are pending borrower acceptance.
- The median savings to borrowers in permanent modifications is more than $500 each month.

Over One Million Borrowers Have Had the Opportunity to Modify Mortgages

- Nearly 1.3 million homeowners have received offers for trial modifications.
- More than 940,000 borrowers are in active modifications; 116,000 of those are permanent modifications.
- These homeowners' lower monthly mortgage payments represent a cumulative savings of $2.2 billion.
- New streamlined documentation requirements will make it easier for borrowers to apply for a HAMP modification and receive permanent relief.

Permanent Modifications Are Helping Borrowers Who Have Experienced a Loss of Income

- The majority of permanent modifications – 57.4% – are helping people who are coping with unemployment or who have seen a reduction in hours or wages.

National Participation by Mortgage Lenders and Coverage of Outstanding Mortgage Debt Is Extensive

- 110 servicers have signed servicer participation agreements to modify loans under HAMP, and new servicers continue to join the program each week. In addition, approximately 2,300 lenders service loans owned or guaranteed by Fannie Mae or Freddie Mac; these GSE loans are automatically eligible for HAMP.
- Approximately 89% of eligible mortgage debt outstanding is covered by HAMP participating servicers.

Inside:

Administration Housing Initiatives	2
Economic Indicators	3
HAMP Program Snapshot	4
Waterfall of HAMP-Eligible Borrowers	5
Characteristics of Permanent Modifications	6
Servicer Activity	7
HAMP Activity by State	8
HAMP Activity by Metropolitan Area	9
Modifications by Investor Type	9
List of Non-GSE Participants	10

Making Home Affordable Program

Servicer Performance Report Through January 2010

Overview of Administration Housing Stability Initiatives

Initiatives to Support Access to Affordable Mortgage Credit and Housing

Lower Mortgage Rates and Access to Credit:

- Continued financial support to maintain affordable mortgage rates through the Government Sponsored Enterprises (GSEs)
- Interest rates down a full percentage point over the past year. Every 1% reduction in interest rate saves a new borrower a median of $1500 annually in mortgage payments.
- Access to sustainable mortgages through the Federal Housing Administration (FHA).

State and Local Housing Initiatives:

- Access for Housing Finance Agencies to provide mortgages to first-time homebuyers, refinance opportunities for at-risk borrowers, and affordable rental housing.

Tax Credits for Housing:

- Homebuyer credit to help homebuyers buy new homes.
- Low-Income Housing Tax Credit (LIHTC) programs to support affordable rental housing.

Initiatives to Prevent Avoidable Foreclosures and Stabilize Neighborhoods

Making Home Affordable – Modifications:

- Goal of offering 3-4 million homeowners lower mortgage payments through a modification through 2012.
- Over 1 million homeowners have started trial modifications and nearly 1.3 million offers for trial modifications have been extended to borrowers.
- Homeowners in permanent modifications are saving a median of over $500 per month on mortgage payments. In aggregate, homeowners have saved over $2.2 billion through trial and permanent modifications.

Making Home Affordable – Refinancing:

- Refinancing flexibility and low mortgage rates, which have allowed over 4 million borrowers to refinance, saving an estimated $150 per month on average and more than $6.8 billion in total over the first year.

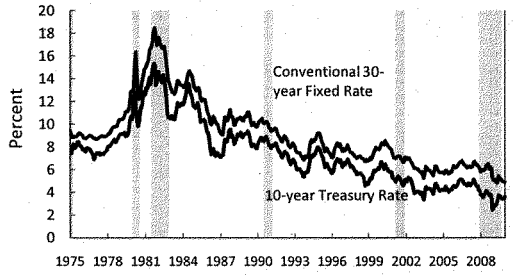
Neighborhood Stabilization and Community Development Programs:

- Support for the hardest hit communities to help stabilize neighborhoods.

Making Home Affordable Program

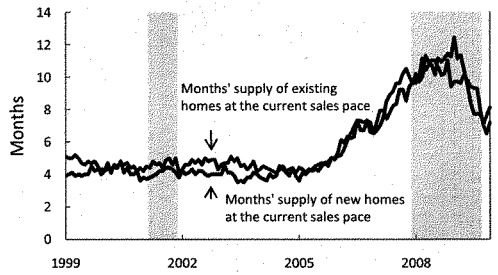
Servicer Performance Report Through January 2010

Mortgage Rates



Source: Federal Reserve.

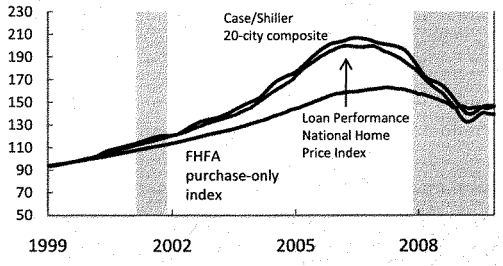
Housing Inventory



Source: National Association of Realtors.

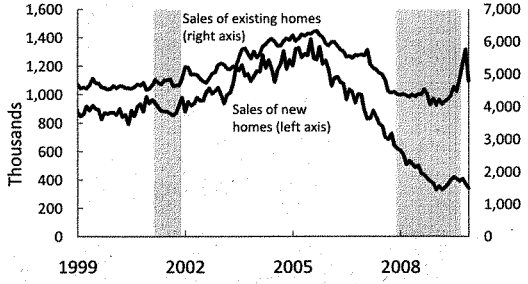
Home Prices

Index: Jan 2000 = 100



Sources: S&P/Case-Shiller Home Price Index; LP/Haver Analytics; FHFA.

New and Existing Home Sales



Source: National Association of Realtors, Census Bureau.

Note: Shaded areas indicate recessions.

MAKING HOME AFFORDABLE

Making Home Affordable Program

Servicer Performance Report Through January 2010

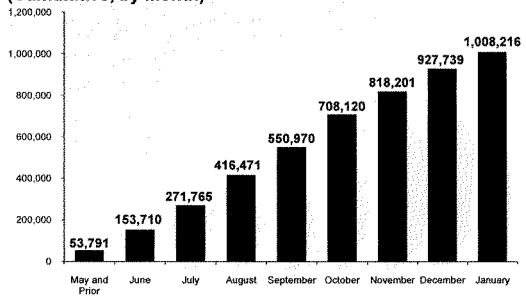
Home Affordable Modification Program (HAMP) Snapshot through January 2010[1]

Number of Trial Period Plan Offers Extended to Borrowers (Cumulative)[2]	1,269,937
All HAMP Trials Started Since Program Inception	1,008,216
All Active Modifications (Trial and Permanent)	946,735
Active Trial Modifications	830,438
Trial Modifications Canceled	60,476
All Permanent Modifications Started	117,302
Permanent Modifications Canceled	1,005
Active Permanent Modifications	116,297

[1] As reported by the HAMP system of record except where noted.
[2] Source: Survey data provided by servicers.

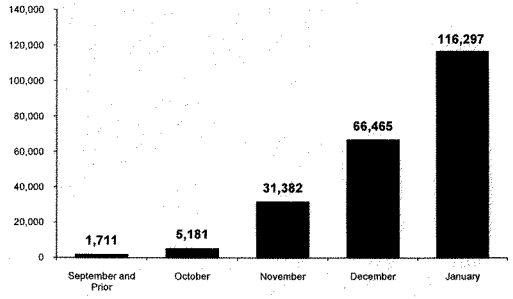
Additional information on HAMP can be found on MakingHomeAffordable.gov or by calling the Homeowner's HOPE Hotline at 1-888-995-HOPE (4673).

HAMP Trials Started (Cumulative, by Month)



Source: All trial modifications started by month first payment posted; based on numbers reported by servicers to the HAMP system of record.

Active Permanent Modifications



Source: HAMP system of record.

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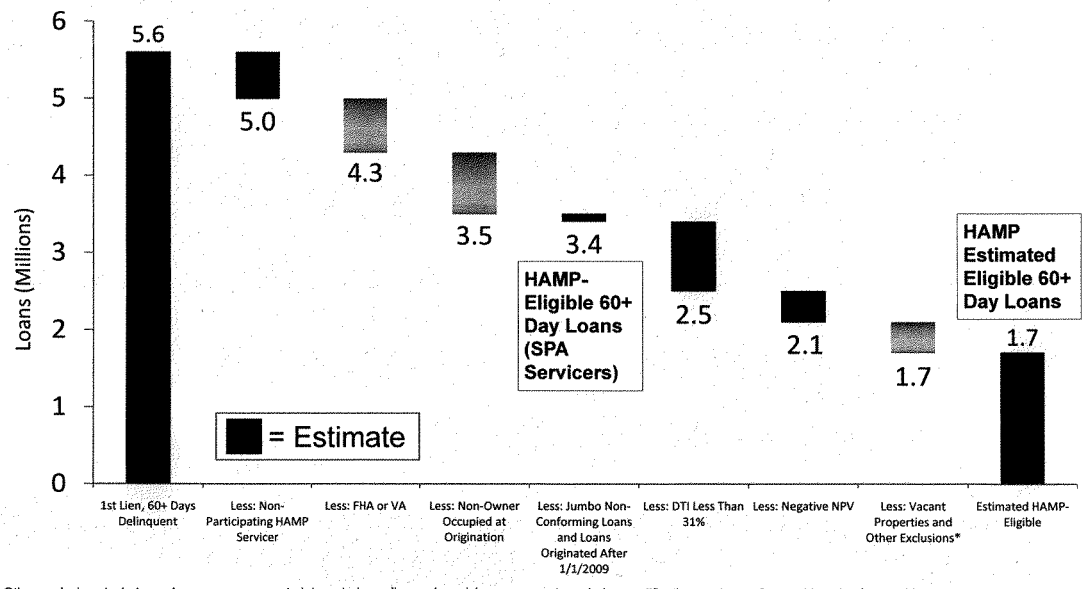
Making Home Affordable Program

Servicer Performance Report Through January 2010

Waterfall of HAMP-Eligible Borrowers

Not all 60-day delinquent loans are eligible for HAMP. Other characteristics may preclude borrower eligibility. Based on the estimates, of the 5.6 million borrowers who are currently 60 days delinquent , 1.7 million borrowers are eligible for HAMP. As this represents a point-in-time snapshot of the delinquency population and estimated HAMP eligibility, we expect that more borrowers will become eligible for HAMP from now through 2012.



*Other exclusions include: no longer owner-occupied; investor's pooling and servicing agreement precludes modification; and manufactured housing loans with titling/chattel issues that exclude them from HAMP.

Sources: Fannie Mae; monthly survey of participating servicers for December 31, 2009. Total 60+ figure from 3rd quarter MBA delinquency survey, Q3 2009. Excluded loans are as reported by servicers by survey who have signed a servicer participation agreement for HAMP.

MAKING HOME AFFORDABLE

Making Home Affordable Program

Servicer Performance Report Through January 2010

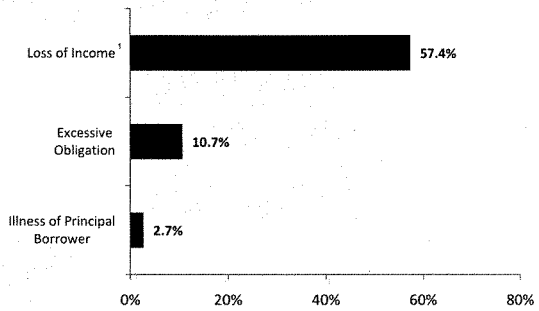
Modification Characteristics

- Borrowers in active trial and permanent modifications have saved more than $2.2 billion through HAMP modifications.
- Loss of income is the primary borrower hardship for borrowers in permanent modifications.

Permanent Modifications by Modification Steps:

Interest Rate Reduction	100%
Term Extension	41.7%
Principal Forbearance	27.4%

Predominant Hardship Reasons for Permanent Modifications



[1] Includes borrowers who are employed but have faced a reduction in hours and/or wages as well as those who have lost their jobs.
Note: Does not include 21.0% of permanent modifications reported as Other.

Select Median Characteristics of Permanent Modifications

Loan Characteristic	Before Modification	After Modification	Median Decrease
Front-End Debt-to-Income Ratio[1]	45.1%	31.0%	-14.2 pct pts
Back-End Debt-to-Income Ratio[2]	76.1%	59.7%	-14.7 pct pts
Median Monthly Payment	$1,431.30	$835.33	-$521.85

[1] Ratio of housing expenses (principal, interest, taxes, insurance and homeowners association and/or condo fees) to monthly gross income.
[2] Ratio of total monthly debt payments (including mortgage principal and interest, taxes, insurance, homeowners association and/or condo fees, plus payments on installment debts, junior liens, alimony, car lease payments and investment property payments) to monthly gross income. Borrowers who have a back-end debt-to-income ratio of greater than 55% are required to seek housing counseling under program guidelines.

Making Home Affordable Program

Servicer Performance Report Through January 2010

HAMP Modification Activity by Servicer

Servicer	Estimated Eligible 60+ Day Delinquency[1]	Trial Plan Offers Extended[2]	All HAMP Trials Started[3]	Active Trial Modifications[3]	Permanent Modifications[3]	Pending Permanent Modifications[4]	Active Trials + Permanents as Share of Eligible 60+ Day Delinquencies
American Home Mortgage Servicing Inc	127,521	15,137	12,142	11,764	333	2,171	9%
Aurora Loan Services, LLC	77,985	43,666	38,187	21,299	6,554	2,236	36%
Bank of America, NA[5]	1,066,025	329,745	237,766	221,395	12,761	13,701	22%
Bank United	5,287	1,211	944	816	128	629	18%
Bayview Loan Servicing, LLC	10,413	4,603	3,960	3,564	249	48	37%
Carrington Mortgage Services LLC	18,823	2,781	1,511	693	811	33	8%
CCO Mortgage	5,387	1,169	1,132	1,103	29	311	21%
CitiMortgage, Inc.	246,038	148,200	130,817	111,247	10,929	7,299	50%
Franklin Credit Management Corp.	9,527	76	8	8	0	NA	0%
GMAC Mortgage, Inc.	65,751	45,880	34,486	21,330	11,494	1,352	50%
Green Tree Servicing LLC	11,250	5,604	4,055	3,728	227	389	35%
HomEq Servicing	41,513	3,250	2,020	1,333	596	16	5%
J.P. Morgan Chase Bank, NA[6]	432,416	222,192	170,028	150,902	11,581	17,959	38%
Litton Loan Servicing LP	110,795	30,114	22,782	18,454	2,568	942	19%
Nationstar Mortgage LLC	49,556	24,399	17,427	12,953	2,271	696	31%
Ocwen Financial Corporation, Inc.	65,608	18,938	14,217	7,032	6,930	4,836	21%
OneWest Bank	112,200	48,548	30,509	24,741	3,087	5,848	25%
PNC Mortgage[7]	41,365	20,472	15,523	13,141	77	832	32%
Saxon Mortgage Services, Inc.	71,429	40,375	36,964	28,685	5,312	4,989	48%
Select Portfolio Servicing	62,041	50,149	31,630	17,915	6,761	1,402	40%
US Bank NA	29,393	10,626	7,799	6,673	1,126	2,366	27%
Wachovia Mortgage, FSB[8]	86,461	11,418	2,834	2,443	330	873	3%
Wells Fargo Bank, NA	357,483	188,749	144,904	119,476	17,652	7,554	38%
Other SPA servicers[9]	22,981	2,635	1,921	1,131	750	NA	8%
Other GSE Servicers[10]	277,253	NA	44,650	28,612	13,741	NA	15%
Total	**3,404,501**	**1,269,937**	**1,008,216**	**830,438**	**116,297**	**76,482**	**28%**

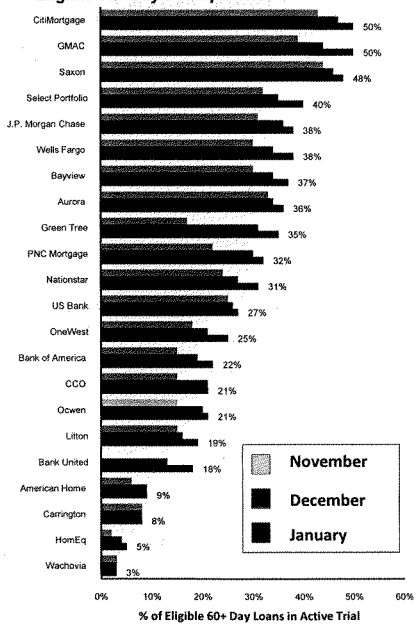
[1] Estimated eligible 60+ day delinquent mortgages as reported by servicers as of December 31, 2009 include conventional loans:
- in foreclosure and bankruptcy.
- with a current unpaid principal balance less than $729,750 on a one-unit property, $934,200 on a two-unit property, $1,129,250 on a three-unit property and $1,403,400 on a four-unit property.
- on a property that was owner-occupied at origination.
- originated prior to January 1, 2009.

Estimated eligible 60+ day delinquent loans excludes:
- FHA and VA loans.
- loans that are current or less than 60 days delinquent, which may be eligible for HAMP if a borrower is in imminent default.

For servicers enrolling after December 1 that did not participate in the 60+ day delinquency survey, the delinquency count is from the servicer registration form.

[2] As reported in the weekly servicer survey through January 28, 2010.
[3] Active trial and permanent modifications as reported into the HAMP system of record by servicers.
[4] As reported by servicers. Pending permanent modifications have been approved by the servicer but have not yet been accepted by the borrower. While pending, modifications are reflected in the count of active trials.
[5] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loan Services and Wilshire Credit Corporation.
[6] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[7] Formerly National City Bank.
[8] Wachovia Mortgage FSB includes Wachovia Bank NA.
[9] Other SPA servicers are entities with less than 5,000 estimated eligible 60+ day delinquencies that have signed participation agreements with Treasury and Fannie Mae. A full list of participating servicers is in the Appendix.
[10] Includes servicers of loans owned or guaranteed by Fannie Mae and Freddie Mac.

Active Modifications as a Share of Estimated Eligible 60+ Day Delinquencies



Note: Includes active trial and permanent modifications. Servicer combinations are the same as the table at left.
November trials as a share of 60+ day delinquencies on October 31, 2009.
December trials as a share of 60+ day delinquencies on November 30, 2009.
January trials as a share of 60+ day delinquencies on December 31, 2009.

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Making Home Affordable Program

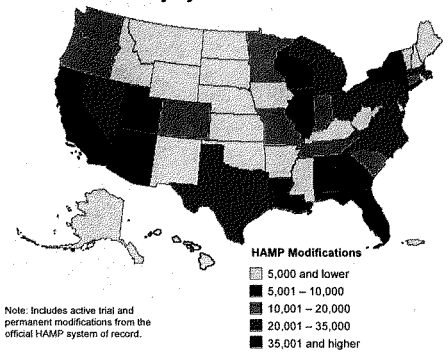
Servicer Performance Report Through January 2010

HAMP Activity by State

State	Active Trials	Permanent Modifications	Total
AK	483	56	539
AL	5,907	723	6,630
AR	2,355	337	2,692
AZ	40,438	7,000	47,438
CA	167,399	24,242	191,641
CO	11,708	1,797	13,505
CT	10,655	1,465	12,120
DC	1,538	191	1,729
DE	2,667	428	3,095
FL	101,971	14,598	116,569
GA	33,059	4,508	37,567
HI	2,891	436	3,327
IA	2,743	322	3,065
ID	3,335	508	3,843
IL	44,281	5,592	49,873
IN	9,255	1,216	10,471
KS	2,599	325	2,924
KY	3,647	453	4,100
LA	5,309	516	5,825
MA	18,647	2,788	21,435
MD	27,183	4,003	31,186
ME	2,201	337	2,538
MI	28,062	3,938	32,000
MN	15,359	2,584	17,943
MO	10,573	1,234	11,807
MS	3,413	474	3,887
MT	1,140	138	1,278
NC	17,531	2,510	20,041
ND	215	22	237
NE	1,367	186	1,553
NH	3,620	612	4,232
NJ	27,905	3,710	31,615
NM	3,012	390	3,402
NV	21,568	3,484	25,052
NY	38,706	3,777	42,483
OH	18,451	2,529	20,980
OK	2,713	298	3,011
OR	9,416	1,469	10,885
PA	19,494	2,416	21,910
RI	3,845	599	4,444
SC	9,178	1,209	10,387
SD	405	43	448
TN	9,452	1,338	10,790
TX	29,351	2,481	31,832
UT	7,029	1,105	8,134
VA	20,542	3,377	23,919
VT	598	93	691
WA	16,255	2,580	18,835
WI	8,344	1,243	9,587
WV	1,466	199	1,665
WY	440	73	513
Other*	717	345	1,062

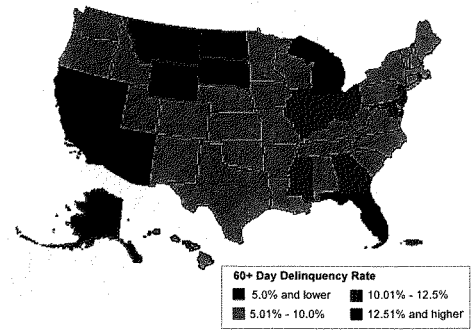
* Includes Guam, Puerto Rico and the U.S. Virgin Islands.

HAMP Activity by State



Note: Includes active trial and permanent modifications from the official HAMP system of record.

Mortgage Delinquency Rates by State



Source: Mortgage Bankers Association. Data is latest available and is as of 3rd Quarter 2009.

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Making Home Affordable Program

Servicer Performance Report Through January 2010

15 Metropolitan Areas With Highest HAMP Activity

Metropolitan Statistical Area	Active Trials	Permanent Modifications	Total HAMP Activity	% of All HAMP Activity
New York-Northern New Jersey-Long Island, NY-NJ-PA	51,613	5,743	57,356	6.1%
Los Angeles-Long Beach-Santa Ana, CA	48,778	6,383	55,161	5.8%
Chicago-Naperville-Joliet, IL-IN-WI	42,683	5,381	48,064	5.1%
Miami-Fort Lauderdale-Pompano Beach, FL	39,356	5,143	44,499	4.7%
Riverside-San Bernardino-Ontario, CA	38,040	6,139	44,179	4.7%
Phoenix-Mesa-Scottsdale, AZ	33,157	5,834	38,991	4.1%
Washington-Arlington-Alexandria, DC-VA-MD-WV	28,520	4,330	32,850	3.5%
Atlanta-Sandy Springs-Marietta, GA	26,593	3,692	30,285	3.2%
Las Vegas-Paradise, NV	18,000	2,757	20,757	2.2%
Detroit-Warren-Livonia, MI	17,580	2,274	19,854	2.1%
Orlando-Kissimmee, FL	16,265	2,468	18,733	2.0%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	14,807	1,961	16,768	1.8%
Boston-Cambridge-Quincy, MA-NH	13,147	2,014	15,161	1.6%
Tampa-St. Petersburg-Clearwater, FL	12,752	1,943	14,695	1.6%
Minneapolis-St. Paul-Bloomington, MN-WI	12,517	2,123	14,640	1.5%

A complete list of HAMP activity for all MSAs is available at *http://www.financialstability.gov/docs/MSA%20Data%20Jan%202010.pdf*

HAMP Modifications by Investor Type (20 Largest Servicers)

Servicer	GSE	Private	Portfolio	Total
Bank of America, NA[1]	149,464	73,282	11,410	234,156
JP Morgan Chase NA[2]	74,390	65,579	22,514	162,483
Wells Fargo Bank, NA	100,361	31,497	5,270	137,128
CitiMortgage, Inc.	80,917	7,967	33,292	122,176
Saxon Mortgage Services Inc.	1,264	32,403	330	33,997
GMAC Mortgage, Inc.	18,085	14,739	0	32,824
Aurora Loan Services, LLC	16,087	11,437	329	27,853
OneWest Bank	15,580	10,514	1,734	27,828
Select Portfolio Servicing	567	21,219	2,890	24,676
Litton Loan Servicing LP	2,369	18,653	0	21,022
Nationstar Mortgage LLC	10,248	4,870	106	15,224
Ocwen Financial Corporation, Inc.	3,066	10,857	39	13,962
PNC Mortgage[3]	11,765	19	1,434	13,218
American Home Mortgage Servicing Inc	816	11,281	0	12,097
US Bank NA	6,107	9	1,683	7,799
Green Tree Servicing LLC	3,756	190	9	3,955
Bayview Loan Servicing, LLC	1	3,772	40	3,813
Wachovia Mortgage, FSB[4]	1,500	132	1,141	2,773
HomEq	0	1,898	31	1,929
Carrington Mortgage Services LLC	0	1,504	0	1,504
Remainder of HAMP Servicers	44,040	29	2,249	46,318
Total	**540,383**	**321,851**	**84,501**	**946,735**

[1] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loans Services and Wilshire Credit Corporation.
[2] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[3] Formerly National City Bank.
[4] Wachovia Mortgage FSB includes Wachovia Bank NA.

Note: Figures reflect active trials and permanent modifications.

Making Home Affordable Program

Servicer Performance Report Through January 2010

Appendix: Non-GSE Participants in HAMP

Allstate Mortgage Loans & Investments, Inc.
American Eagle Federal Credit Union
American Home Mortgage Servicing, Inc
AMS Servicing, LLC
Aurora Loan Services, LLC
Bank of America, N.A.[1]
Bank United
Bay Federal Credit Union
Bay Gulf Credit Union
Bayview Loan Servicing, LLC
Carrington Mortgage Services, LLC
CCO Mortgage
Central Florida Educators Federal Credit Union
Central Jersey Federal Credit Union
Chase Home Finance, LLC
CitiMortgage, Inc.
Citizens 1st National Bank
Citizens First Wholesale Mortgage Company
Community Bank & Trust Company
CUC Mortgage Corporation
Digital Federal Credit Union
DuPage Credit Union
Eaton National Bank & Trust Co
Farmers State Bank
Fidelity Homestead Savings Bank
First Bank
First Federal Savings and Loan
First Federal Savings and Loan Assn. of Lakewood
First Keystone Bank
First National Bank of Grant Park
Franklin Credit Management Corporation
Fresno County Federal Credit Union
Glass City Federal Credit Union
Glenview State Bank
GMAC Mortgage, Inc.
Golden Plains Credit Union
Grafton Suburban Credit Union
Great Lakes Credit Union
Greater Nevada Mortgage Services
Green Tree Servicing LLC
Harleysville National Bank & Trust Company
Hartford Savings Bank
Hillsdale County National Bank
Home Financing Center, Inc
HomEq Servicing
HomeStar Bank & Financial Services
Horicon Bank
Horizon Bank, NA
Iberiabank
IBM Southeast Employees' Federal Credit Union
IC Federal Credit Union
Idaho Housing and Finance Association
iServe Residential Lending LLC
J.P.Morgan Chase Bank, NA[2]
Lake City Bank
Lake National Bank
Litton Loan Servicing
Los Alamos National Bank
Marix Servicing, LLC
Members Mortgage Company, Inc
Metropolitan National Bank
Mission Federal Credit Union
MorEquity, Inc.
Mortgage Center, LLC
Mortgage Clearing Corporation
National City Bank
Nationstar Mortgage LLC
Oakland Municipal Credit Union
Ocwen Financial Corporation, Inc.
OneWest Bank
ORNL Federal Credit Union
Park View Federal Savings Bank
PennyMac Loan Services, LLC
PNC Bank, National Association
Purdue Employees Federal Credit Union
QLending, Inc.
Quantum Servicing Corporation
Residential Credit Solutions
RG Mortgage Corporation
Roebling Bank
RoundPoint Mortgage Servicing Corporation
Saxon Mortgage Services, Inc.
Schools Financial Credit Union
SEFCU
Select Portfolio Servicing
Servis One Inc., dba BSI Financial Services, Inc.
ShoreBank
Silver State Schools Credit Union
Sound Community Bank
Specialized Loan Servicing, LLC
Spirit of Alaska Federal Credit Union
Stanford Federal Credit Union
Sterling Savings Bank
Technology Credit Union
Tempe Schools Credit Union
The Bryn Mawr Trust Co.
The Golden 1 Credit Union
U.S. Bank National Association
United Bank of Georgia
United Bank Mortgage Corporation
Vantium Capital, Inc.
Verity Credit Union
Wachovia Mortgage, FSB[3]
Wells Fargo Bank, NA
Wescom Central Credit Union
Yadkin Valley Bank

[1] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loan Services and Wilshire Credit Corporation.
[2] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[3] Wachovia Mortgage FSB includes Wachovia Bank NA.

Making Home Affordable Program

Servicer Performance Report Through February 2010

Report Highlights

Number of Permanent Modifications Increases 45%

- More than 170,000 permanent modifications have been granted to homeowners, who are guaranteed lower payments for five years.
- An additional 91,800 permanent modifications have been approved by servicers and are pending borrower acceptance.

Over One Million Borrowers in Active Trial and Permanent Modifications

- More than 1.3 million homeowners have received offers for trial modifications, representing 34-45% toward the goal of 3-4 million offers extended through 2012.
- More than 72,000 new trial modifications started in February; borrower savings begin with the first trial payment. Nearly 1.1 million trial modifications have begun under the program.
- Of the 1 million borrowers in active modifications, more than 168,000 borrowers are in active permanent modifications.
- These homeowners' lower monthly mortgage payments represent a cumulative savings of over $2.7 billion.
- Of modifications that have converted to permanent, 0.9% have been canceled. Of all modifications started, 8.2% have been canceled.

Borrowers in Permanent Modifications Experience Real, Long-Term Savings in Monthly Housing Expenses

- Borrowers in permanent modifications are saving a median of 36% of their before-modification payment; median savings is more than $500 each month.
- Qualified homeowners could reduce housing-related expenses from almost half of their gross income to less than one-third of their income.
- Upon completing one year of on-time payments per program guidelines, borrowers are eligible to earn up to $1,000 to be applied to their outstanding mortgage balance.

HAMP Is One Piece of the Administration Initiatives to Promote Housing and Financial Stability *(see Page 2)*

Inside:

Administration Housing Initiatives	2
Economic Indicators	3
HAMP Program Snapshot	4
Waterfall of HAMP-Eligible Borrowers	5
Characteristics of Permanent Modifications	6
Selected Outreach Measures	6
Servicer Activity	7
HAMP Activity by State	8
HAMP Activity by Metropolitan Area	9
Modifications by Investor Type	9
List of Non-GSE Participants	10

Making Home Affordable Program

Servicer Performance Report Through February 2010

Overview of Administration Housing Stability Initiatives

Initiatives to Support Access to Affordable Mortgage Credit and Housing

Lower Mortgage Rates and Access to Credit:

- Continued financial support to maintain affordable mortgage rates through the Government Sponsored Enterprises (GSEs)
- Interest rates remain near historic lows. Every 1% reduction in interest rate saves a new borrower a median of $1,500 annually in mortgage payments.
- Access to sustainable mortgages through the Federal Housing Administration (FHA).

State and Local Housing Initiatives:

- Access for Housing Finance Agencies to provide mortgages to first-time homebuyers, refinance opportunities for at-risk borrowers, and affordable rental housing. Over 90 HFAs across 45 states are participating.

Tax Credits for Housing:

- Homebuyer credit to help hundreds of thousands of American families buy new homes.
- Low-Income Housing Tax Credit (LIHTC) programs to support affordable rental housing, with total funding of $5 billion.

Initiatives to Prevent Avoidable Foreclosures and Stabilize Neighborhoods

Making Home Affordable – Modifications:

- Goal of offering 3-4 million homeowners lower mortgage payments through a modification through 2012.
- Nearly 1.1 million homeowners have started trial modifications and over 1.3 million offers for trial modifications have been extended to borrowers.
- Homeowners in permanent modifications are saving a median of over $500 per month on mortgage payments. In aggregate, homeowners have saved over $2.7 billion through trial and permanent modifications.

Refinancing:

- Refinancing flexibility and low mortgage rates have allowed over 4 million borrowers with GSE mortgages to refinance, saving an estimated $150 per month on average and more than $6.8 billion in the first year.

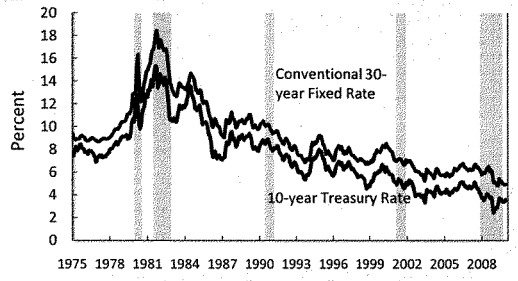
Neighborhood Stabilization and Community Development Programs:

- Over $5 billion in Recovery Act support for the hardest hit communities to help stabilize neighborhoods.
- $1.5 billion HFA Innovation Fund for the Hardest Hit Housing Markets to support innovative, locally focused foreclosure prevention efforts.

Making Home Affordable Program

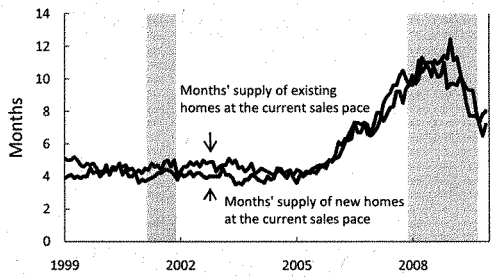
Servicer Performance Report Through February 2010

Mortgage Rates



Source: Federal Reserve.

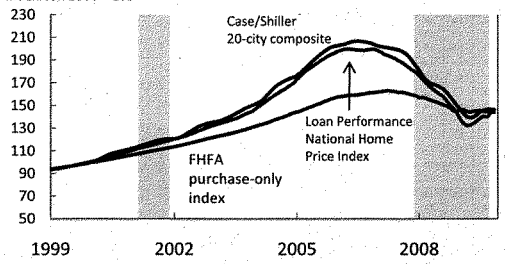
Housing Inventory



Source: National Association of Realtors.

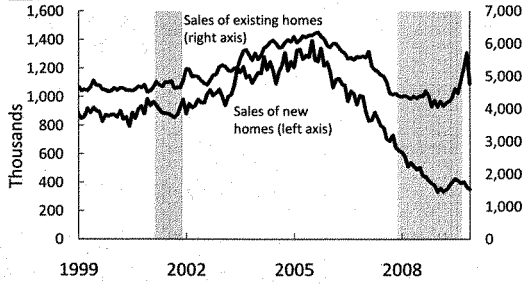
Home Prices

Index: Jan 2000 = 100



Sources: S&P/Case-Shiller Home Price Index; LP/Haver Analytics; FHFA.

New and Existing Home Sales



Source: National Association of Realtors, Census Bureau.

Note: Shaded areas indicate recessions.

Making Home Affordable Program

Servicer Performance Report Through February 2010

Home Affordable Modification Program (HAMP) Snapshot Program Inception Through February 2010[1]

Number of Trial Period Plan Offers Extended to Borrowers (Cumulative)[2]	1,354,350
All HAMP Trials Started Since Program Inception	1,094,064
Trials Converted to Permanent Modifications	170,207

[1] As reported by the HAMP system of record except where noted.
[2] Source: Survey data provided by servicers.

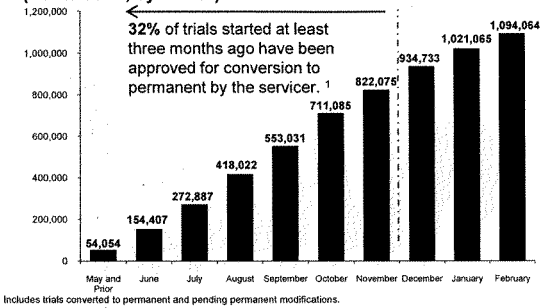
Home Affordable Modification Program (HAMP) Snapshot As of February 2010[1]

Active Modifications (Trial and Permanent)	1,003,902
Active Trial Modifications	835,194
Active Permanent Modifications	168,708
Pending Permanent Modifications[2]	91,843
Trial Modifications Canceled	88,663
Permanent Modifications Canceled[3]	1,499
Percentage to Goal of 3-4 Million Modification Offers[4]	34-45%

[1] As reported by the HAMP system of record.
[2] As reported by servicers. Pending permanent modifications have been approved by the servicer but have not yet been accepted by the borrower. While pending, modifications are reflected in the count of active trials.
[3] Includes 26 loans paid off.
[4] In 2009, Treasury set a goal of offering help to 3-4 million borrowers through the end of 2012, as measured by trial plan offers extended to borrowers.

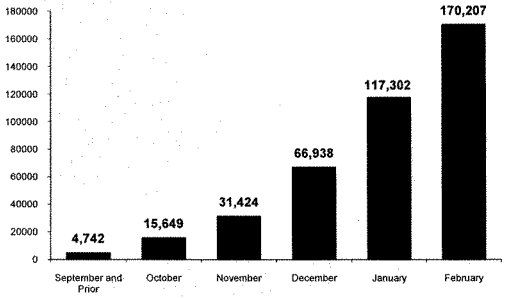
Additional information on HAMP can be found on MakingHomeAffordable.gov
Borrowers may call the Homeowner's HOPE Hotline at 1-888-995-HOPE (4673).

HAMP Trials Started (Cumulative, by Month)



[1] Includes trials converted to permanent and pending permanent modifications.
Source: All trial modifications started by month first payment posted; based on numbers reported by servicers to the HAMP system of record.

Permanent Modifications Started (Cumulative, by Month)



Source: HAMP system of record.

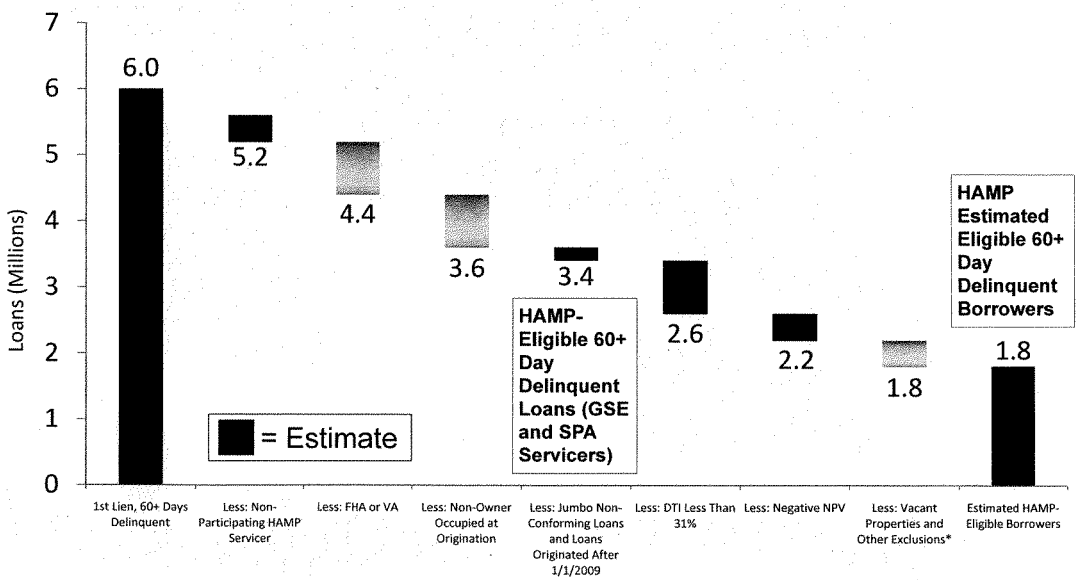
MAKING HOME AFFORDABLE

Making Home Affordable Program

Servicer Performance Report Through February 2010

Waterfall of HAMP-Eligible Borrowers

Not all 60-day delinquent loans are eligible for HAMP. Other characteristics may preclude borrower eligibility. Based on the estimates, of the 6.0 million borrowers who are currently 60 days delinquent, 1.8 million borrowers are eligible for HAMP. As this represents a point-in-time snapshot of the delinquency population and estimated HAMP eligibility, we expect that more borrowers will become eligible for HAMP from now through 2012.



*Other exclusions include: no longer owner-occupied; investor's pooling and servicing agreement precludes modification; and manufactured housing loans with titling/chattel issues that exclude them from HAMP.

Sources: Fannie Mae; monthly survey of participating servicers for January 31, 2010. Total 60+ delinquent figure from 4th quarter 2009 MBA delinquency survey. Excluded loans are as reported by servicers by survey who have signed a servicer participation agreement for HAMP.

MAKING HOME AFFORDABLE

Making Home Affordable Program

Servicer Performance Report Through February 2010

Modification Characteristics

- Borrowers in active trial and permanent modifications have saved more than $2.7 billion through HAMP modifications.
- The median savings for borrowers in permanent modifications is $518.88, or 36% of the median before-modification payment.

Permanent Modifications by Modification Steps:

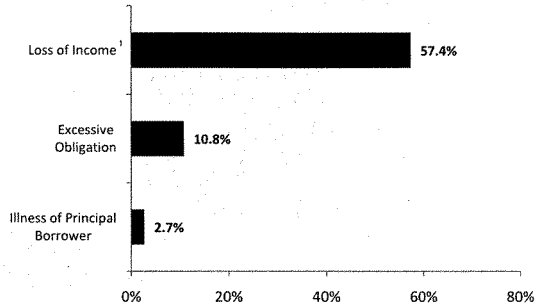
Interest Rate Reduction	100%
Term Extension	40.8%
Principal Forbearance	27.8%

Select Median Characteristics of Permanent Modifications

Loan Characteristic	Before Modification	After Modification	Median Decrease
Front-End Debt-to-Income Ratio[1]	45.0%	31.0%	-14.2 pct pts
Back-End Debt-to-Income Ratio[2]	76.4%	59.8%	-14.6 pct pts
Median Monthly Payment[3]	$1,430.96	$837.86	-$518.88

[1] Ratio of housing expenses (principal, interest, taxes, insurance and homeowners association and/or condo fees) to monthly gross income.
[2] Ratio of total monthly debt payments (including mortgage principal and interest, taxes, insurance, homeowners association and/or condo fees, plus payments on installment debts, junior liens, alimony, car lease payments and investment property payments) to monthly gross income. Borrowers who have a back-end debt-to-income ratio of greater than 55% are required to seek housing counseling under program guidelines.
[3] Principal and interest payment.

Predominant Hardship Reasons for Permanent Modifications



[1] Includes borrowers who are employed but have faced a reduction in hours and/or wages as well as those who have lost their jobs.
Note: Does not include 21.2% of permanent modifications reported as Other.

Selected Outreach Measures

Servicer Solicitation of Borrowers (cumulative since program inception)[1]	3,833,595
Page views on MHA.gov (February 2010)	5,273,896
Page views on MHA.gov (cumulative)	66,480,643

[1] Source: survey data provided by servicers. Servicers are encouraged by HAMP to solicit information from borrowers 60+ days delinquent, regardless of eligibility for a HAMP modification. Through December, solicitations totaled 3,297,817. Through January, solicitations totaled 3,595,637.

Making Home Affordable Program

Servicer Performance Report Through February 2010

HAMP Modification Activity by Servicer

Servicer	Estimated Eligible 60+ Day Delinquency[1]	Trial Plan Offers Extended[2]	All HAMP Trials Started[3]	Active Trial Modifications[3]	Permanent Modifications[4]	Pending Permanent Modifications[4]	Active Trials + Permanents as Share of Eligible 60+ Day Delinquencies
American Home Mortgage Servicing Inc	128,436	16,431	13,349	12,456	825	7,595	10%
Aurora Loan Services, LLC	79,039	46,015	40,000	19,118	8,433	1,503	35%
Bank of America, NA[5]	1,086,512	357,717	264,813	240,550	20,666	22,303	24%
Bank United	5,333	1,467	1,180	722	455	603	22%
Bayview Loan Servicing, LLC	10,500	5,117	4,375	3,749	482	69	40%
Carrington Mortgage Services LLC	18,426	2,919	1,533	504	1,022	50	8%
CCO Mortgage	5,756	1,758	1,132	1,058	74	493	20%
CitiMortgage, Inc.	249,901	153,036	138,795	113,776	15,607	8,076	52%
GMAC Mortgage, Inc.	66,289	48,764	37,081	20,338	14,675	4,388	53%
Green Tree Servicing LLC	11,442	6,210	4,743	4,277	375	725	41%
HomEq Servicing	41,779	4,064	2,020	1,217	712	234	5%
J.P. Morgan Chase Bank, NA[6]	437,323	229,819	179,645	151,932	19,385	20,450	39%
Litton Loan Servicing LP	109,507	33,862	27,242	20,868	4,213	923	23%
Nationstar Mortgage LLC	48,885	25,896	19,046	10,039	3,984	919	29%
Ocwen Financial Corporation, Inc.	65,422	20,435	16,148	6,444	9,290	2,724	24%
OneWest Bank	111,955	52,549	35,503	27,668	5,057	5,596	29%
PNC Mortgage[7]	43,947	21,440	16,770	12,157	638	615	29%
Saxon Mortgage Services, Inc.	70,269	41,362	37,337	21,215	7,364	4,451	41%
Select Portfolio Servicing	62,041	53,733	33,812	17,205	9,641	1,478	43%
US Bank NA	30,226	11,189	8,461	5,267	3,086	1,115	28%
Wachovia Mortgage, FSB[8]	72,192	3,555	1,643	1,642	0	0	2%
Wells Fargo Bank, NA[9]	379,357	213,718	158,745	114,090	24,975	7,533	37%
Other SPA servicers[10]	24,865	3,294	2,286	1,222	1,015	NA	9%
Other GSE Servicers[11]	279,546	NA	48,405	27,680	16,734	NA	16%
Total	**3,438,948**	**1,354,350**	**1,094,064**	**835,194**	**168,708**	**91,843**	**29%**

[1] Estimated eligible 60+ day delinquent mortgages as reported by servicers as of January 31, 2009 include conventional loans:

- in foreclosure and bankruptcy.
- with a current unpaid principal balance less than $729,750 on a one-unit property, $934,200 on a two-unit property, $1,129,250 on a three-unit property and $1,403,400 on a four-unit property.
- on a property that was owner-occupied at origination.
- originated prior to January 1, 2009.

Estimated eligible 60+ day delinquent loans excludes:

- FHA and VA loans.
- loans that are current or less than 60 days delinquent, which may be eligible for HAMP if a borrower is in imminent default.

For servicers enrolling after January 1 that did not participate in the 60+ day delinquency survey, the delinquency count is from the servicer registration form.

[2] As reported in the weekly servicer survey through February 25, 2010.

[3] Active trial and permanent modifications as reported into the HAMP system of record by servicers.

[4] As reported by servicers. Pending permanent modifications have been approved by the servicer but have not yet been accepted by the borrower. While pending, modifications are reflected in the count of active trials. This metric will be reported through March 2010.

[5] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loan Services and Wilshire Credit Corporation.

[6] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.

[7] Formerly National City Bank.

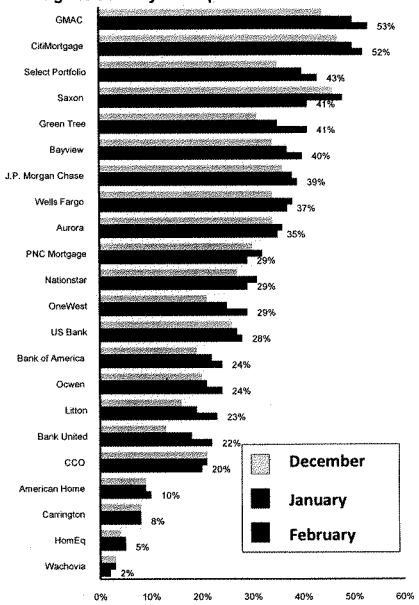
[8] Wachovia Mortgage, FSB includes Pick-a-Payment and Wachovia Bank NA loans.

[9] Beginning this month, Wells Fargo Bank, NA includes a portion of the loans previously included in Wachovia Mortgage, FSB.

[10] Other SPA servicers are entities with less than 5,000 estimated eligible 60+ day delinquencies that have signed participation agreements with Treasury and Fannie Mae. A full list of participating servicers is in the Appendix.

[11] Includes servicers of loans owned or guaranteed by Fannie Mae and Freddie Mac.

Active Modifications as a Share of Estimated Eligible 60+ Day Delinquencies



Note: Includes active trial and permanent modifications. Servicer combinations are the same as the table at left.
December modifications as a share of 60+ day delinquencies on November 30, 2009.
January modifications as a share of 60+ day delinquencies on December 31, 2009.
February modifications as a share of 60+ delinquencies on January 31, 2010.

MAKING HOME AFFORDABLE

Making Home Affordable Program

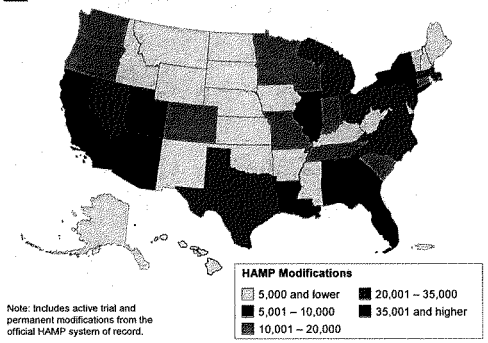
Servicer Performance Report Through February 2010

HAMP Activity by State

State	Active Trials	Permanent Modifications	Total	State	Active Trials	Permanent Modifications	Total
AK	490	74	564	MT	1,132	198	1,330
AL	5,922	1,061	6,983	NC	17,483	3,640	21,123
AR	2,384	458	2,842	ND	211	34	245
AZ	40,000	9,763	49,763	NE	1,347	266	1,613
CA	170,227	35,379	205,606	NH	3,616	850	4,466
CO	11,707	2,613	14,320	NJ	27,828	5,477	33,305
CT	10,658	2,163	12,821	NM	3,057	559	3,616
DC	1,568	270	1,838	NV	21,553	4,900	26,453
DE	2,699	580	3,279	NY	39,579	5,757	45,336
FL	102,033	21,111	123,144	OH	18,586	3,704	22,290
GA	33,180	6,468	39,648	OK	2,740	412	3,152
HI	2,991	620	3,611	OR	9,435	2,048	11,483
IA	2,762	465	3,227	PA	19,458	3,487	22,945
ID	3,313	709	4,022	RI	3,843	873	4,716
IL	44,893	8,392	53,285	SC	9,097	1,737	10,834
IN	9,264	1,729	10,993	SD	407	67	474
KS	2,624	469	3,093	TN	9,397	1,943	11,340
KY	3,677	679	4,356	TX	29,886	3,763	33,649
LA	5,292	778	6,070	UT	7,099	1,623	8,722
MA	18,789	4,087	22,876	VA	20,384	4,760	25,144
MD	27,282	5,799	33,081	VT	586	136	722
ME	2,146	525	2,671	WA	16,292	3,590	19,882
MI	28,183	5,782	33,965	WI	8,344	1,751	10,095
MN	14,959	3,769	18,728	WV	1,456	273	1,729
MO	10,628	1,901	12,529	WY	449	96	545
MS	3,371	679	4,050	Other*	887	441	1,328

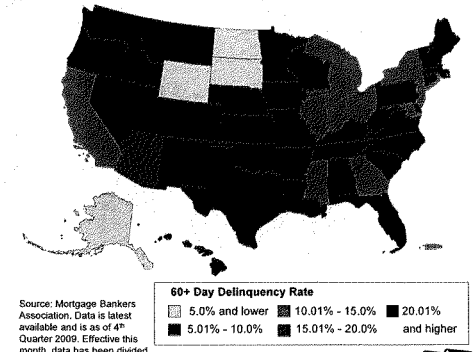
* Includes Guam, Puerto Rico and the U.S. Virgin Islands.

HAMP Activity by State



Note: Includes active trial and permanent modifications from the official HAMP system of record.

Mortgage Delinquency Rates by State



Source: Mortgage Bankers Association. Data is latest available and is as of 4th Quarter 2009. Effective this month, data has been divided into five categories.

Making Home Affordable Program

Servicer Performance Report Through February 2010

15 Metropolitan Areas With Highest HAMP Activity

Metropolitan Statistical Area	Active Trials	Permanent Modifications	Total HAMP Activity	% of All HAMP Activity
New York-Northern New Jersey-Long Island, NY-NJ-PA	52,375	8,660	61,035	6.1%
Los Angeles-Long Beach-Santa Ana, CA	50,224	9,414	59,638	5.9%
Chicago-Naperville-Joliet, IL-IN-WI	43,215	8,086	51,301	5.1%
Miami-Fort Lauderdale-Pompano Beach, FL	39,585	7,532	47,117	4.7%
Riverside-San Bernardino-Ontario, CA	38,179	8,918	47,097	4.7%
Phoenix-Mesa-Scottsdale, AZ	32,768	8,118	40,886	4.1%
Washington-Arlington-Alexandria, DC-VA-MD-WV	28,621	6,193	34,814	3.5%
Atlanta-Sandy Springs-Marietta, GA	26,719	5,276	31,995	3.2%
Las Vegas-Paradise, NV	17,964	3,944	21,908	2.2%
Detroit-Warren-Livonia, MI	17,729	3,386	21,115	2.1%
Orlando-Kissimmee, FL	16,248	3,535	19,783	2.0%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	14,805	2,796	17,601	1.8%
Boston-Cambridge-Quincy, MA-NH	13,272	2,925	16,197	1.6%
Tampa-St. Petersburg-Clearwater, FL	12,848	2,729	15,577	1.6%
Sacramento-Arden-Arcade-Roseville, CA	12,450	2,921	15,371	1.5%

A complete list of HAMP activity for all MSAs is available at *http://makinghomeaffordable.gov/docs/MSA%20Data%20February.pdf*

HAMP Modifications by Investor Type (20 Largest Servicers)

Servicer	GSE	Private	Portfolio	Total
Bank of America, NA[1]	166,708	81,383	13,125	261,216
JP Morgan Chase NA[2]	79,149	68,369	23,799	171,317
Wells Fargo Bank, NA [3]	100,329	33,530	5,206	139,065
CitiMortgage, Inc.	86,479	8,490	34,414	129,383
GMAC Mortgage, Inc.	19,201	15,812	0	35,013
OneWest Bank	17,582	12,976	2,167	32,725
Saxon Mortgage Services Inc.	1,231	27,078	270	28,579
Aurora Loan Services, LLC	15,653	11,570	328	27,551
Select Portfolio Servicing	626	22,911	3,309	26,846
Litton Loan Servicing LP	2,495	22,586	0	25,081
Ocwen Financial Corporation, Inc.	3,969	11,709	56	15,734
Nationstar Mortgage LLC	10,107	3,881	35	14,023
American Home Mortgage Servicing Inc	828	12,453	0	13,281
PNC Mortgage[4]	11,371	74	1,350	12,795
US Bank NA	6,316	13	2,024	8,353
Green Tree Servicing LLC	4,347	295	10	4,652
Bayview Loan Servicing, LLC	1	4,193	37	4,231
HomEq Servicing	0	1,890	39	1,929
Wachovia Mortgage, FSB[5]	51	117	1,474	1,642
Carrington Mortgage Services LLC	0	1,526	0	1,526
Remainder of HAMP Servicers	46,207	21	2,732	48,960
Total	**572,650**	**340,877**	**90,375**	**1,003,902**

[1] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loans Services and Wilshire Credit Corporation.
[2] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[3] Effective this month, Wells Fargo Bank, NA includes a portion of the loans previously included in Wachovia Mortgage, FSB.
[3] Formerly National City Bank.
[5] Wachovia Mortgage, FSB includes Wachovia Mortgage FSB Pick-a-Payment and Wachovia Bank NA loans.

Note: Figures reflect active trials and permanent modifications.

Making Home Affordable Program

Servicer Performance Report Through February 2010

Appendix: Non-GSE Participants in HAMP

Allstate Mortgage Loans & Investments, Inc.
American Eagle Federal Credit Union
American Home Mortgage Servicing, Inc
AMS Servicing, LLC
Aurora Loan Services, LLC
Bank of America, N.A.[1]
Bank United
Bay Federal Credit Union
Bay Gulf Credit Union
Bayview Loan Servicing, LLC
Carrington Mortgage Services, LLC
CCO Mortgage
Central Florida Educators Federal Credit Union
Central Jersey Federal Credit Union
Chase Home Finance, LLC
CitiMortgage, Inc.
Citizens 1st National Bank
Citizens First Wholesale Mortgage Company
Community Bank & Trust Company
CUC Mortgage Corporation
Digital Federal Credit Union
DuPage Credit Union
Eaton National Bank & Trust Co
Farmers State Bank
Fidelity Homestead Savings Bank
First Bank
First Federal Savings and Loan
First Federal Savings and Loan Assn. of Lakewood
First Keystone Bank
First National Bank of Grant Park
Franklin Credit Management Corporation
Fresno County Federal Credit Union
Glass City Federal Credit Union
Glenview State Bank
GMAC Mortgage, Inc.
Golden Plains Credit Union
Grafton Suburban Credit Union
Great Lakes Credit Union
Greater Nevada Mortgage Services
Green Tree Servicing LLC
Harleysville National Bank & Trust Company
Hartford Savings Bank
Hillsdale County National Bank
Home Financing Center, Inc
HomEq Servicing
HomeStar Bank & Financial Services
Horicon Bank
Horizon Bank, NA
Iberiabank
IBM Southeast Employees' Federal Credit Union
IC Federal Credit Union
Idaho Housing and Finance Association
iServe Residential Lending LLC
J.P.Morgan Chase Bank, NA[2]
Lake City Bank
Lake National Bank
Litton Loan Servicing
Los Alamos National Bank
Marix Servicing, LLC
Members Mortgage Company, Inc
Metropolitan National Bank
Mission Federal Credit Union
MorEquity, Inc.
Mortgage Center, LLC
Mortgage Clearing Corporation
National City Bank
Nationstar Mortgage LLC
Oakland Municipal Credit Union
Ocwen Financial Corporation, Inc.
OneWest Bank
ORNL Federal Credit Union
Park View Federal Savings Bank
PennyMac Loan Services, LLC
PNC Bank, National Association
Purdue Employees Federal Credit Union
QLending, Inc.
Quantum Servicing Corporation
Residential Credit Solutions
RG Mortgage Corporation
Roebling Bank
RoundPoint Mortgage Servicing Corporation
Saxon Mortgage Services, Inc.
Schools Financial Credit Union
SEFCU
Select Portfolio Servicing
Servis One Inc., dba BSI Financial Services, Inc.
ShoreBank
Silver State Schools Credit Union
Sound Community Bank
Specialized Loan Servicing, LLC
Spirit of Alaska Federal Credit Union
Stanford Federal Credit Union
Sterling Savings Bank
Technology Credit Union
Tempe Schools Credit Union
The Bryn Mawr Trust Co.
The Golden 1 Credit Union
U.S. Bank National Association
United Bank of Georgia
United Bank Mortgage Corporation
Vantium Capital, Inc.
Verity Credit Union
Wachovia Mortgage, FSB[3]
Wells Fargo Bank, NA
Wescom Central Credit Union
Yadkin Valley Bank

[1] Bank of America, NA includes Bank of America, NA, BAC Home Loans Servicing LP, Home Loan Services and Wilshire Credit Corporation.
[2] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[3] Wachovia Mortgage FSB includes Wachovia Bank NA.