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Hearing on

"Legislative Proposals to End Taxpayer Funding for Ineffective Foreclosure Mitigation Programs"

Subcommittee on Insurance, Housing, & Community Opportunity
U.S. House of Representatives Committee on Financial Services

March 2, 2011

Chairwoman Biggert and Members of the Subcommittee, thank you for the opportunity to submit testimony for the record in support of rescinding money for well-intentioned, but costly and unsuccessful, housing programs.

Americans for Tax Reform fully supports legislation that would rescind unused funds from the Troubled Asset Relief Program (TARP), so-called "stimulus" American Recovery and Reinvestment Act of 2009, and the Dodd-Frank Act. Faced with an impending vote to raise the debt ceiling beyond an astounding $14.29 trillion, repurposing this money from failed housing programs presents an opportunity to save taxpayers billions of dollars.

Over the past two years, the federal government has used taxpayer dollars to help prop up lenders and borrowers mired in a foreclosure crisis. While the administration's intentions are certainly noble given high mortgage defaults during the economic downturn, such profligate spending has resulted in greater harm to all American taxpayers than benefits to homeowners.

Combined, the Home Affordable Modification Program (HAMP), the Neighborhood Stabilization Program, the Emergency Homeowner Relief Fund, and the Federal Housing Administration's Refinance Program will cost taxpayers well over $30 billion. Yet, these programs have helped dramatically fewer mortgage holders than anticipated.

Given the programs' failed outcome, the manner in which taxpayer dollars are being redistributed, and the need to bring down our nation's growing debt, Americans for Tax Reform urges all monies appropriated be returned to the U.S. Treasury from the following federal programs:

Home Affordable Modification Program (HAMP)
The Home Affordable Modification Program (HAMP) was established in February 2009 with the goal of lowering mortgage payments and interest rates. The Making Home Affordable program was originally estimated to cost $75 billion, funded with $45.6 billion from TARP and another $25 billion from Fannie Mae and Freddie Mac – all of which is paid for or guaranteed by American taxpayers.[i] Given the program's failure, HAMP has now been ratcheted down and is expected to cost $29.9 billion.[ii]

HAMP has been the U.S. Treasury and Department of Housing and Urban Development's primary spending program for combating foreclosures, and the program has been a costly failure. When the program was announced in February 2009, it was estimated to assist three to four million homeowners.[iii] According to the GAO, by the end of November 2010, less than 550,000 loan modifications had been processed.[iv] In contrast, over 792,000 modifications have been canceled under the program – far more than have been granted.[v]

Even if one assumes massive federal spending programs can combat the mortgage crisis, the prospects for the HAMP program improving are slim to none. Loan modifications under HAMP hit their peak in April 2010 and have since dropped significantly to roughly 30,000 at the end of 2010.[vi] In other words, there is little demand for the program and what demand exists is shrinking.

At the end of 2010, HAMP and related TARP programs have spent $1 billion (or 2.2 percent) of obligated funds.[vii] With little taxpayer money expended, there is an opportunity to rescind most HAMP funds and return this taxpayer money. HAMP's failure is perhaps for the betterment of taxpayers, who were expecting the federal government to spend significantly larger sums of taxpayer dollars. This money can now be returned to the U.S. Treasury's coffers.

FHA Refinance Program
The Federal Housing Administration's Short Refinancing Program is poised to utilize $8.2 billion from unused HAMP funds to refinance and turn underwater mortgages into FHA-insured mortgages.[viii]

In the first three months of its inception, the program has refinanced only 15 loans.[ix] While these few loans have not defaulted, the program places more loans on the balance sheet of the Federal Housing Administration, subjecting taxpayers to greater risk should any of these loans default. Assuming this risk comes on top of using billions of taxpayer dollars for incentive payments to refinance loans.

Neighborhood Stabilization Program (NSP)
Established under the "stimulus" American Recovery and Reinvestment Act of 2009, the Neighborhood Stabilization Program (NSP) provides billions in block grants to states and localities in areas with a high number of foreclosures.[x]

In three separate appropriations, the program has been authorized to spend upwards of $7 billion through the Department of Housing and Urban Development. The $1 billion in unobligated funds that remains should be immediately rescinded.

Emergency Homeowner Relief Fund

The Dodd-Frank Act contained $1 billion to resuscitate the Emergency Homeowner Relief Fund, which authorizes the Department of Housing and Urban Development to provide loans and other payments to underwater borrowers. However, handing low-interest loans subsidized by taxpayers to underwater borrowers only furthers their indebtedness and exposes taxpayers to any risk should these loans default.

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[i] Office of the Special Inspector General for the Troubled Asset Relief Program, "Quarterly Report to Congress." January 26, 2011. Pg 64.
[ii] Ibid. Pg. 66.
[iii] Ibid. 64
[iv] United States Government Accountability Office, "Troubled Asset Relief Program: Status of Programs and Implementation of GAO Recommendations." January 2011. Pg. 35.
[v] Office of the Special Inspector General for the Troubled Asset Relief Program, Pg. 11.
[vi] U.S. Government Accountability Office, Pg. 36.
[vii] Office of the Special Inspector General for the Troubled Asset Relief Program, Pg 66.
[viii] Ibid. Pg. 90.
[ix] Ibid.
[x] United States Government Accountability Office, "Neighborhood Stabilization Program: HUD and Grantees Are Taking Actions to Ensure Program Compliance but Data on Program Outputs Could be Improved." December 2010.