DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

March 2, 2011

The Honorable Judy Biggert
Chairman
House Financial Services Subcommittee on Insurance, Housing and Community Opportunity
2113 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Biggert:

Thank you for the opportunity to provide a statement for the record for today's hearing on "Legislative Proposals to End Taxpayer Funding for Ineffective Foreclosure Mitigation Programs."

I write to express the Administration's strong opposition to these four proposals aimed at eliminating the Neighborhood Stabilization Program, the Federal Housing Administration Short Refinance Program, the Emergency Homeowner Relief Fund, and the Home Affordable Modification Program ("HAMP").

The Department of Housing and Urban Development has principal responsibility for the first three programs, and I understand that Assistant Secretary for Housing and Commissioner of the Federal Housing Administration David Stevens and Assistant Secretary for Community Planning and Development Mercedes Marquez will be testifying at today's hearing to discuss these programs in more detail. The Department of the Treasury administers HAMP. Therefore, I am writing to explain why it is important to continue this critical program and to urge you to oppose the "HAMP Termination Act of 2011."

Terminating HAMP before the end of 2012 would be a mistake. HAMP continues to help tens of thousands of additional families every month with mortgage modifications that provide the typical borrower with a $500 reduction in monthly mortgage payments. Put simply, ending HAMP now, without a meaningful alternative in place, would mean that struggling homeowners would have far fewer ways of coping with the worst housing crisis in generations. Instead, their fate would be left solely in the hands of the same mortgage servicers whose standards are widely recognized to be in need of reform.

HAMP's impact on the housing market goes far beyond the number of permanent modifications achieved. By setting affordability standards and developing a framework for how mortgage servicers should provide assistance to struggling homeowners, HAMP provides critical protections for homeowners and has catalyzed improvements in modifications across the board.

It is also important to note that HAMP utilizes a pay-for-success model in most of its programs. Taxpayer funds are used *only* for homeowners in permanent modifications and only so long as those homeowners continue to make payments. As required by statute, any unused funds at the expiration of the program will be used to pay down the national debt. *In short, the program only uses taxpayer funds to the degree it succeeds.*

For your further information, attached are: 1) a document entitled *Home Affordable Modification Program (HAMP) Fact vs. Fiction*, and 2) the testimony of Ms. Phyllis Caldwell, Chief, Homeownership Preservation Office, before your Subcommittee on February 16, 2011.

I strongly urge you and your colleagues to oppose the early termination of HAMP, and to work with the Administration to ensure that struggling homeowners continue to have meaningful tools to avoid foreclosure and to keep their homes.

Sincerely,

Timothy G. Massad
Acting Assistant Secretary
Office of Financial Stability

cc: Subcommittee on Insurance, Housing and Community Opportunity Ranking Member Luis Gutierrez
Members, House Financial Services Committee

Attachments

MAKING HOME AFFORDABLE.GOV

Home Affordable Modification Program (HAMP) – Fact vs. Fiction

In early 2009, the Obama Administration launched the Home Affordable Modification Program (HAMP) to help middle-class American families weather the worst economic downturn since the Great Depression. This program to date has helped more than 600,000 families stay in their homes while helping neighborhoods avoid the associated blight that comes with vacant and foreclosed homes. However, some have suggested eliminating this program. This would be a mistake, as HAMP continues to help tens of thousands of additional families every month. Put simply, ending HAMP now would mean that struggling families will have far fewer ways of coping with the worst housing crisis in generations. Some have suggested eliminating the program based on incorrect assertions or myths about the program. Here are the facts:

1. **Assertion: HAMP has failed because it hasn't helped 3-4 million homeowners.**

Facts: The primary reason we will not achieve 3-4 million *permanent* modifications of mortgages is that there are not that many people who meet the eligibility criteria—criteria which ensure that taxpayer funds are used wisely.

HAMP is not available for:

- mortgages in excess of $729,750;
- mortgages on second homes or investor-owned properties;
- mortgages on vacant homes;
- homeowners who can afford to pay their mortgage without government assistance; and
- homeowners with mortgages that are unsustainable even with government assistance.

Today, there are roughly 5 million delinquent mortgages. Currently, about 1.4 million homeowners are eligible for HAMP. Approximately 600,000 homeowners have had their mortgages permanently modified under HAMP, and an average of 30,000 more are being added each month. These homeowners have a median payment reduction of $527 a month, with aggregate savings to date totaling approximately $5 billion.

Nearly 1.5 million American homeowners have received a trial modification providing temporary relief, and most of those homeowners then received some form of additional assistance, whether within or outside of HAMP.

HAMP has also helped millions of people indirectly, because HAMP's standards have been adopted across the industry to standardize loan modifications. Fitch's most recent report states that:

> "Fitch believes that the HAMP program, while not meeting its volume projections, did help to bring a needed standard to varied programs offered prior to its introduction and to focus attention on the use of mods. Establishing a priority in steps, target interest rate and payment allowances, and a net present value calculation resulted in a more consistent application of efforts."

The fact that the program has not achieved 3-4 million permanent modifications is no reason to end it, particularly when the number of Americans that HAMP helps continues to grow each month.

2. **Assertion: HAMP will cost $75 billion, which is far too much money to spend on a program that won't help that many people.**

Facts: The amount of TARP funds allocated to the Making Home Affordable Program, including HAMP, is $29 billion. Treasury makes payments only for homeowners in permanent HAMP modifications and only so long as those homeowners continue to make their payments. In short, HAMP only pays for success.

We want to be sure that we have the funds available to help all those who need assistance and we will continue to reach new families through the end of 2012. Whatever is not spent will go to pay down the national debt; it will not be used for any other purpose.

3. **Assertion: There have been more trial modifications cancelled –over 700,000—than there are current permanent modifications.**

Facts: The fact that many trial modifications were cancelled or did not become permanent is not evidence of failure; it is evidence of HAMP's strict and sensible conditions for using federal funds. Most of those trial modifications did not satisfy the eligibility criteria noted above. In other cases, homeowners could not document their income, or could not make their payments during the three-month trial period.

The reason the conversion rate from trial modifications to permanent modifications was initially low—about one-third—was that at the beginning of the program, homeowners were accepted into trial modifications without first providing written documentation of their income or financial hardship. We felt this policy was necessary because the gravity of the crisis required quick action. As of DATE, all homeowners began entering trial modifications with full documentation. Going forward, the only reason a homeowner will not convert from a trial modification to a permanent modification is if they are unable to sustain their trial payments on time.

4. **Assertion: HAMP is a failure because Treasury has spent $1 billion of the $29 billion allocated for the program.**

Facts: HAMP was designed so that money is spent only for permanent modifications and only gradually, over a five-year period. If a homeowner defaults on their payments, Treasury stops paying. So the fact that payments are staged is further evidence of the prudent design of the program.

5. **Assertion: HAMP is not needed because the industry will enter into modifications anyway.**

Facts: The servicing industry was not and still is not fully equipped to deal with this crisis. Ending HAMP now would mean that the fate of struggling homeowners will be solely up to the servicers—the same servicers whose bad mortgage lending practices contributed to the crisis, whose poor implementation of HAMP has been widely criticized, and who have recently acknowledged failures to follow the law in pursuing foreclosures.

The industry has improved since HAMP was launched and is offering modifications today, but that is largely because HAMP set standards that the industry needed and subsequently adopted. These include the universal affordability standard—a 31 percent debt-to-income ratio which helps ensure that homeowners can sustain payments. And HAMP created a "net present value" tool to enable servicers to evaluate whether a HAMP modification provides a better financial outcome to the investor relative to a foreclosure. Servicers are required to follow investor guidelines when modifying loans, including demonstrating that actions taken are in the investor's best interest. Before HAMP was launched, very few modifications were made, and very few of those were sustainable.

Moreover, the process HAMP created for evaluating borrowers is what has enabled servicers to then offer their own modifications to homeowners that do not meet HAMP eligibility requirements.

HAMP modifications thus far appear to be more sustainable than other modifications. The Office of the Comptroller of the Currency (OCC) recently stated that, "HAMP modifications were performing better than other modifications implemented during the same periods at the end of the third quarter of 2010. These lower post-modification delinquency rates reflect HAMP's emphasis on the affordability of monthly payments relative to the borrower's income, verification of income, and completion of a successful trial payment period." In Treasury's own latest monthly report, we show that at 12 months, more than 80 percent of homeowners remain in a permanent modification.

And even proprietary modifications are showing improved redefault rates, a development that Fitch's most recent report attributes to "more standardized qualification criteria for mods, coupled with a focus on lowering monthly payments" – a direct result of HAMP's influence on the industry.

HAMP continues to set standards that the industry needs. These include standards for borrower protection, which ensure that a borrower that is being evaluated for a modification is not foreclosed upon. HAMP also provides monitoring of servicer performance, requires enhanced reporting for greater transparency and openness, and holds servicers accountable to ensure all eligible homeowners are fairly evaluated under the program. The compliance oversight provided by HAMP is critical to sustaining these improvements in the servicing industry. Terminating HAMP would eliminate these critical levers for holding servicers accountable to basic customer service and modification standards.

6. **Assertion: SIGTARP has said HAMP has failed to realize the TARP goal of "preserving homeownership".**

Facts: SIGTARP has made a variety of recommendations regarding HAMP, most of which Treasury has implemented. Its principal criticism today is that Treasury has not set "realistic and meaningful goals" for the program by which it can be evaluated.

Treasury publishes a monthly report that contains detailed program statistics, which enables the public to evaluate the performance of both the program and its participating servicers. We have also released a data file which includes characteristics of program participants to date, including financial information, mortgage loan information before and after entering HAMP, performance in a HAMP modification, and race/ethnicity data. This data shows that HAMP is helping its intended audience – homeowners in active permanent modifications have a median annual income of approximately $46,000; a median credit score of 570 when they enter the trial period; a median post-modification loan balance of just over $232,000; and a median mark-to-market loan-to-value ratio of 118 percent.

Finally, HAMP is not the only action being taken by Treasury and the Obama Administration to address the housing crisis. Treasury has allocated $7.6 billion of TARP funds to the states hit hardest by unemployment and falling house prices through the Hardest Hit Fund. And Treasury is working with the Federal Housing Administration (FHA) to implement the FHA Short Refinance program, which will help people who are suffering from declines in the value of their homes to refinance into a more affordable mortgage. Treasury has also expanded Making Home Affordable to address the problem of second liens, to provide incentives for other alternatives to foreclosure such as short sales, to provide additional help to the unemployed, and to encourage principal reduction. In addition, an interagency task force chaired by Treasury and HUD has been investigating the issues of robo-signing, foreclosure documentation mistakes and related problems.

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The question raised by legislation put forward in the House is whether the Obama Administration should continue to help struggling homeowners. HAMP provides a model to allow families to remain in their homes through affordable, sustainable loan modifications. It continues to serve as a benchmark for the mortgage servicing industry through its focus on reduced payments, borrower protections, compliance and innovative approaches to new challenges in the housing market. To end HAMP now would inject uncertainty and unnecessary risk into a fragile housing market that has only recently begun to regain its footing.

Embargoed until delivery

Written Testimony of Phyllis Caldwell,
Chief of Homeownership Preservation Office,
U.S. Department of the Treasury
Hearing before the House Committee on Financial Services
Subcommittee on Insurance, Housing and Community Opportunity
on
"Are There Government Barriers to the Housing Market Recovery?"

February 16, 2011

Chairwoman Biggert, Ranking Member Gutierrez and Members of the Subcommittee, thank you for the opportunity to testify today. I appreciate the opportunity to share insights resulting from the Administration's efforts to mitigate the effects of the most serious housing crisis since the Great Depression.

Rationale behind the Administration's Efforts to Prevent Avoidable Foreclosures

As the Subcommittee examines the role of the government in the housing market, including the housing programs supported by the Troubled Asset Relief Program (TARP), it is important to remember where the housing market stood just over two years ago. When the Obama Administration took office in January 2009, the economic crisis had developed into the most serious housing crisis since the Great Depression. Home prices had fallen for 30 straight months. Home values had fallen by nearly one-third and were expected to fall by another five percent by the end of 2009. Stresses in the financial system had reduced the supply of mortgage credit, limiting the ability of Americans to buy homes. Fannie Mae and Freddie Mac had been in conservatorship for over four months. And millions of American families faced increasing difficulties in making their monthly mortgage payments – having lost jobs or income – and were unable to sell, refinance, or find meaningful modification assistance.

During its first month in office, the Administration took aggressive action to address the housing crisis, such as bolstering the Government's commitment to support to Fannie Mae and Freddie Mac, which originated during the Bush Administration, to ensure continued access to mortgage credit, and through the Federal Housing Administration (FHA), both of which provided liquidity for housing purchases at a time when private lending had almost evaporated. As part of the Administration's response, the Treasury Department immediately began work on a program that would improve the affordability of mortgages for responsible homeowners, consistent with the mandate of the Emergency Economic Stabilization Act of 2008 (EESA) to promote financial stability while protecting taxpayers.

Key Challenges of the Administration's Response to the Foreclosure Crisis

My testimony today will highlight some of the key challenges addressed in responding to the housing crisis and discuss how best to help homeowners. First, the industry did not have the capacity to effectively respond to the complexity of the foreclosure crisis. Mortgage servicers were ill-equipped to provide meaningful assistance to homeowners while maintaining their responsibility to investors and still struggle to balance the two. Second, effective outreach to homeowners is difficult due to the complexity of the challenges they face, and their understandable mistrust of servicers. Homeowners often are not aware of the free resources available to them, and servicers all must increase efforts to reach them. Third, homeowners need safeguards. We have learned that the foreclosure process has to pause long enough to allow homeowners enough time to find help and work out a solution. Fourth, modifications need to be affordable to work. In order to modify loans effectively – and sustainably – servicers must focus first and foremost on reducing monthly mortgage payments. And lastly, because the foreclosure crisis is complex, we had to remain flexible as we looked for solutions that could reach the maximum number of struggling homeowners.

We are working to address these challenges within the framework of the Making Home Affordable Program (MHA), which is predicated upon voluntary agreements between Treasury and mortgage servicers. The MHA program was designed to incentivize long term sustainable modifications by aligning incentives within the existing mortgage servicing framework of borrowers, servicers and investors thereby minimizing potential adverse market impacts.

Mortgage Servicers Did Not Have the Capacity to Respond to the Crisis

The mortgage industry at the outset of the foreclosure crisis was ill-equipped to respond the housing crisis adequately. Mortgage servicers had insufficient resources to address the needs of a market that was reeling from increasing foreclosures. In addition, their servicing expertise and infrastructure was limited to overseeing collections and foreclosing on those who failed to pay. While that model may have been sufficient for the industry during times of economic growth and house-price appreciation, it quickly proved seriously inadequate in 2007, when the industry experienced rapidly rising defaults and declining home prices.

In addition, there was no standard approach among loan servicers or investors about how to respond to responsible homeowners who wanted to continue making payments, but were in need of mortgage assistance. Most solutions offered by servicers before the crisis simply sought to add unpaid interest and fees to the mortgage balance. These options often resulted in higher, not lower, payments for homeowners. Although many of these early modifications may have attempted to address temporary hardships experienced by homeowners such as a medical emergency or divorce, they did not generally help over the longer term, because they did not make homeowners' monthly mortgage payments more sustainable. As a result, millions of responsible American families simply lost their homes.

The program that Treasury launched in March 2009, the Making Home Affordable program, includes the first lien modification program – the Home Affordable Modification Program (HAMP). Its goal was to offer homeowners who are at risk of foreclosure reduced monthly mortgage payments that are sustainable over the long-term. HAMP provided servicers with standards that could be applied to all modifications. As a result, these standards soon became national, industry wide models that were applied to the servicers' own proprietary modifications as well.

At the same time, it is important to emphasize that HAMP was not intended to help all homeowners. Nor was HAMP intended to stop all foreclosures. The program was intended to support financial stability by helping a segment of homeowners who were at risk of foreclosure or who would be at risk before the end of 2012. Today, there are approximately 5 million delinquent mortgages. Only about 1.5 million are eligible for HAMP, because HAMP eligibility is not extended to:

- high cost mortgages in excess of $729,750;
- mortgages on vacation, second homes or investor-owned properties;
- mortgages on vacant homes;
- homeowners who can afford to pay their mortgage without government assistance; and
- homeowners with mortgages that are unsustainable even with government assistance.

Additionally, not every mortgage servicer participates in HAMP and not every contract between servicer and investor allows for modifications. And HAMP is just one program in the waterfall of foreclosure prevention options at other federal agencies like the FHA and the Department of Veterans Affairs (VA).

Over the last two years, we have worked to develop policies and procedures in the MHA program to ensure that responsible homeowners who meet the eligibility criteria are offered meaningful modifications and other alternatives to a foreclosure. To address servicer shortcomings, we have required servicers to rapidly increase staffing and improve customer service. We have developed specific guidelines and certifications on how and when homeowners must be evaluated for HAMP and other options before foreclosure. We developed a clear process for promptly and fairly resolving homeowner complaints. We also have a comprehensive compliance program to make sure that homeowners are fairly evaluated for HAMP, and that servicer operations reflect Treasury guidance.

Today, HAMP continues to play a critical role in the market as the standard which servicers can use to evaluate assistance for struggling homeowners. Servicers have had to make significant operational changes to the way they handle foreclosure prevention. As a result, modifications made outside of HAMP generally follow HAMP's basic criteria. For the first time ever, making monthly mortgage payments affordable for the homeowner is now a touchstone of modifications across the industry.

Engaging Homeowners is Key

Homeowners facing foreclosure are often overwhelmed by the complexity of the challenges they face. They are stressed and often embarrassed by their financial difficulties, and may find it difficult to ask for assistance. As a result, we believe many homeowners fail to reach out for help.

Many homeowners facing foreclosure have lost their jobs. Others have reduced income due to underemployment or a new job that is lower-paying and are struggling to pay their bills. Often these homeowners exhaust their savings, fall into debt, and become delinquent on their mortgage before contacting their mortgage servicer for help.

Across the board, homeowners' experience with servicers has been frustrating. Servicers have had trouble keeping track of homeowner communication; different customer service representatives often do not have records of a homeowner's prior contact with their organization. Servicers lose documents or are difficult to contact. Through public reporting and compliance reviews, Treasury strives to improve the borrower experience when it comes to HAMP consideration.

Almost two years into the HAMP program, over 1.4 million families have received a trial modification which provided temporary relief, and most of those then received some form of further assistance, whether within or outside of HAMP. Nearly 580,000 homeowners have converted to permanent modifications and on average over the past six months, 30,000 more are being added each month. We know that many more families need help and we are working to bring as many eligible borrowers into the program as possible. Treasury has stepped up efforts to reach out to homeowners and guide them through the HAMP process. We recently launched a Public Service Advertising campaign across TV, radio, internet and billboards which has been viewed approximately 53 million times. We recently held our 50th homeowner outreach events, with more to come. We have trained close to 7,000 housing counselors. We continue to strengthen our resources at the HOPE Hotline and the HAMP Solution Center, enabling us to better support homeowners as they work with their mortgage servicer.

These efforts come on top of important policy changes that are designed to ease access into the program while making sure that we still use taxpayer funds prudently. First, we set requirements to reach out to homeowners as part of our homeowner protections guidance, and comprehensively review their compliance. Second, we simplified the HAMP documentation requirements. Third, we required that all trial modifications start only after fully documented requests for assistance, and that homeowners have their income verified by servicers before they can receive a HAMP trial modification. These changes were designed to simultaneously help homeowners get access to the program and ensure that those who enter the program are much more likely to convert to permanent modifications after completing the three month trial period.

Treasury is also working to make sure homeowners know that help is available. Homeowners can call their servicers and ask about a HAMP modification, or the HOPE Hotline at 888-995-HOPE, where they can talk to a free HUD-approved housing counselor who can guide them through the process and serve as an advocate in working with the servicer.

When asked what advice he would give to others, a homeowner from Cleveland who received a permanent HAMP modification said, "Don't be ashamed to ask for help. These are tough times and there is help out there. I am so grateful for the housing counselor I worked with. There is no charge to work with a housing counselor. The government has a lot of good resources that are all free." We are working hard to spread this message to more struggling homeowners.

Homeowners Need Some Safeguards

Early in the HAMP program, Treasury guidelines prohibited a foreclosure sale until a homeowner was fully evaluated for a HAMP modification. This rule protected homeowners in many cases, but permitted servicers to start the foreclosure process while simultaneously evaluating homeowners for HAMP. The servicer rationale for allowing this "dual track" was to expedite the foreclosure process in the event that homeowners fail their trial modifications, particularly in those judicial states that had long foreclosure timelines. However, this "dual tracking" of homeowners can cause enormous stress and confusion for individuals already in a difficult period.

To address these concerns, Treasury issued guidance that limited "dual tracking". This guidance became effective with trial modifications started on and after June 1, 2010. Specifically, program guidelines require participating mortgage servicers of loans that are not owned or guaranteed by Fannie Mae or Freddie Mac (referred to as the GSEs) to:

- evaluate homeowners for HAMP modifications before referring them for foreclosure. The focus here is on early intervention. Servicers must reach out to all potentially eligible homeowners when they are only two months delinquent and there is a still a viable opportunity to save the loan;
- suspend foreclosure sales against homeowners who have applied for HAMP modifications, while their applications are pending;
- halt all pending foreclosure actions when a homeowner makes the first payment under a fully verified trial plan;
- evaluate whether homeowners who do not qualify for HAMP (or who have fallen out of HAMP) qualify for other programs to prevent a foreclosure, such as a servicer's own proprietary modification program;
- evaluate whether homeowners who cannot obtain alternative modifications may qualify for a short sale or deed-in-lieu of foreclosure, including through Treasury's program, the Home Affordable Foreclosure Alternatives program (HAFA); and
- provide a written explanation to any homeowner who is not eligible for a modification, and thereafter delay foreclosure for at least 30 days to give the homeowner time to appeal.

Servicers may not proceed to foreclosure sale unless and until they have followed these guidelines. They must also first issue a written certification to their foreclosure attorney or trustee stating that "all available loss mitigation alternatives have been exhausted and a non-foreclosure option could not be reached."

In addition, Treasury instituted a comprehensive compliance program to make sure that homeowners are fairly evaluated for HAMP, and that servicer operations reflect Treasury guidance. The MHA compliance program is designed to ensure that servicers are meeting their obligations under the MHA servicer contracts for loans where Fannie Mae or Freddie Mac is not the investor. Treasury's compliance activities focus on ensuring that homeowners are appropriately treated in accordance with MHA guidelines and servicers are subject to various compliance activities, including periodic, on-site compliance reviews as well as on-site and off-site loan file reviews. Treasury has engaged a separate division of Freddie Mac, Making Home Affordable-Compliance (MHA-C), to perform these compliance activities. Compliance activities are performed by more than 200 staff at MHA-C using a risk-based approach. MHA-

C's compliance reviews range from generally monthly for the largest servicers, to at least twice annually for the smaller-sized servicers.

MHA-C has performed more than 250 compliance reviews on participating servicers, many of which shaped servicer behavior in order to address the most vital issue: the ultimate impact on the homeowner. Examples of actions MHA-C has taken include requiring servicers to re-evaluate homeowners for HAMP, requiring servicers to make process and systems changes to accommodate MHA guidelines, and corrections to the servicer's net present value calculations. In one case, for example, MHA-C required a servicer to reevaluate more than 150,000 homeowners, with 150,000 letters sent out and more than 3 million follow-up phone calls made. In addition, this servicer was required to re-engineer certain HAMP processes and provide additional training for the servicer's staff in order to make sure that eligible homeowners were being reached.

Modifications That Focus on Making Monthly Payments Affordable for the Homeowner Are More Sustainable

The most recent Office of the Comptroller of the Currency (OCC) Mortgage Metrics Report found that modifications that provide deeper payment reductions tend to have lower re-default rates and that HAMP provides significantly more assistance than servicers' own proprietary modifications: "HAMP modifications made during the quarter reduced payments by an average of $585, compared with other modifications that reduced average monthly payments by $332 overall." Over the life of the program MHA data show that homeowners are experiencing a 37 percent median reduction in their mortgage payments – amounting to an estimated total, program-wide savings of over $4.5 billion to date for homeowners.

Homeowners in HAMP permanent modifications continue to perform well over time, with re-default rates lower than industry norms. December 2010 data for HAMP shows that after 12 months, nearly 85 percent of homeowners remain in a permanent modification. The OCC recently stated that "HAMP modifications were performing better than other modifications implemented during the same periods at the end of the third quarter of 2010. These lower post-modification delinquency rates reflect HAMP's emphasis on the affordability of monthly payments relative to the homeowner's income, verification of income, and completion of a successful trial payment period." Because of MHA, servicers have developed more constructive private-sector options as well. MHA's programs provided a model that servicers adapted to their own foreclosure prevention solutions. In the year and a half following the initiation of HAMP, servicers' home retention strategies changed dramatically. According to the OCC, in the first quarter of 2009, nearly half of proprietary mortgage modifications increased homeowners' monthly payments or left their payments unchanged. By the third quarter of 2010, almost 90 percent of proprietary mortgage modifications lowered payments for the homeowner and the average monthly savings has increased more than 50 percent from a year ago. This change means homeowners are receiving better solutions. Modifications with payment reductions have historically performed materially better than modifications that increase payments or leave them unchanged.

We Had To Remain Innovative

During the fall of 2009, the MHA program faced a number of challenges. The administrative complexity and unprecedented scope of HAMP, unexpected servicer execution challenges, and the lack of cooperation from servicers and investors tempered the potential impact of HAMP. In addition, as a result of the changing nature of the economic crisis, sustained unemployment challenges and negative equity mortgages became main causes of mortgage defaults and required greater attention. As a result, Treasury created new programs and designed the next phase of HAMP, with input from various constituencies, to better address these challenges.

Any modification program seeking to avoid preventable foreclosures has limits, HAMP included. HAMP was never intended to address every delinquent loan. In certain instances, the homeowner may benefit from an alternative that helps them transition to more affordable housing and avoid the substantial costs of a foreclosure. Consequently, the Administration launched the HAFA program, in which Treasury provides incentives for short sales and deeds-in lieu of foreclosure for circumstances in which homeowners are unable or unwilling to complete the HAMP modification process. HAFA sets out an important simplified industry standard for the complex process of a short sale or deed-in-lieu of foreclosure. These foreclosure alternatives have better outcomes than foreclosures for borrowers, neighborhoods and communities, and investors. The HAFA program applies only to non-GSE loans. In the coming months we hope to see increased servicer participation in the HAFA program.

In March 2010, the Obama Administration announced enhancements to HAMP aimed to more effectively address unemployment and negative equity, including providing temporary mortgage assistance to some unemployed homeowners, encouraging servicers to write-down mortgage debt as part of a HAMP modification, allowing more homeowners to qualify for modifications through HAMP, and helping homeowners move to more affordable housing when a modification is not possible.

The Unemployment Program (UP) requires servicers to grant qualified unemployed homeowners of non-GSE mortgage loans a forbearance period to have their mortgage payments temporarily reduced for a minimum of three months, and up to six months or longer when permitted by regulatory or investor guidelines, while they look for new jobs. Servicers are not reimbursed by TARP for any costs associated with UP, and there is no cost to government or taxpayers from the forbearance plans.

Under the Principal Reduction Alternative (PRA), servicers are required to evaluate the benefit of principal reduction and are encouraged to offer principal reduction whenever the net present value (NPV) result of a HAMP modification using PRA is greater than the NPV result without considering principal reduction. Incentives are based on the dollar value of the principal reduced. The principal reduction and the incentives are earned by the homeowner and investor based on a pay-for-success structure.

For many homeowners who want to stay in their home, we have learned that a modification is not always the most effective solution for the homeowner or the investor. A refinance can be a very effective tool to lock in a lower interest rate based and restructure the debt to be affordable for the homeowner over the long term. Treasury has worked with the FHA to establish the FHA Short Refinance option. It requires that the mortgage investor write off the unpaid principal balance of the original first lien mortgage by at least 10 percent. The new FHA loan must have a balance less than the current value of the home, and total mortgage debt for the homeowner after the refinancing, including both first and any other mortgages, cannot be greater than 115 percent of the current value of the home – giving homeowners a path to regain equity in their homes and an affordable monthly payment. Treasury has allocated nearly $11 billion of TARP funds to the FHA Short Refinance option.

Finally, the Administration has allocated $7.6 billion to the Hardest Hit Fund (HHF), to allow State Housing Finance Agencies (HFAs) in the nation's hardest hit housing markets to design locally targeted foreclosure prevention programs. The HHF has been rolled out to 18 states and the District of Columbia. Most states are using the funds to help unemployed homeowners make their mortgage payments, as well as to offer principal reduction for homeowners with high negative equity.

Looking Ahead for Housing

As a result of the Administration actions, homeowners have more viable tools available to them to avoid foreclosure. These programs have also established key benchmarks and homeowner protections that are now viewed as industry best practices. As a direct and indirect result, millions of families are still in their homes today because of these programs. Or, they have had the opportunity to relocate quickly to more affordable housing through a foreclosure alternative, such as a short sale. Their neighbors and their local communities have benefited as well. A vacant home can be dangerous and costly to a neighborhood. Therefore, we will continue to try to help as many eligible homeowners as possible, in a manner that safeguards taxpayer resources.

Yet, as we deploy a comprehensive suite of options to help families avoid foreclosure, we must remember, as the President noted, that not every foreclosure can be prevented nor should we try to avoid every foreclosure. That is why the TARP-funded Treasury housing programs aim to strike a balance between giving homeowners opportunities to avoid foreclosure and protecting taxpayers by paying incentives only when modifications are successful. In those cases where homeownership is no longer economically viable or appropriate to the homeowners' circumstances, our focus is on easing the transition to a sustainable housing situation. In so doing, these programs aim to limit market disruptions caused by rising foreclosures, while allowing the housing market to recover.