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Congressional Oversight Panel Evaluates Progress of TARP Foreclosure Mitigation Programs

April 14, 2010

For Immediate Release

Panel Applauds Recent HAMP Revisions, But Treasury's Programs Are Not Keeping Pace with the Foreclosure Crisis

WASHINGTON, D.C. - The Congressional Oversight Panel today released its April oversight report, "Evaluating Progress of TARP Foreclosure Mitigation Programs." The Panel commended recent changes to the mortgage modification program designed to reach more homeowners, but found that Treasury is still struggling to get its foreclosure programs off the ground even as the crisis continues unabated.

Since the Panel's last examination of foreclosure mitigation efforts in October 2009, Treasury has taken steps to address concerns that the Home Affordable Modification Program (HAMP) did not adequately address foreclosures caused by unemployment or negative equity, including by establishing a voluntary principal reduction program. Despite these and other efforts, foreclosures continue at a rapid pace. In 2009, 2.8 million homeowners received a foreclosure notice, and nearly one in four homeowners with a mortgage currently has negative equity. While housing prices have begun to stabilize in many regions, home values in several metropolitan areas continue to fall sharply.

The Panel found that "Treasury's response continues to lag well behind the pace of the crisis" and that, even when HAMP is fully operational, they "will not reach the overwhelming majority of homeowners in trouble." The report raises three specific concerns with Treasury's foreclosure programs:

Timeliness. Since early 2009, Treasury has initiated half a dozen foreclosure mitigation programs, gradually ramping up the incentives for participation by borrowers, lenders, and servicers. Although Treasury should be commended for trying new approaches, its pattern of providing ever more generous incentives might backfire, as lenders and servicers might opt to delay modifications in hopes of eventually receiving a better deal.

Sustainability. Although HAMP modifications reduce a homeowner's mortgage payments, many borrowers continue to experience severe financial strain. HAMP typically does not reduce the total principal balance of a mortgage, meaning that a borrower who was underwater before receiving a HAMP modification will likely remain underwater afterward. Many borrowers will eventually redefault and face foreclosure. Redefaults signal the worst form of failure of the HAMP program: billions of taxpayer dollars will have been spent to delay rather than prevent foreclosures.

Accountability. The Panel is concerned that the sum total of announced funding for Treasury's individual foreclosure programs exceeds the total amount set aside for foreclosure prevention. Treasury must be clearer about how much taxpayer money it intends to spend. Additionally, it must thoroughly monitor the activities of participating

lenders and servicers, audit them, and enforce program rules with strong penalties for failure to follow the requirements.

The full report is available at cop.senate.gov.

The Congressional Oversight Panel was created to oversee the expenditure of the Troubled Asset Relief Program (TARP) funds authorized by Congress in the Emergency Economic Stabilization Act of 2008 (EESA) and to provide recommendations on regulatory reform. The Panel members are: former Securities and Exchange Commissioner Paul S. Atkins; J. Mark McWatters; Richard H. Neiman, Superintendent of Banks for the State of New York; Damon Silvers, Policy Director and Special Counsel for the AFL-CIO; and Elizabeth Warren, Leo Gottlieb Professor of Law at Harvard Law School.

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