Congressional Oversight Panel Reviews Treasury's Foreclosure Prevention Programs

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For Immediate Release

HAMP On Track to Prevent Far Fewer Foreclosures Than Expected, but Treasury Can Still Take Steps to Help More Homeowners Avoid Foreclosure

WASHINGTON, D.C. - The Congressional Oversight Panel today released its December oversight report, "A Review of Treasury's Foreclosure Prevention Programs." In the eight months since the Panel's last report on the Home Affordable Modification Program (HAMP), Treasury has made minor tweaks to the program, but the changes have not resolved the Panel's core concerns. The Panel now estimates that, if current trends hold, HAMP will prevent only 700,000 foreclosures -- far fewer than the three to four million foreclosures that Treasury initially aimed to stop, and vastly fewer than the eight to 13 million foreclosures expected by 2012.

While HAMP's most dramatic shortcoming has been its poor results in preventing foreclosures, the program has had other significant flaws. For example, despite repeated urgings from the Panel, Treasury has failed to collect and analyze data that would explain HAMP's shortcomings, and it does not even have a way to collect data for many of HAMP's add-on programs. Further, Treasury has refused to specify meaningful goals by which to measure HAMP's progress, while the program's sole initial goal -- to prevent three to four million foreclosures -- has been repeatedly redefined and watered down.

Treasury has failed to hold loan servicers accountable when they have repeatedly lost borrower paperwork or refused to perform loan modifications. Treasury has essentially outsourced the responsibility for overseeing servicers to Fannie Mae and Freddie Mac, but Freddie Mac in particular has hesitated to enforce some of its contractual rights related to the foreclosure process, arguing that doing so "may negatively impact our relationships with these seller/servicers, some of which are among our largest sources of mortgage loans." Treasury bears the ultimate responsibility for preventing such conflicts of interest, and it should ensure that loan servicers are penalized when they fail to complete loan modifications appropriately.

It is too late for Treasury to revamp its foreclosure prevention strategy, but Treasury can still take steps to wring every possible benefit from its programs. Treasury should enable borrowers to apply for loan modifications more easily -- for example, by allowing online applications. Treasury should also carefully monitor and, where appropriate, intervene in cases in which borrowers are falling behind on their HAMP-modified mortgages. Preventing redefaults is an extremely powerful way of magnifying HAMP's impact, as each redefault prevented translates directly into a borrower keeping his home.

Treasury should acknowledge that HAMP will not reach the expected number of homeowners and should provide a meaningful framework for evaluating the program in the future. Treasury continues to state that HAMP will expend $30 billion in Troubled Asset Relief Program funding, yet the Panel's estimate based on Congressional Budget Office figures is that HAMP will likely spend only around $4 billion. Had Treasury acknowledged this reality before its crisis authority expired, it could have reallocated the money to a more effective program. Now, that option is gone. Absent a dramatic and unexpected increase in HAMP enrollment, many billions of dollars set aside for foreclosure mitigation may well be left unused. As a result, an untold number of borrowers may go without help -- all because Treasury failed to acknowledge HAMP's shortcomings in time.

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 Senator Ted Kaufman; 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 Kenneth Troske, William B. Sturgill Professor of Economics at the University of Kentucky.