

Summary of Testimonies before the House Subcommittee on Insurance, Housing, and
Community Opportunity of the Committee on Financial Services

March, 2, 2011

Hearing titled:

“Legislative Proposals to End Taxpayer Funding for Ineffective Foreclosure Mitigation
Programs.”

[There were 4 bills being considered by the House to end tax payer funding of foreclosure
mitigation programs]

- 1st witness: Neil Barofsky, Special Inspector General, Troubled Asset Relief Program (SIGTARP)
 - o Testifying to the inefficiency of the HAMP program (Housing Affordable Modification Program) which arose from the Emergency Economic Stabilization Act.
 - o Original intent behind HAMP was “that TARP be used not just to benefit the Wall Street banks, but also Main Street through a specific goal of preserving homeownership”
 - o HAMP was supposed to help 3 to 4 million struggling homeowners hold on to their homes and avoid foreclosure by providing sustainable permanent modifications to these loans.
 - o After 2 years, fewer than 540,000 permanent modifications have been completed
 - o In response to official questions as to whether or not HAMP should be shut down due to its disappointing results, Barofsky maintained that the Treasury Dept. should be given an opportunity to respond to bipartisan criticism that the program was failing to do 2 things:
 - set forth its plan on how to revamp the program so it could meet those important TARP goals
 - announce a definitive number of people they expect to help through HAMP
 - o Treasury has not addressed these concerns, and officials have publicly defended the deficient progress that has been made
 - o Treasury has not been transparent concerning how many people it has helped, and how many people it expects to help which fuels the suspicions and concerns of those who want to terminate the program
 - o They have made flippant remarks that their 30% conversion rate of trial modifications to permanent ones is adequate.
 - such remarks demean the 800,000 families whose trial modifications have been terminated and the 2.2-2.3 million families who might have been helped if the program had been better designed.

- 2nd witness: David Stevens, HUD, FHA Commissioner
 - o Coming to the defense of the Obama administration and it’s efforts (including HAMP) to provide programs that will keep stressed borrowers in their homes and slow down foreclosures.
 - o gives context for how bad the housing crisis was before Obama took office
 - o gives stats for the improvement of the crisis under Obama
 - monthly foreclosure starts down by more than 30,000/month from year ago
 - more than 4.1 million distressed borrowers have received assistance

- since April 2009 (numbers from all programs including HAMP)
 - This is more than twice the number of foreclosures during this time period.
 - The aftermath of the housing crisis still affecting the rate of foreclosures so he is here talk about 2 specific new initiatives:
 - FHA short refinance program
 - to help the 1.5 million borrowers who owe more than their house is worth
 - qualified borrowers will have their mortgages modified or refinanced into a sustainable FHA loan
 - bulk of the cost of the program borne by the investors and banks which own the loans.
 - \$50,000.00 bridge loans to as many as 30,000 people who've lost their jobs and can't pay their mortgages.
 - designed to bring the homeowner current on their house payments and reduce payments to manageable levels
 - assistance terminates when borrower's income is restored to 85% of pre-crisis levels.
 - Loan will be secured by a lien against the mortgaged property
 - Admits that the programs to help distressed borrowers have taken longer than planned to implement, but notes that they're working hard to finalize all the administrative issues and free up the help.
 - Notes the praise of others in defense of the Obama administration's efforts.
 - Closes by voicing the Administration's opposition to the 4 bills that are subject of the hearing.
- 3rd witness: Ms. Mercedes Marquez, HUD Asst. Sec. for Community Planning and Development, in charge of administering the NSP (Neighborhood Stabilization program) and its funds
 - Ms. Marquez is present to defend the existence of NSP and highlight the successes of the program.
 - Begins with clarification: NSP is *not* a foreclosure prevention program. it is designed to mitigate the negative effects of abandoned, vacant, and blighted properties on their surrounding neighborhoods.
 - NSP is important for preventing further decline of neighborhoods
 - money spent on NSP often turn foreclosed and abandoned properties into affordable rental housing.
 - doing this shores up the value of neighboring homes
 - \$7billion has been allocated to NSP so far in 3 rounds of funding
 - the money will impact 100,000 properties
 - 36,000 properties currently under construction
 - 100,000 homes seems small compared to number of foreclosures, but these are targeted in the areas that need help most.
 - there is also a multiplier effect which is felt by local, regional and national housing markets.
 - The money has been well managed
 - All of the money from the first two rounds of funding has been officially allocated to specific grants

- That this has been done speaks to the efficiency and dedication of all involved in the process.
 - results:
 - more than 5300 rehabilitated or newly constructed homes
 - more than 6000 households have received assistance to acquire formerly foreclosed or abandoned properties
 - more than 9700 blighted properties have been demolished.
 - She goes on to cite numerous anecdotal instances of program successes at the community and individual level
 - Her conclusion:
 - The investment in the NSP is working to stabilize communities, sustain home ownership and raise property values.
 - Therefore she is in opposition to the 4 bills under consideration.
- 4th witness: Matthew Skire, Gov. Accountability Office Director of Financial Markets and Community Investment
 - Provides an official GAO assessment of Treasury's role in (HAMP) which is critical and corroborates Neil Barofsky's earlier testimony: treasury has not lived up to its expectations.
 - The overall numbers so far:
 - 2 years since Treasury announced HAMP
 - 3-4 million homeowners supposed to be helped
 - 1.7 million have been offered modifications
 - only 522,000 permanent modifications so far
 - The problems with Treasury's administration of HAMP:
 - inconsistent criteria by which Mortgage servicers process HAMP modification.
 - different definitions of what constituted "imminent danger of default".
 - No specific consequences or remedies if servicers did not comply with program requirements.
 - Treasury has not acted on GAO's previous recommendations that they address these issues.
 - They have made no serious efforts to address these issues in new HAMP programs they are rolling out such as the Principal Reduction and Foreclosure Alternatives Program and the second lien program.
 - Treasury could do more to speed up the roll out of these programs:
 - They could do more to ensure that servicers have the capacity to undertake these additional programs.
 - They could do more to establish goals and performance measures for these programs.
 - They need to analyze and better understand the final disposition of borrowers who fall out of the HAMP program.
- 5th witness: Katie Jones, Analyst in Housing Policy, Congressional Research Service (CRS)
 - Ms. Jones is there to provide dot-com information and performance and funding metrics on HAMP, the FHA Short Refinance Program, the Emergency Homeowners Loan Program, and the Neighborhood Stabilization Program.

- CRS's role is purely objective and they take no position on the legislative proposals.
- HAMP:
 - Modifies mortgages so that monthly payments are no more than 31% of the borrower's monthly income.
 - borrowers first enter into a trial modification which becomes permanent as they make all of their trial payments on time.
 - Treasury was designated nearly \$30 billion in TARP funds for HAMP
 - as of Feb 25th 2011, just over \$1 billion has been dispersed.
 - 3-4 million distressed borrowers were supposed to be helped.
 - Only 540,000 permanent HAMP modifications to date.
 - About another 145,000 are in the trial phase.
 - 800,000 modifications have been cancelled, most being trial mods that did not convert to permanent.
- FHA Short Refinance Program:
 - Allows certain borrowers who are current on their mortgages, but who owe more than their home is worth, to refinance into a new FHA insured mortgage if the original lender agree to write down the principal by a certain amount.
 - The Treasury Dept. designated \$8 billion of TARP funds for this program.
 - Program became effective on Sept. 7th 2010, since then 40 loans have been refinanced.
- The Emergency Homeowners Loan Program:
 - Established by congress in the Dodd-Frank law
 - Administered by HUD with \$1 billion from Dodd-Frank.
 - Provides short-term zero- interest bridge loans to recently unemployed or underemployed to help cover mortgage payments.
 - As of the date of this hearing, the application process had not yet begun. It was expected to begin during Spring 2011.
- The Neighborhood Stabilization Program (NSP):
 - provides funds to State and local communities to purchase and redevelop foreclosed or abandoned properties.
 - Not designed to prevent foreclosures.
 - NSP funds have come in three rounds approved by congress.
 - NSP1 was funded with \$3.9 billion from the Housing and Economic Recovery Act of 2008
 - funds were awarded to grantees by formula
 - NSP2 was funded with \$2 billion from the American Recovery and Reinvestment Act
 - Funds were awarded competitively.
 - NSP3 was funded with \$1 billion from the Dodd-Frank Act.
 - funds were awarded to grantees by formula.
 - NSP1's grantees have completed nearly 20,000 units.
 - 283 NSP3 grantees have been announced.
 - These grantees are required to submit their action plans to HUD by March 1st 2011.

The following are brief summaries of the additional material submitted for the record:

- Steven Gillan, Executive Director of the American Alliance of the Home Modification Professionals:
 - o Paper titled "HAMP Fatal Flaw"
 - condemnation of the Treasury Dept.'s strategy, policy directives and alterations required to meet HAMP's objectives
 - singles out the fatal flaw which is that there is no structure that provides oversight of the mortgage servicers by the Treasury Dept.
 - Treasury *has* made considerable efforts to correct the many problems
 - But as long as mortgage servicers are free to interpret and process modification applications in any way they want (generally to their own benefit) the problem will persist.
 - o Conclusion: keep HAMP intact but compel Treasury to insure servicing industry compliance

- Kelly William Cobb, Government Affairs Manager, Americans for Tax Reform:
 - o Supports legislation rescinding funds from housing programs
 - o In a fiscal environment that includes \$14.29 trillion of debt, the tax payers who must ultimately pay this debt, are entitled to the savings that would result from decommissioning these programs which are not currently working as they were originally intended and which are wasting desperately needed tax payer dollars.

- Mark A. Calabria, Ph. D., Director, Financial Regulation Studies, Cato Institute
 - o Supports legislation rescinding funds from housing programs
 - o We are no longer at a point where spending more money on such programs can have a positive effect on the economy
 - o In fact, such spending is exacerbating the problems and delaying the recovery.
 - o These programs delay the inevitable price corrections that need to take place in the market.
 - o The housing programs being here considered are the largest sources of expected loss for the TARP program.
 - o Ending the programs will:
 - protect tax payers from further loss
 - accelerate economic recovery
 - put an end to bailouts of the shoddy lenders who contributed to the problem

- Satya Thallam, Director, Financial Markets Working Group, Mercatus Center at George Mason University
 - o Writing in defense of the GSEs (Fannie Mae and Freddie Mac) and the mortgage servicing industry who have an interest in processing as many foreclosures as possible and clearing the toxic assets off their balance sheets.
 - o HAMP, as it is currently set up, takes no account of other household debt which, for many families who qualify for HAMP, is extremely large and, left unmodified, seriously hampers the ability of those in the HAMP trial period

- to succeed and transition into a permanent modification.
 - HAMP modifications lower interest rates and extend maturities of mortgages but do not change the balance owed
 - therefore, mortgages that were upside down before HAMP modifications remain so after modification
 - HAMP leaves banks and GSEs with mortgages on their books with considerable default and interest rate risk with a need to continue financing.
 - TARP was supposed to help servicers clean up toxic assets on their balance sheets but HAMP seriously hinders this.

- Response of the Dept. of Treasury:
 - firmly opposed to the four bills under consideration which would rescind funding of HAMP, NSP, FHA Short ReFi Prog. and the Emergency Homeowner Relief Fund
 - Treasury administers HAMP (as opposed to the other programs which fall under HUD) and so will restrict its defense to the HAMP program alone.
 - HAMP still helps tens of thousands of families every month providing the typical borrower with \$500/mo reduction in mortgage payments.
 - Abandoning these distressed borrowers would leave their fate in the hands of the servicers who, everyone recognizes, are themselves in need of reform.
 - HAMP's impact goes beyond the statistic of actual permanent modifications achieved:
 - HAMP is a catalyst of reform in the industry because it has set affordability standards and has developed frameworks for how servicers should provide assistance to struggling homeowners.
 - Also, HAMP funds only go to borrowers in permanent modifications and only so long as they keep making payments.
 - any unused funds are used to pay down the national debt.
 - Attached document, titled "HAMP Fact vs. Fiction":
 - The primary reason 3-4 million permanent HAMP modifications will not happen is that there are only 1.4 million of the distressed borrowers who meet the eligibility criteria
 - 600,000 permanent modifications have been processed with 30,000 more per month currently being processed so the system is moving along all right.
 - HAMP only funds successful modifications, unused funds are applied to national debt.
 - The fact that more HAMP modifications have failed than have become permanent is testimony to the sensible conditions set for using federal funds and not indicative of a failed program.
 - HAMP is not needed because the industry will enter into modifications anyway:
 - the servicing industry was not and still is not fully equipped to deal with this crisis.
 - Attached testimony of Ms. Phyllis Caldwell, Chief, Homeownership Preservation Office, U.S. Dept. of Treasury
 - This document summarizes the extensive housing crisis as a whole and justifies the Obama administration's response (the programs being here critiqued).
 - She gives a full explanation of the intent of the HAMP program and

why it is important, the problems it has faced and the responses of the Treasury Dept.

- She declares the program a success and considers it crucial for its overall effect on the servicing industry