



Highlights of [GAO-09-231T](#), a testimony to Subcommittee on Financial Services and General Government, Committee on Appropriations, U.S. Senate

Why GAO Did This Study

A dramatic increase in mortgage loan defaults and foreclosures is one of the key contributing factors to the current downturn in the U.S. financial markets and economy. In response, Congress passed and the President signed in July the Housing and Economic Recovery Act of 2008 and in October the Emergency Economic Stabilization Act of 2008 (EESA), which established the Office of Financial Stability (OFS) within the Department of the Treasury and authorized the Troubled Asset Relief Program (TARP). Both acts establish new authorities to preserve homeownership. In addition, the administration, independent financial regulators, and others have undertaken a number of recent efforts to preserve homeownership. GAO was asked to update its 2007 report on default and foreclosure trends for home mortgages, and describe the OFS's efforts to preserve homeownership.

GAO analyzed quarterly default and foreclosure data from the Mortgage Bankers Association for the period 1979 through the second quarter of 2008 (the most recent quarter for which data were available). GAO also relied on work performed as part of its mandated review of Treasury's implementation of TARP, which included obtaining and reviewing information from Treasury, federal agencies, and other organizations (including selected banks) on home ownership preservation efforts. To access GAO's first oversight report on Treasury's implementation of TARP, click on [GAO-09-161](#).

To view the full product, including the scope and methodology, click on [GAO-09-231T](#). For more information, contact Mathew Scire at (202) 512-8678 or sciremj@gao.gov.

TROUBLED ASSET RELIEF PROGRAM

Status of Efforts to Address Defaults and Foreclosures on Home Mortgages

What GAO Found

Default and foreclosure rates for home mortgages rose sharply from the second quarter of 2005 through the second quarter of 2008, reaching a point at which more than 4 in every 100 mortgages were in the foreclosure process or were 90 or more days past due. These levels are the highest reported in the 29 years since the Mortgage Bankers Association began keeping complete records and are based on its latest available data. The subprime market, which consists of loans to borrowers who generally have blemished credit and that feature higher interest rates and fees, experienced substantially steeper increases in default and foreclosure rates than the prime or government-insured markets, accounting for over half of the overall increase. In the prime and subprime market segments, adjustable-rate mortgages experienced steeper growth in default and foreclosure rates than fixed-rate mortgages. Every state in the nation experienced growth in the rate at which loans entered the foreclosure process from the second quarter of 2005 through the second quarter of 2008. The rate rose at least 10 percent in every state over the 3-year period, but 23 states experienced an increase of 100 percent or more. Several states in the "Sun Belt" region, including Arizona, California, Florida, and Nevada, had among the highest percentage increases.

OFS initially intended to purchase troubled mortgages and mortgage-related assets and use its ownership position to influence loan servicers and to achieve more aggressive mortgage modification standards. However, within two weeks of EESA's passage, Treasury determined it needed to move more quickly to stabilize financial markets and announced it would use \$250 billion of TARP funds to inject capital directly into qualified financial institutions by purchasing equity. In recitals to the standard agreement with Treasury, institutions receiving capital injections state that they will work diligently under existing programs to modify the terms of residential mortgages. It remains unclear, however, how OFS and the banking regulators will monitor how these institutions are using the capital injections to advance the purposes of the act, including preserving homeownership. As part of its first TARP oversight report, GAO recommended that Treasury, among other things, work with the bank regulators to establish a systematic means for determining and reporting on whether financial institutions' activities are generally consistent with program goals. Treasury also established an Office of Homeownership Preservation within OFS that is reviewing various options for helping homeowners, such as insuring troubled mortgage-related assets or adopting programs based on the loan modification efforts of FDIC and others, but it is still working on its strategy for preserving homeownership. While Treasury and others will face a number of challenges in undertaking loan modifications, including making transparent to investors the analysis supporting the value of modification versus foreclosure, rising defaults and foreclosures on home mortgages underscore the importance of ongoing and future efforts to preserve homeownership. GAO will continue to monitor Treasury's efforts as part of its mandated TARP oversight responsibilities.