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"The Recently Announced Revisions to the Home Affordable Modification Program (HAMP)"

Chairwoman Waters, Ranking Member Capito and members of the Subcommittee, thank you for the opportunity to testify today on the recently announced enhancements to the Home Affordable Modification Program (HAMP), a key component of the Administration's Making Home Affordable (MHA) initiative. These program enhancements will better assist responsible homeowners who have been affected by the economic crisis. The program modifications will expand flexibility for mortgage servicers and originators to assist more unemployed homeowners and to help more people who owe more on their mortgage than their home is worth because their local markets saw large declines in home values. These changes are a part of the Administration's comprehensive strategy to help stabilize housing markets and offer a second chance to up to three to four million struggling homeowners through the end of 2012. Costs will be shared between the private sector and the Federal Government; funding from the Troubled Asset Relief Program (TARP) will not exceed the $50 billion originally allocated for housing programs.

Housing Policy Overview

The Administration's goal is to promote stability for both the housing market and homeowners. To meet these objectives, the Administration has developed a comprehensive approach using state and local housing agency initiatives, tax credits for homebuyers, neighborhood stabilization and community development programs, mortgage modifications and refinancing, and support for Fannie Mae and Freddie Mac. With the record-low mortgage rates seen this past year and, thanks in large part to these programs, more than four million homeowners have refinanced their mortgages to more affordable levels helping to save more than $7 billion in the past year; more than one million are saving an average of around $500 per month through the Administration's mortgage modification program; home equity (wealth for homeowners) increased by more than $13,000 for the average homeowner in the last three quarters of 2009; and the economy is growing.

Even with this success, we continue to see challenges. Servicers were slow to implement HAMP, resulting in a slow start for the program. Recent improvements in the program have accelerated the pace of modifications. But our strategy to address the crisis must evolve because our challenges have also evolved. The enhancements announced on March 26, 2010 are responsive to the changing needs of homeowners across the country.

Our housing initiatives must balance the need to help responsible homeowners struggling to stay in their homes, with the recognition that we cannot and should not help everyone. The President has said: “We can’t stop every foreclosure.” And in fact, we can’t maintain this balance if we try to assist every borrower. For example, investors and speculators should not be protected under our efforts, nor should Americans living in million-dollar homes or defaulters on vacation homes. Some people simply will not be able to afford to stay in their homes because they bought more than they could afford. Instead, the Administration must focus on providing responsible homeowners opportunities to obtain a modification or to refinance and prevent avoidable foreclosures and, when necessary, facilitate the transition to a more sustainable housing situation. The newly announced adjustments are tailored to accomplish these goals by helping a targeted group of borrowers.

Eligible homeowners for modifications under HAMP must, for example: live in an owner-occupied principal residence, have a mortgage balance less than $729,750, have monthly payments on their first mortgage that are greater than 31 percent of their income, and demonstrate a financial hardship. The new flexibilities for HAMP will enable us to better reach this target population.

The new Federal Housing Administration (FHA) refinance options will provide more opportunities for lenders to restructure loans for some families who owe more than their home is worth. This should help to create stabilizing incentives in the housing market. This is a voluntary program for lenders. To be eligible for refinancing through FHA, borrowers must be current on their mortgage.

Taken together, the Administration’s broad housing initiatives and the newly announced flexibilities will offer a second chance to millions of responsible, middle-class American families struggling to stay in their homes and will help stabilize and rebuild wealth for our households, neighborhoods and communities.

Background on Housing Program Initiatives to Date

The Administration has taken a broad set of actions to stabilize the housing market for the benefit of American homeowners. These efforts are having an impact on our housing markets – we are seeing signs of stabilization. Just over one year ago, stress in the financial system had severely reduced the supply of mortgage credit, limiting the ability of Americans to buy homes or refinance mortgages. Millions of responsible families who had made their monthly payments and fulfilled their obligations saw their property values fall, and found they were unable to refinance at lower mortgage rates.

In February 2009, less than one month after taking office, President Obama announced the *Homeowner Affordability and Stability Plan*. As part of this plan and through other housing initiatives, the Administration has taken the following actions to strengthen the housing market:

Actions Supporting Market Stability and Access to Affordable Mortgage Credit

- The Administration has provided strong support to Fannie Mae and Freddie Mac to ensure continued access to affordable mortgage credit across the market;
- Together, Treasury and the Federal Reserve have purchased more than $1.4 trillion in agency mortgage-backed securities, which have helped keep mortgage rates at historic lows, allowing homeowners to access credit to purchase new homes and refinance into more affordable monthly payments; and
- The FHA and Ginnie Mae have played an important counter-cyclical role, providing liquidity for housing purchases and refinancing at a time when private lending has declined.

Actions Helping Homeowners Purchase Homes, Refinance and Modify Mortgages to More Affordable Payments, Prevent Foreclosures and Stabilize Communities

The Administration has:

- Launched a modification initiative to help homeowners reduce mortgage payments to affordable levels and to prevent avoidable foreclosures. Homeowners in active modifications are saving around $500 per month on average;
- Supported temporarily expanding the limits for loans guaranteed by Fannie Mae, Freddie Mac, and FHA from previous limits up to $625,500 per loan to $729,750 to provide needed support to keep markets functioning during this crisis;
- Expanded refinancing flexibilities for the Fannie Mae and Freddie Mac loans, particularly for borrowers with negative equity. Combined with historically low mortgage rates, this has helped more than four million American homeowners to refinance, saving an estimated $150 per month on average and more than $7 billion cumulatively in the past year;
- Launched a $23.5 billion Housing Finance Agencies Initiative which is helping more than 90 state and local housing finance agencies (HFAs) across 49 states provide sustainable homeownership and rental resources for American families;
- Supported the First-Time Homebuyer Tax Credit, and the subsequent extension and expansion of the credit to also assist move-up buyers, which has helped hundreds of thousands of responsible Americans purchase homes.
- Through the Recovery Act, provided over $5 billion in support for affordable rental housing through low-income housing tax credit programs and $2 billion in additional support for the Neighborhood Stabilization Program (NSP), on top of the first round of $4 billion of NSP funds, to restore neighborhoods hardest-hit by concentrated foreclosures; and
- On February 19, 2010, announced the $1.5 billion HFA Hardest-Hit Fund for five state HFAs in the nation’s hardest-hit housing markets to design innovative, locally targeted foreclosure prevention programs. On March 29, 2010, we announced a $600 million expansion of that program for an additional five HFAs.

Together, these initiatives are having an impact – strengthening the housing market, helping responsible homeowners prevent avoidable foreclosures and rebuilding communities and neighborhoods. Today mortgage rates remain near historic lows – the primary interest rate is now about 5.20 percent. We are also seeing encouraging signs in housing indicators – home prices and the pace of home sales have stabilized in recent months.

HAMP Performance in Context

At the time we launched HAMP in March 2009, President Obama said that the program would "enable as many as three to four million homeowners to modify the terms of their mortgages."

- The target of "three to four million homeowners" includes both agency loans (owned or guaranteed by the Government-Sponsored Enterprises, Fannie Mae and Freddie Mac) and non-agency loans.
- We have continued to report offers of trial modifications, because the offer is the servicer's commitment to extend a trial modification subject to the borrower's agreement. At this point, a homeowner is provided an opportunity to reduce his or her monthly mortgage payment.
- There will be fewer permanent modifications than trial modifications, as modifications are only offered permanent status once the homeowner has accepted a trial modification, has performed for at least three months in a trial modification, and has met the full documentation requirements for the permanent modification. By requiring borrowers to demonstrate their ability and willingness to meet their monthly obligations, the trial modification helps ensure that taxpayer dollars are not spent on unsustainable modifications.
- Loan modifications have a risk of re-default. Among the permanent modifications, some will re-default and that factor is incorporated into the program's design.
- In fact, we designed our program specifically to protect the taxpayer in cases where re-default occurs – payments to servicers, investors, and borrowers are conditional on actual performance over time.
- The projection of three to four million homeowners helped is based on our best estimate of the number of HAMP-eligible households that are likely to require assistance during the four-year program. The number of households that actually require assistance from HAMP during the remaining three years may diverge from our expectations if economic conditions or home prices evolve differently than projected.

More than 1.4 million borrowers have been extended a modification offer, with approximately 1.2 million of these approved offers resulting in modification trials. In a program scheduled to last nearly four years (March 2009 through December 2012), either figure places the program well on schedule to meet the goal announced by President Obama.

HAMP also continues to demonstrate real progress, as evidenced in our March public report:

- Homeowners in active modifications have had their payments reduced substantially – around $500 for the typical homeowner.

- Of the homeowners who have been in trial modifications for three months or more, 36 percent had received permanent modifications or had been approved for permanent modification. This conversion rate from trial to permanent modifications has been improving but is still below desired or anticipated program levels.

- In March alone, 60,594 borrowers in modifications received permanent status.

- There are now a total of 227,922 homeowners with permanent modifications and another 108,212 whose permanent modifications await only their signature.

- Even those borrowers who do not obtain a permanent modification (for example, those who do not complete a trial modification but instead pursue a foreclosure alternative such as a short sale) still benefit from reduced payments during the trial phase and the time the trial affords them to find an appropriate solution.

Despite the progress, we have encountered a number of policy and operational issues that have been much more challenging to address than anticipated. The process of converting trial modifications to permanent was hindered by several factors, including slow ramp up and insufficient capacity and execution at most servicing shops, a lack of willingness or ability to provide necessary documentation on the part of some borrowers, and a conversion and implementation process more complex administratively than originally conceived. We found that the parallel nature of the foreclosure process during a HAMP trial period has been confusing to borrowers and many have complained about conflicting signals regarding the status of their mortgage. Also, unemployment and negative equity continue to pose significant challenges for homeowners.

Given these challenges, we believed that adjustments to the program were necessary for us to more effectively assist struggling borrowers. As we determined how best to address these challenges, we have moved aggressively to implement program changes and expansions to help at-risk homeowners.

HAMP and Other Enhancements Help Us More Effectively Meet Housing Goals

Upfront Documentation and Verification of Income

At the outset of 2010, Treasury began the process of implementing these program enhancements. First and foremost, we revised the program to ensure that borrowers will not be caught in a long trial period. The new rules (Supplemental Directive 10-01) we issued on January 26 require servicers to begin offering trial modifications based on verified documentation at the front end of the process. We clarified documentation rules for the program so that borrowers now must submit a simple, standard package of documents to begin the evaluation process for a trial modification. Further, we require servicers to abide by certain response timeframes so that borrower decisions on eligibility are made in a timelier manner. These changes will begin taking effect on April 15, 2010, although some servicers have already begun to implement them.

Borrower Protections and Outreach
On March 24, Treasury released guidance (Supplemental Directive 10-02) that provides borrowers with a number of new protections in the HAMP evaluation process to help address some of the confusion and anxiety that some borrowers reported surrounding their rights during the evaluation process.

The guidance addresses borrower solicitation, borrower response timelines, the foreclosure process, and bankruptcy changes. Supplemental Directive 10-02 requires and defines reasonable outreach efforts to homeowners by servicers and establishes a timeframe for borrowers to respond to these efforts. This guidance also clarifies that servicers must consider borrowers in active bankruptcy for HAMP if a request for modification is received.

Supplemental Directive 10-02 also addresses the HAMP evaluation process with respect to foreclosure. Currently, servicers may not refer a mortgage to foreclosure if the borrower is in a trial modification. The guidance would prohibit foreclosure referral for all potentially eligible loans unless the borrower does not respond to the solicitation, was not approved for HAMP, or failed to make their trial modification payments on time. Servicers will be required to provide borrowers with clear written communications explaining the concurrent foreclosure/modification processes and stating that a foreclosure sale will not take place during the trial period. If a borrower is found ineligible for HAMP, a foreclosure sale cannot be scheduled sooner than 30 days after the date of a Non-Approval Notice so that the borrower has a chance to respond. Servicers must also certify to their foreclosure attorneys that a borrower is not eligible for HAMP before a sale may be conducted.

Additionally, on March 26, 2010, we announced increased incentives for servicers to provide permanent modifications to homeowners. By increasing upfront servicer incentive payments for permanent modifications, we are better enabling servicers to increase outreach and counseling efforts, covering the costs of implementing updated program elements, and focusing on converting borrowers to a permanent solution.

Assistance for Unemployed and Underwater Borrowers
Among the series of enhancements rolled out on March 26 was a change to provide unemployed borrowers with temporary assistance and a pathway to a permanent modification. Unemployed borrowers meeting certain HAMP eligibility criteria will have an opportunity to have their mortgage payments temporarily reduced to an affordable level for a minimum of three months, and up to six months for some borrowers, while they look for a new job. Borrowers who become re-employed by the end of this temporary assistance period and whose mortgage payment is greater than 31 percent of their new gross monthly income must be considered for a *permanent* HAMP modification. If homeowners do not find a job before the temporary assistance period is over, servicers may consider them for the Home Affordable Foreclosure Alternatives Program (HAFA), which includes the option of obtaining a short sale or a deed-in-lieu of foreclosure to transition to a more affordable living situation.

Additionally, servicers will be required to consider an alternative modification approach that helps borrowers achieve principal relief over time through earned forgiveness of principal that is forborne in the initial loan modification. For HAMP-eligible borrowers that owe more than 115 percent of the current value of their home, servicers will be required to run the standard Net Present Value (NPV) test and an alternative NPV test that includes incentives for each dollar of principal write-down. If NPV under the alternative approach compares favorably to the result under the standard approach, the servicer will have the option to use it. In this way, servicers are able to demonstrate to investors that using principal write-down likely results in a higher yielding modification.

Under the alternative approach, servicers assess the NPV of a modification that starts by forbearing principal balance as needed over 115 percent loan-to-value (LTV) to bring borrower payments to 31 percent of income, maintaining the overarching program standard of affordability. Servicers will then forgive the forborne amount in three equal steps over three years, as long as the homeowner remains current on payments. This principal write-down schedule ensures prudent expenditure of taxpayer resources, with incentives earned by the borrower and lender on a pay-for-success basis.

Implementation details for the principal write-down option is expected by early Fall 2010, with the unemployment forbearance component likely within the next two months. Treasury is also increasing the incentives that it provides for second liens extinguished or partially extinguished even when the alternative principal write-down waterfall is not utilized.

Strengthening FHA Programs for Underwater Borrowers

The Administration has taken additional steps to provide assistance to underwater borrowers. Adjustments have been made to FHA programs that will permit lenders to provide additional refinancing options to homeowners who owe more than their home is worth because of large falls in home prices in their local markets. These adjustments will provide more opportunities for qualifying mortgage loans to be responsibly restructured and refinanced into FHA loans as long as the borrower is current on the mortgage and the lender reduces the amount owed on the original first lien loan by at least 10 percent. Funds from TARP will be made available for incentives to encourage write-downs of any existing second liens and to encourage participation by servicers. TARP funds will also be used to provide coverage to lenders for a share of potential losses on these loans, mitigating detrimental impacts to FHA's capital reserve to ensure that the FHA does not take on any additional cost to support these refinanced loans. No TARP funds will go to the FHA itself for any loans. Total TARP support provided through incentives and coverage will not exceed $14 billion. We expect this option to be available by Fall 2010.

Additional Incentives for Servicers to Modify Loans Already Insured by FHA

HAMP has also been expanded to provide incentives for servicers to modify FHA-insured loans. This program was initially developed last July by FHA and became effective August 15, 2009. With the issuance of new rules on March 26 (Supplemental Directive 10-03), TARP-funded pay-for-success incentives will be available to borrowers and servicers whose loans are modified under the FHA-HAMP guidelines. These incentives improve the quality of this modification option for borrowers and offer a path toward some principal relief. FHA-HAMP incentives are retroactive for all corresponding modifications already offered and therefore we expect the first pay-for-success incentive payments to be paid as early as September 2010.

Greater Assistance for Homeowners to Transition to More Affordable Housing
For borrowers who continue to struggle and are unable to complete a modification, the March 26 announcement also increased incentives to help homeowners move to more affordable housing. Relocation assistance payments to borrowers who use HAFA will be doubled to $3,000 and incentives will be increased for servicers and lenders to raise participation. These incentives will help these homeowners transition more quickly to housing they can afford and increase the likelihood that subordinate lien holders will release borrowers from their debt obligations and thereby help borrowers achieve a faster, less costly exit from their home than they would experience with a foreclosure. This change is effective immediately.

Assisting the Hardest-Hit Housing Markets
The Administration has also recognized that key factors causing severe distress in certain markets could be addressed in a more targeted fashion by agencies most familiar with the dynamics of those markets. In response, the Administration announced the Housing Finance Agency Innovation Fund for the Hardest-Hit Housing Markets (the "HFA Hardest-Hit Fund") for state HFAs to design innovative, locally targeted foreclosure prevention programs. Focusing on these areas will allow limited funding to be deployed with enough scale to have a more significant impact.

The first sequence of funding, announced on February 19, 2010, is designed to provide limited additional resources – a total of $1.5 billion – to states that experienced home price declines of 20 percent or more, using the Federal Housing Finance Agency (FHFA) Purchase Only Seasonally Adjusted Index. Such large declines in home prices have been enough to erode the equity of even the most responsible borrowers, many of whom made large down payments on their homes. The states receiving allocations in this sequence are Arizona, California, Florida, Michigan, and Nevada.

The second sequence, announced on March 26, 2010, allocates $600 million to states with high concentrations of people living in economically distressed areas, defined as counties in which the unemployment rate exceeded 12 percent, on average, over the months of 2009. Less than 15 percent of the U.S. population lives in such high unemployment rate counties. As a result, we encourage state HFAs to use these funds to develop targeted solutions for those communities. The states receiving allocations in this sequence are North Carolina, Ohio, Oregon, Rhode Island and South Carolina.

How Enhancements Affect HAMP Budget and Goals

When HAMP was announced in February 2009, Treasury set a goal to offer reduced monthly payments for up to three to four million at-risk homeowners, enabling these homeowners to modify their mortgages and helping them avoid foreclosure. This projection is based on the best available estimate of the number of HAMP-eligible households that are likely to require assistance during the four-year period between 2009 and 2012. The number of households that actually require assistance from HAMP during the remaining three years may diverge from our expectations if economic conditions or home prices evolve differently than projected. The announced changes to HAMP in part respond to this changing economic environment as well as to lessons we have learned about improving program functionality. They will help the Administration more effectively meet its goal of stabilizing housing markets by offering a second chance to up to three to four million struggling homeowners through the end of 2012.

We anticipate that the budget costs for these new enhancements will not exceed the original allocation for HAMP, with costs to be shared between the private sector and the Federal Government. Funding from TARP for the announced programs will not exceed the $50 billion originally allocated for housing programs. This includes budgets for:

- First lien HAMP modifications, including Home Price Decline Protection (HPDP) payments, alternative principal relief waterfall, and FHA-HAMP;
- Second lien modifications (2MP);
- Foreclosure alternatives (HAFA);
- HFA Hardest-Hit Funds for state HFAs; and
- Incentives and loss coverage for FHA Refinance options.

Despite program enhancements and the rapidly expanding number of conversions to permanent modifications, so far, HAMP has paid a very small share of long-term expected program costs. This is largely because HAMP is designed to protect taxpayers with an innovative pay-for-success framework, which means that the taxpayer does not pay a penny for trial modifications where the borrower does not complete the trial. Even after the trial period, continued servicer, investor and homeowner incentive payments are contingent on continued borrower payment performance over the five-year modification.

Even with the addition of new and increased incentives for the programs mentioned above, this back-loaded payment structure means that, to date and likely over the next few months, a relatively small share of incentives are actually paid out to servicers and investors.

Conclusion

HAMP is the largest mortgage modification program our nation has seen, in size, scope and impact. In addition to the relief it provides directly, it has impacted the broader industry by motivating mortgage servicers to build up systems to meet unprecedented demand and streamlining and standardizing modification processes across the industry. While significant progress has been made in the first year of program implementation, the enhancements announced on March 26 of this year demonstrate this Administration's commitment to apply lessons learned, strengthen program implementation and broaden the program's impact.

In addition to the program improvements outlined here, the Administration remains dedicated to the many other housing market stabilization efforts that work in concert with HAMP, including substantial support for the housing markets through support of Fannie Mae and Freddie Mac to stabilize those institutions and help ensure that affordable mortgage credit is available; refinancing opportunities that have allowed more than four million borrowers to refinance since the launch of MHA; and an initiative to provide support and financing to state and local housing finance agencies, which in turn provide tens of thousands of affordable mortgages to first-time homebuyers and help develop tens of thousands of affordable rental units for working families, including those displaced by the housing crisis and foreclosures.

The Administration is on track to meet the stated program goals and – most importantly – to help prevent avoidable foreclosures for as many eligible American families as possible.

Substantial progress has been made, but the Administration recognizes that real and complex challenges to achieving these important goals still exist. We look forward to these enhancements improving the program's ability to meet these challenges and contribute to the stability of housing markets.