June 2012

FORECLOSURE MITIGATION

Agencies Could Improve Effectiveness of Federal Efforts with Additional Data Collection and Analysis

GAO Accountability * Integrity * Reliability

Highlights

Highlights of GAO-12-296, a report to congressional committees

Why GAO Did This Study

Historically high foreclosure rates remain a major barrier to the current economic recovery. To assist policymakers and housing market participants in evaluating foreclosure mitigation efforts, GAO examined (1) the federal and nonfederal response to the housing crisis, (2) the current condition of the U.S. housing market, and (3) opportunities to enhance federal efforts. To address these objectives, GAO analyzed government and mortgage industry data, including loan-level data purchased from a private vendor; reviewed academic and industry literature; examined federal policies and regulations; and interviewed housing industry participants and observers.

What GAO Recommends

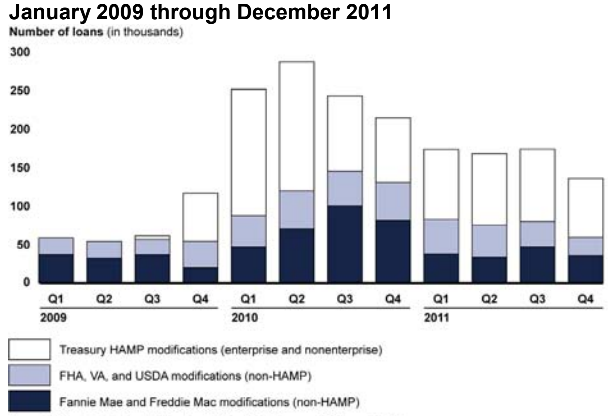
GAO recommends that: Treasury reevaluate the need for its financial support of FHA's refinance program; USDA increase its efforts to monitor servicers' outreach to struggling borrowers; FHA, VA, and USDA collect and analyze information needed to fully assess the effectiveness and costs of their foreclosure mitigation efforts; and FHFA expeditiously finalize analysis on whether to allow the enterprises to offer HAMP principal forgiveness modifications. Treasury, FHA, VA and FHFA agreed to consider or concurred with the report's recommendations. USDA provided additional information in its comments. In response, we clarified the text and recommendation on USDA's monitoring of servicers' outreach efforts.

View GAO-12-296 or key components. For more information, contact Mathew J. Scirè at (202) 512-8678 or sciremj@gao.gov.

What GAO Found

In an effort to help the millions of homeowners struggling to keep their homes, a range of federal programs have offered relief in the form of loan modifications and refinancing into loans with lower interest rates, among other things. Under Treasury's Home Affordable Modification Program (HAMP), initiated in early 2009, servicers have modified almost 1 million loans between 2009 and 2011. During the same period, servicers modified nearly 1 million additional loans under programs administered by the Departments of Agriculture (USDA) and Veterans Affairs (VA), Federal Housing Administration (FHA), and Fannie Mae and Freddie Mac (the enterprises). Servicers have also modified about 2.1 million loans under nonfederal loan modification programs resulting in a total of about 4 million modifications between 2009 and 2011. However, a large number of borrowers have sought assistance, but were unable to receive a modification. For example, approximately 2.8 million borrowers had their HAMP loan modification application denied or their trial loan modification canceled. Further, the volume of federal modifications has declined since 2010 (see figure below). Recent efforts have expanded refinancing programs. However, low participation rates in FHA's program raise questions about the need for Treasury's financial support, which could reach a maximum of $117 million.

Total Permanent Loan Modifications through Federal, Fannie Mae, and Freddie Mac Programs, January 2009 through December 2011



Source: GAO analysis of Fannie Mae, Freddie Mac, FHA, Treasury, USDA, and VA data.

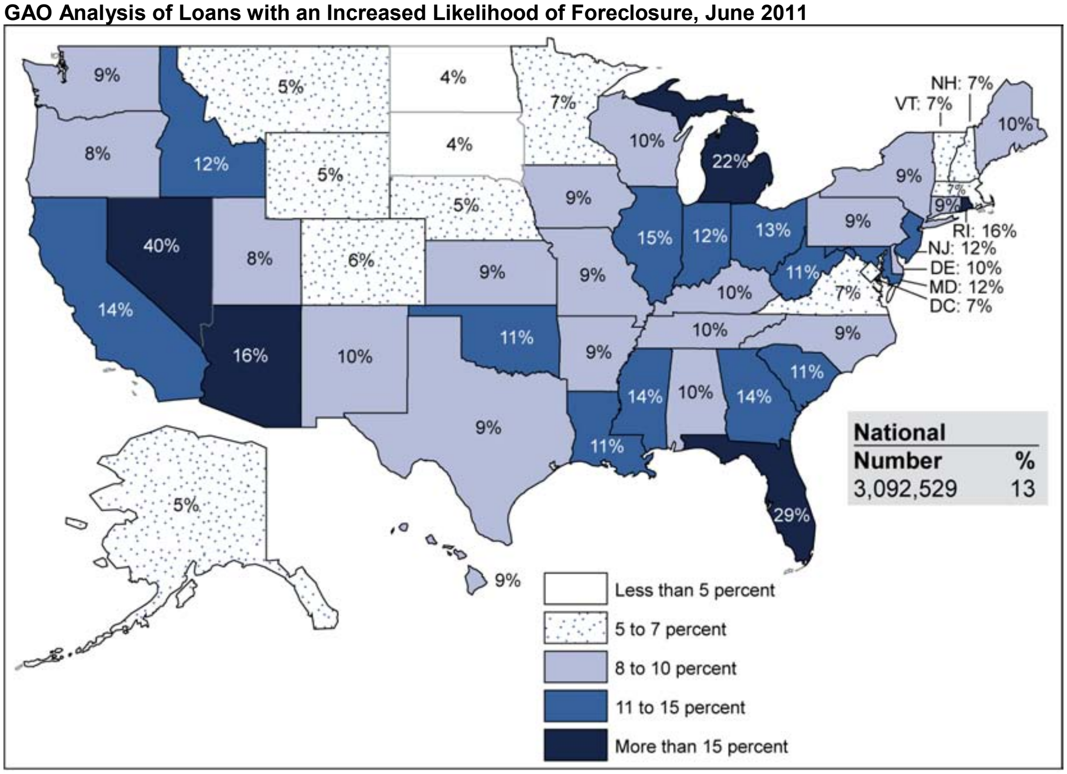
Note: Data used were the most currently available from the agencies and enterprises.

In spite of these efforts, the number of loans in foreclosure remains elevated, and key indicators suggest that the U.S. housing market remains weak. GAO's analysis of mortgage data showed that in June 2011 (most current data available for GAO's use and analysis) between 1.9 and 3 million loans still had characteristics associated with an increased likelihood of foreclosure, such as serious delinquency and significant negative equity (a loan-to-value ratio of

125 percent or greater). These loans were concentrated in certain states, such as Nevada and Florida (see figure below). Further, more recent indicators such as home prices and home equity remain near their postbubble lows. As of December 2011, total household mortgage debt was $3.7 trillion greater than households' equity in their homes—representing a significant decline in household wealth nationwide.

Despite the scope of the problem, most stakeholders GAO interviewed said that enhancing current foreclosure mitigation efforts would be preferable to new ones. GAO found that agencies could take steps to make their programs more effective. Collectively, FHA and the enterprises had 1.8 million loans in their portfolios that were 90 days or more past due as of December 2011. GAO found that most of the agencies and enterprises, with the exception of USDA, had stepped up their efforts to monitor servicers' outreach to struggling borrowers. However, not all the agencies were conducting analyses to determine the effectiveness of their foreclosure mitigation actions. Experiences of Treasury and the enterprises and GAO's econometric analysis strongly suggest that such analyses can improve outcomes and cut program costs. For example, GAO's analysis showed that the size of payment change, delinquency status, and current loan to value ratio, can significantly influence the success of the foreclosure mitigation action taken. In contrast, not all federal agencies consider redefault rates and long-term costs when deciding which loan modification action to take. Nor have they assessed the impact of loan and borrower characteristics. In some cases, agencies do not have the data needed to conduct these analyses. GAO found some evidence to suggest that principal forgiveness could help some homeowners—those with significant negative equity—stay in their homes, but federal agencies and the enterprises were not using it consistently and some were not convinced of its merits. In addition, there are other policy issues to consider in how widely this option should be used, such as moral hazard. The Federal Housing Finance Agency (FHFA), for instance, has not allowed the enterprises to offer principal forgiveness. Treasury recently offered to pay incentives to the enterprises to forgive principal, and FHFA is re-evaluating its position. Until agencies and the enterprises analyze data that will help them choose the most effective tools and fully utilize those that have proved effective, foreclosure mitigation programs cannot provide the optimal assistance to struggling homeowners or help curtail the costs of the foreclosure crisis to taxpayers.

GAO Analysis of Loans with an Increased Likelihood of Foreclosure, June 2011



Source: GAO analysis of data from CoreLogic and its Home Price Index, the Bureau of Labor Statistics, and Freddie Mac's Primary Mortgage Market Survey; map (MapInfo).

Note: Loans with an increased likelihood of foreclosure include loans 60 days or more delinquent plus loans less than 60 days delinquent (including current loans) with two or more of the following risk characteristics—current loan-to-value (LTV) ratio of 125 percent or higher; current LTV ratio of 125 percent or higher and local unemployment rate of 10 percent or higher; interest rate 1.5 percentage points or greater above the market rate; and certain origination loan features (credit score of 619 or below or LTV ratio of 100 percent or higher). Data used was the most currently available to GAO.