United States Government Accountability Office

Report to Congressional Committees

December 2020

TROUBLED ASSET RELIEF PROGRAM

Treasury Continues Winding Down Housing Programs

GAO-21-39

GAO Highlights

Highlights of GAO-21-39, a report to congressional committees

December 2020

TROUBLED ASSET RELIEF PROGRAM

Treasury Continues Winding Down Housing Programs

Why GAO Did This Study

In response to the 2008 housing crisis, Treasury established TARP-funded housing programs to help struggling homeowners avoid foreclosure and preserve homeownership. Since 2009, Treasury has obligated $32.56 billion for such housing programs. The Emergency Economic Stabilization Act of 2008 provided GAO with broad oversight authorities for actions taken related to TARP.

This report provides an update on the status of TARP-funded housing programs, as of September 30, 2020. GAO reviewed Treasury program data and documentation, and interviewed Treasury officials. This report contains the most recently available public data at the time of GAO's review, including obligations, disbursements, and program participation.

What GAO Found

The Department of the Treasury (Treasury) continues to wind down housing assistance programs funded by the Troubled Asset Relief Program (TARP). Treasury has extended one program to assist certain program participants who have been affected by the COVID-19 pandemic, although limited program funds remain at this point. As of September 30, 2020, Treasury had disbursed $30.85 billion (95 percent) of the $32.56 billion TARP funds obligated to the three housing programs (see figure).

- The Making Home Affordable program allowed homeowners to apply for loan modifications to avoid foreclosure. Treasury will continue to provide incentive payments for loan modifications through 2023.
- The Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets provided funds to 18 states and the District of Columbia to help struggling homeowners through programs tailored to the state. Treasury extended this program through June 2021 because of the pandemic's negative economic effects on some program participants.
- The Federal Housing Administration (FHA) Short Refinance program allowed eligible homeowners to refinance into an FHA-insured loan. Under this program, Treasury made TARP funds available to provide additional coverage to lenders for a share of potential losses on these loans for borrowers who entered the program by December 31, 2016.

Status of Troubled Asset Relief Program Housing Programs, as of September 2020

Program	Total dollars (in billions)	Disbursed	Committed	Remaining	Percentage
Making Home Affordable	**$22.1**	$21.32	$1.10[a]	$0.49	93%
Hardest Hit Fund	**9.60**	9.50[b]	N/A	0.10	99%
Federal Housing Administration Short Refinance	**0.05**	0.02[c]	N/A	0.03	40% 60%
Total	**$32.56**	**$30.85[d]**	**$1.10**	**$0.62**	95%

Source: GAO analysis of the Department of the Treasury's Monthly Report to Congress for the Troubled Asset Relief Program. | GAO-21-39

[a]According to the Department of the Treasury (Treasury), these funds have been committed to future financial incentives for existing Making Home Affordable transactions, as of September 30, 2020.
[b]Represents the amount of funds that states and the District of Columbia have drawn from Treasury.
[c]Includes about $11.6 million in administrative expenses and $10 million of reserve funds, as of September 30, 2020. Treasury will be reimbursed for unused reserve amounts.
[d]Amounts do not add up due to rounding.

View GAO-21-39. For more information, contact John H. Pendleton at (202) 512-8678 or pendletonj@gao.gov.

Contents

Abbreviations

COVID-19	Coronavirus Disease 2019
FHA	Federal Housing Administration
HAMP	Home Affordable Modification Program
Hardest Hit Fund	Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets
MHA	Making Home Affordable
SIGTARP	Office of the Special Inspector General for the Troubled Asset Relief Program
TARP	Troubled Asset Relief Program
Treasury	Department of the Treasury

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

December 8, 2020

Congressional Committees

The 2008 housing crisis led to unprecedented home price declines, foreclosures, and high unemployment in certain parts of the country. In response, under the authority granted to it by the Emergency Economic Stabilization Act of 2008, the Department of the Treasury (Treasury) established the Troubled Asset Relief Program (TARP).[1] Through TARP, Treasury provided about $33 billion for three housing programs to help prevent avoidable foreclosures and preserve homeownership. These TARP-funded housing programs are Making Home Affordable (MHA), the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund), and the Department of Housing and Urban Development's Federal Housing Administration (FHA) Short Refinance program. These TARP-funded housing programs are in the process of winding down, with some program components having already ended.

The Emergency Economic Stabilization Act provided GAO with broad oversight authorities for actions taken under TARP and included a provision that we report on TARP activities.[2] We have continued to provide updates on TARP programs.[3] This report provides an update on the status of TARP-funded housing programs.

---

[1]Pub. L. No. 110-343, Div. A, tit. I, 122 Stat. 3765, 3767-3800 (codified as amended at 12 U.S.C. §§ 5211-5241).

[2]The Emergency Economic Stabilization Act included a provision that GAO report at least every 60 days on TARP activities and performance. The GAO Mandates Revision Act of 2016 revised GAO's reporting requirement to annually. Pub. L. No. 114-301, § 3(a), 130 Stat. 1514 (codified at 12 U.S.C. § 5226(a)(3)).

[3]See, for example, our recent reports on TARP programs: GAO, *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2019 and 2018 Financial Statements*, GAO-20-160R (Washington, D.C.: Nov. 8, 2019); *Troubled Asset Relief Program: Monitoring of the Hardest Hit Fund Program Could Be Strengthened*, GAO-19-100 (Washington, D.C.: Dec. 21, 2018); *Troubled Asset Relief Program: Status of Housing Programs*, GAO-17-236 (Washington, D.C.: Jan. 9, 2017); *Troubled Asset Relief Program: Status of Prior GAO Recommendations*, GAO-16-831 (Washington, D.C.: Sept. 6, 2016); and *Troubled Asset Relief Program: Treasury Should Estimate Future Expenditures for the Making Home Affordable Program;* GAO-16-351 (Washington, D.C.: Mar. 8, 2016).

To conduct this work, we reviewed Congressional Budget Office and Congressional Research Service reports on TARP and Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) semiannual reports to Congress.[4] We reviewed and analyzed Treasury funding transaction reports and other documents, including monthly reports to Congress for TARP, agency financial reports for TARP, MHA quarterly program performance reports, and Hardest Hit Fund quarterly performance summary reports to provide an update on the status of program funding, expenditures, and activities. This report contains the most recently available public data at the time of our review, including obligations, disbursements, and program participation. Generally, we used data that were current as of September 30, 2020, to describe program expenditures and activities. However, in some cases, the most recently available data were as of June 30, 2020.[5]

We reviewed prior GAO reports on TARP, including audits of TARP financial statements for fiscal years 2016 through 2020. As part of the financial statement audits, we tested the internal controls over financial reporting of Treasury's Office of Financial Stability, an office created to implement TARP. We also interviewed Treasury officials and obtained documentation on Treasury's efforts in winding down the MHA and Hardest Hit Fund programs. We have used Treasury's participation data in prior reports in which we concluded the data were sufficiently reliable for our purposes of describing program status and participation.[6] We determined that the data used in this report were sufficiently reliable to assess the status and condition of TARP-funded housing programs.

To describe the status of recommendations we previously made related to TARP housing programs, we reviewed documentation and interviewed

[4]See, for example, recent Congressional Budget Office reports on TARP, specifically Congressional Budget Office, *Report on Troubled Asset Relief Program* (March 2020) and *Report on Troubled Asset Relief Program* (April 2019); Congressional Research Service, *Preserving Homeownership: Foreclosure Prevention Initiatives*, R40210 (Mar. 28, 2017); and Special Inspector General for the Troubled Asset Relief Program, *Semiannual Report to Congress, October 1, 2019–March 31, 2020* and *Semiannual Report to Congress, April 1, 2019–September 30, 2019*.

[5]For example, the Hardest Hit Fund borrower information is reported in Treasury's quarterly report. At the time of our review, the latest available quarterly data were as of June 30, 2020.

[6]See, for example, GAO-17-236 and GAO, *Troubled Asset Relief Program: Status of Housing Programs,* GAO-16-279R (Washington, D.C.: Jan. 8, 2016).

Treasury officials on actions taken in response to these recommendations. We also reviewed SIGTARP reports relevant to TARP housing programs and interviewed staff from SIGTARP on the status of their own recommendations to Treasury.[7]

We conducted this performance audit from April 2020 to December 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Treasury's Office of Financial Stability administers Treasury's TARP-related efforts and is tasked with finding ways to help prevent avoidable foreclosures and preserve homeownership. Treasury established three programs funded under TARP to address these issues: MHA, the Hardest Hit Fund, and FHA Short Refinance programs.

Making Home Affordable

Treasury announced the MHA initiative in February 2009. The initiative, which includes several programs, was intended to strengthen the housing market and help struggling homeowners avoid foreclosure. The cornerstone of MHA, the Home Affordable Modification Program (HAMP), was intended to help eligible borrowers stay in their homes and avoid foreclosures by reducing monthly mortgage payments to affordable levels. The HAMP first-lien modification program provides financial incentives for servicers, mortgage holders/investors, and borrowers for

[7]Office of the Special Inspector General for the Troubled Asset Relief Program, *Progress in Protecting Against Asbestos Exposure, Contaminated Soil, and Illegal Dumping in the TARP-Funded Demolition Program in Detroit,* SIGTARP-20-001 (Washington, D.C.: Mar. 19, 2020); *Risk of Asbestos Exposure, Illegal Dumping, and Contaminated Soil From Demolitions in Flint, Michigan and Other Cities,* SIGTARP-18-002 (Washington, D.C.: Nov. 21, 2017); *Waste and Abuse in the Hardest Hit Fund in Nevada,* SIGTARP-16-004 (Washington, D.C.: Sept. 9, 2016); and *Treasury's HHF Blight Elimination Program Lacks Important Federal Protections Against Fraud, Waste and Abuse,* SIGTARP-16-003 (Washington, D.C.: June 16, 2016).

modifications to mortgages originated prior to January 1, 2009.[8] Treasury also established a number of additional components or subprograms, which included the MHA Principal Reduction Alternative, MHA Second Lien Modification Program, MHA Home Affordable Foreclosure Alternatives, and FHA-HAMP and Rural Development-HAMP.

The MHA program was originally scheduled to end on December 31, 2012, but Treasury extended the deadline multiple times to expand the reach of the program to help more homeowners and strengthen hard-hit communities. In December 2015, Congress enacted the Consolidated Appropriations Act, 2016, which mandated the termination of the MHA programs by December 31, 2016, with an exemption for HAMP loan modification applications made before that date.[9] While Congress terminated the MHA program in December 2016, Treasury required servicers to complete all transactions by December 1, 2017.

Treasury has published a series of lessons learned from the MHA program that could provide some insight in responding to the Coronavirus Disease 2019 (COVID-19) pandemic's negative effects on the housing market.[10]

Hardest Hit Fund

The Hardest Hit Fund, established in February 2010, was intended to help stabilize the housing market and assist homeowners facing foreclosure in states hardest hit by the housing crisis. States selected for funding had unemployment rates at or above the national average or had housing price declines of 20 percent or more that left some borrowers owing more on their mortgages than their homes were worth. State housing finance agencies, which are state-chartered authorities established to help meet affordable housing needs, were allocated funds

[8]Treasury uses TARP funds to provide both one-time and ongoing incentives for up to 6 years after a loan is modified. For example, if a borrower's monthly mortgage payment is reduced by 6 percent or more and the mortgage loan remains in good standing, the servicer receives an annual pay-for-success incentive for 3 years, and the borrower receives an annual pay-for-performance incentive for the first 6 years after the due date of the first trial loan payment. If the mortgage payment is not reduced by at least 6 percent, but remains in good standing, the borrower receives a one-time incentive payment after the sixth year.

[9]See Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Div. O, tit. VII, § 709(b), 129 Stat. 2242, 3030 (2015).

[10]See, for example, the Department of the Treasury and the Department of Housing and Urban Development, *Making Home Affordable Lessons Learned Series: Marketing and Outreach* (April 2017).

to help unemployed homeowners and others affected by house price declines. States have until December 31, 2021, to disburse their funds.[11]

FHA Short Refinance

Treasury and the Department of Housing and Urban Development established the FHA Short Refinance program in September 2010 to help stabilize the housing market and assist homeowners at risk of foreclosure. The program, which is administered by FHA, was created to enable underwater borrowers (those with properties that are worth less than the principal remaining on their mortgages) whose loans were current and had not been FHA-insured to refinance into an FHA-insured mortgage. Treasury has obligated TARP funds in case the agency must pay claims for losses on these loans.

The FHA Short Refinance program allowed homeowners to refinance into FHA-insured mortgage loans through December 2016. In the event of a default on a refinanced loan, Treasury would pay up to a certain percentage of the claim after FHA has paid its share. Treasury established a letter of credit facility with TARP funds to pay claims associated with this program.[12] Treasury will draw on the letter of credit to pay its share of claims through December 31, 2022.

Treasury Continues to Monitor and Wind Down Housing Programs Funded by TARP

Treasury continues to monitor its three TARP housing programs and wind down two of them—the MHA and Hardest Hit Fund program activities.[13] In total, Treasury had disbursed $30.85 billion (about 95 percent) of the $32.56 billion TARP funds obligated to the three housing programs, as of September 30, 2020 (see fig. 1). Treasury reported that these programs have assisted millions of homeowners. According to Treasury, the MHA program provided more than 2.9 million homeowner assistance actions through December 1, 2017, the date by which all MHA transactions must have been completed.[14] Treasury has disbursed $9.5 billion to participating states, as of September 30, 2020. Some states have made

[11]Participating states submit requests to Treasury to draw their funds under the Hardest Hit Fund.

[12]As of September 2020, Treasury had disbursed about $11.6 million in administrative expenses to establish and maintain the letter of credit facility and another $10 million of reserve funds.

[13]According to Treasury officials, FHA is responsible for issuing guidance on the requirements for the FHA Short Refinance program and the wind-down process. Treasury provides loss coverage on the refinanced loans.

[14]In this report, we use “assistance to homeowners” to describe the assistance provided to homeowners through the three TARP housing programs. Also, homeowners can receive multiple assistance actions under the MHA program.

changes to their Hardest Hit Fund programs since April 2020, in an attempt to assist homeowners affected by the COVID-19 pandemic. Treasury had also disbursed about $22 million to support the FHA Short Refinance program, as of September 30, 2020.

Figure 1: Status of Troubled Asset Relief Program Housing Funds, as of September 2020

Program	**Total dollars** (in billions)	Disbursed	Committed	Remaining	Percentage
Making Home Affordable	**$22.91**	$21.32	$1.10[a]	$0.49	93%
Hardest Hit Fund	**9.60**	9.50[b]	N/A	0.10	99%
Federal Housing Administration Short Refinance	**0.05**	0.02[c]	N/A	0.03	40% / 60%
Total	**$32.56**	**$30.85[d]**	**$1.10**	**$0.62**	95%

Source: GAO analysis of the Department of the Treasury's Monthly Report to Congress for the Troubled Asset Relief Program. | GAO-21-39

Note: N/A = not applicable because Treasury did not commit any funds to future expenses for these programs.

[a]According to the Department of the Treasury (Treasury), these funds had been committed to future financial incentives for existing Making Home Affordable transactions, as of September 30, 2020.

[b]Represents the amount of funds that states and the District of Columbia have drawn from Treasury.

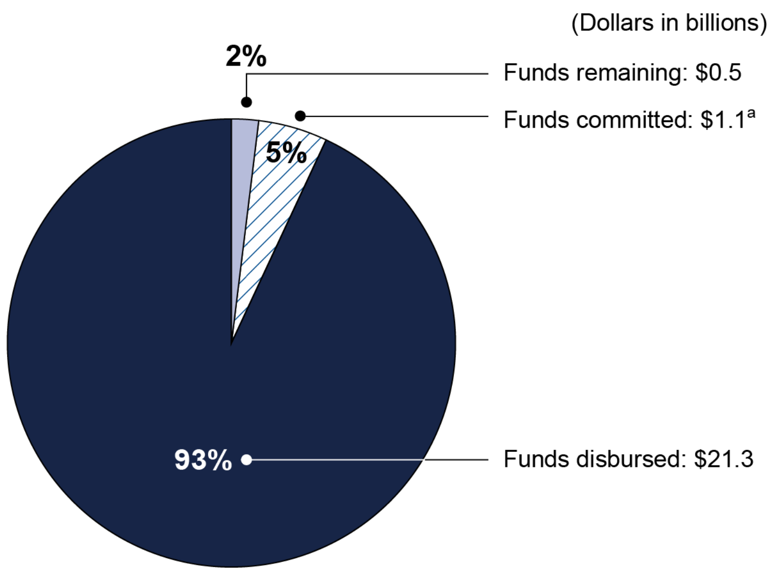
[c]Includes about $11.6 million in administrative expenses and $10 million of reserve funds, as of September 30, 2020. The reserve funds are on deposit with Citibank, N.A., to provide loss coverage for the program. Treasury will be reimbursed for all unused amounts from this Citibank account.

[d]Amounts do not add up due to rounding.

Treasury Expects the Making Home Affordable Program to Wind Down Completely by 2024

The MHA program, which provided loan modifications to help eligible borrowers avoid foreclosure, has been winding down. The Consolidated Appropriations Act, 2016 provided that the program terminate on December 31, 2016, except with respect to certain loan modification applications made before that date.[15] As previously mentioned, Treasury reported that there were more than 2.9 million homeowner assistance actions under MHA programs through December 1, 2017.[16] These included permanent first- and second-lien mortgage modifications, completed short sales and deeds-in-lieu of foreclosure, and unemployment forbearance plans.[17] Treasury estimated that the total cost of the MHA program was $22.61 billion, as of November 30, 2019. Treasury had disbursed $21.32 billion of the $22.91 billion in TARP funds obligated to MHA programs, as of September 30, 2020 (see fig. 2).

Figure 2: Status of Making Home Affordable Funds, as of September 2020



Source: GAO analysis of the Department of the Treasury's Monthly Report to Congress for the Troubled Asset Relief Program. | GAO-21-39

[a]According to the Department of the Treasury, these funds have been committed to future financial incentives for existing Making Home Affordable transactions.

[15]See Consolidated Appropriations Act, 2016, Pub L. No. 114-113, Div. O, tit. VII, § 709(b), 129 Stat. 2242, 3030 (2015).The original deadline for acceptance into MHA programs was December 31, 2012, but Treasury extended the deadline multiple times. In December 2015, Congress mandated that the MHA programs be terminated on December 31, 2016, with an exemption for HAMP loan modification applications made before that date. See § 709(b), 129 Stat.at 3030.

[16]A homeowner can receive assistance from more than one MHA program.

[17]In a short sale, a homeowner sells a house rather than allowing the property to go into foreclosure. Proceeds from short sales are generally less than the mortgage amount, so the homeowner must have the lender's permission for the sale. Under a deed-in-lieu of foreclosure, the homeowner voluntarily conveys all ownership interest in the home to the lender as an alternative to foreclosure proceedings.

In 2016, Treasury issued guidance to servicers about the termination of the program and required them to ensure that all MHA transactions were completed by December 1, 2017. Treasury officials told us that the wind-down process involves several steps, including reviewing servicers' evaluations of applicants that requested assistance prior to December 31, 2016, and creating trial modifications for applicants. These trials had to be completed by September 2017 to ensure that eligible applicants (borrowers) could be converted to permanent modifications by December 1, 2017.

According to Treasury officials, after the completion of the final MHA transactions on December 1, 2017, Treasury continued to conduct ongoing monitoring activities. For example, Treasury officials meet weekly with the MHA program administrator to discuss topics such as reporting, program obligations, and any other issues related to the wind down of the MHA program.

In January 2017, we reported that once servicers had submitted data on all final MHA transactions, Treasury planned to calculate the maximum potential expenditures under the program and deobligate any estimated excess funds at that time. Since then, Treasury reported that in fiscal years 2018 and 2019, the agency deobligated $4.30 billion from the MHA program, reducing Treasury's obligation from $27.78 billion to $23.47 billion. In fiscal year 2020, Treasury deobligated an additional $559 million from the MHA program, which further reduced Treasury's obligation to $22.91 billion. This brought the total TARP housing program funds that Treasury had deobligated to about $13.16 billion, as of September 30, 2020. These funds remain unused. In March 2016, we noted that if Treasury were to deobligate MHA funds that it determined were likely to not be expended, this might provide Congress with the opportunity to use those funds for other priorities.[18] We suggested that Congress consider permanently rescinding any Treasury-deobligated excess MHA balances that Treasury did not move into the Hardest Hit Fund. As of December 2020, Congress had not taken any action to rescind excess MHA balances. We continue to believe that Congress

[18]GAO-16-351.

should consider taking this action to help ensure effective use of taxpayer funds.[19]

Treasury officials told us that the agency published a series of lessons learned and best practices from the MHA program, which they believe could be helpful in preparing for future crises.[20] For example, the series included best practices in communicating and marketing a government program to struggling homeowners who were recovering from the housing crisis. As the crisis and recovery evolved, Treasury noted that it was critical to refine the message to address the changing needs of homeowners. According to Treasury officials, the agency shared these best practices with policymakers and coordinated with other stakeholders interested in best practices in loan modification. Additionally, agency officials told that us they are willing to provide further assistance on lessons learned that could be applied to the COVID-19 pandemic.

The HAMP first-lien modification program, MHA's largest program, was intended to help eligible borrowers stay in their homes and avoid foreclosures by reducing monthly mortgage payments to affordable levels. HAMP provides financial incentives for servicers, mortgage holders/investors, and borrowers for modification to mortgages originated prior to January 1, 2009. According to Treasury officials, under this program, participating homeowners, servicers, and investors are still eligible for incentive payments. For borrowers whose loans remain in good standing, incentive payments are provided annually for the first 6 years after the due date of the first trial loan payment. The last of these payments will likely continue until about September 2023. Incentive payments for servicers can continue for 3 years if a borrower's monthly mortgage payment was reduced by at least 6 percent and the mortgage loan remained in good standing. Treasury officials told us the agency expects to make final servicer incentive payments in September 2020, based on wind-down and reporting guidance.[21] As a result, the number of

[19]A bill introduced in December 2015, H.R. 4140 (114th Cong.), would have rescinded $2.5 billion of the "amounts obligated, but not expended" for the MHA program. The bill was referred to committee but no further action was taken.

[20]See, for example, *Making Home Affordable Lessons Learned Series: Marketing and Outreach* (April 2017) and *Making Home Affordable Lessons Learned Series: Customer Care* (March 2017).

[21]According to Treasury officials, the agency is continuing to monitor servicer reporting of borrowers in forbearance. Treasury is currently tracking 173 loans in forbearance, for which servicer incentive payments are due. They expect to issue final payments to servicers by early 2021.

incentive payments to servicers is decreasing significantly. The number of incentive payments to borrowers also will decrease because fewer loans were modified in the later years, according to Treasury officials.

Treasury officials told us that as the agency finishes making the final payments to servicers, they plan to make adjustments in October and November 2023 to the activities they report. According to Treasury officials, the final wrap-up of payment activities—including final compliance reporting and accounting activities—will take place 3–6 months after the final incentive payment period. Treasury anticipates that the MHA program will completely wind down by the end of 2023 or early 2024.

The HAMP first-lien modification program has three program components—the original HAMP (Tier 1), an additional first-lien modification known as HAMP Tier 2, and a modification with reduced borrower documentation requirements known as Streamline HAMP (see table 1).

Table 1: Home Affordable Modification Program (HAMP) Components

	HAMP Tier 1	HAMP Tier 2	Streamline HAMP
Intended beneficiaries	Qualified borrowers who occupy their properties as their primary residence and whose first-lien mortgage payments are more than 31 percent of their monthly gross income.[a]	Borrowers on their primary residence or borrowers who own a rental property (those with fewer than four units). Borrowers' monthly mortgage payments prior to modification may be equivalent to a debt-to-income ratio of less than 31 percent.	Borrowers who meet HAMP eligibility criteria and those who have not completed an application by the time their loan is 90 days delinquent, among others.[b]
Date announced	March 2009	January 2012	July 2015

Source: GAO. I GAO-21-39

[a]The percentage is calculated using the debt-to-income ratio. For first-lien mortgages, the debt-to-income ratio under HAMP is the percentage of a borrower's gross monthly income that is required to pay monthly housing expenses (mortgage principal, interest, taxes, insurance and, if applicable, condominium or cooperative fees or homeowners association dues).

[b]Treasury reported that servicers began making streamline modification offers to borrowers in January 2016.

From HAMP's inception through December 1, 2017, the date by which all MHA transactions were to be completed, servicers started about 1.74 million permanent modifications. From June 2016, when Treasury began reporting Streamline HAMP activity, through December 2017, a total of 44,536 borrowers received Streamline HAMP permanent modifications.

This subset represents about 2.6 percent of all HAMP permanent modifications.

Treasury created several other MHA programs to support struggling homeowners, including the Principal Reduction Alternative, Second Lien Modification Program, Home Affordable Foreclosure Alternatives, and FHA-HAMP and Rural Development-HAMP.

- **Principal Reduction Alternative program.** This program was created in October 2010 to give servicers more flexibility in offering relief to borrowers whose homes were worth significantly less than their mortgage loan balance. Under the Principal Reduction Alternative, Treasury provides mortgage holders/investors with incentive payments in the form of a percentage of each dollar in principal reduction. As of December 1, 2017, a total of 300,830 HAMP permanent modifications included principal reduction.
- **Second Lien Modification Program.** This program was designed to work in tandem with HAMP modifications to provide a comprehensive solution to help borrowers afford their mortgage payments. A participating servicer of a second lien for which the first lien receives a HAMP Tier 1 or Tier 2 modification must offer to modify the borrower's second lien and accept a lump sum payment from Treasury and either (1) fully extinguish the second lien or (2) partially extinguish the second lien and modify the remaining portion. As of December 1, 2017, a total of 167,081 modifications had been started under the Second Lien Modification Program.
- **Home Affordable Foreclosure Alternatives Program.** Under this program, servicers offered foreclosure alternatives (short sales and deeds-in-lieu of foreclosure). To qualify for the Home Affordable Foreclosure Alternatives program, borrowers must have met the basic eligibility requirements for HAMP but failed to qualify for a modification, defaulted on a modification by missing three or more consecutive payments, or requested a short sale or deed-in-lieu of foreclosure. As of December 1, 2017, a total of 476,766 Home Affordable Foreclosure Alternatives transactions had been completed.
- **FHA-HAMP and Rural Development-HAMP Program.** This program provided incentives to borrowers and servicers for mortgages insured by FHA or guaranteed by the Department of Agriculture's Rural Housing Service, respectively, for modifications similar to those offered through HAMP. If a modified FHA-insured or Rural Housing Service-guaranteed mortgage loan met Treasury's eligibility criteria, the borrower and servicer could receive TARP-funded incentive

payments.[22] As of December 1, 2017, 151,514 FHA- and Rural Development-HAMP permanent modifications had been started.

In January 2017, we reported that five recommendations we had made to Treasury related to the MHA program had not been fully implemented.[23] As of November 2020, Treasury had taken actions that fully implemented two of those five recommendations, such as by conducting periodic evaluations to improve monitoring and oversight of Treasury's HAMP program.[24] We are not pursuing the remaining three recommendations because the MHA program is winding down, and the recommendations are no longer applicable.

States Must Disburse All of Their Hardest Hit Funds by 2021, and Some States Are Enhancing Their Programs in Response to COVID-19

The Hardest Hit Fund provided funds to 18 states and the District of Columbia (referred to here as a "state") that were most affected by unemployment and house prices declines, and allowed them to design programs tailored to the needs of struggling homeowners in their states. Each state can have multiple programs and, as of June 30, 2020, the Hardest Hit Fund had disbursed funds on behalf of 91 programs. The type of assistance provided has varied by state and may include mortgage payment assistance, principal reduction, modification assistance, and blight elimination programs, among others.

In December 2015, Congress extended Treasury's authority to commit TARP funds under the Emergency Economic Stabilization Act to December 31, 2017, for current Hardest Hit Fund program participants, and it authorized Treasury to obligate up to $2 billion of additional TARP funds, for a total of $9.6 billion.[25] In February 2016, Treasury announced it was extending the program through December 2020.

According to Treasury officials, the agency began to discuss issues related to closing out the Hardest Hit Fund programs in February 2018 and issued wind-down guidance to states in May 2019. In June 2020, Treasury officials told us that the agency extended the deadline for states

[22]The incentive payments for FHA-HAMP modifications were structured like HAMP incentive payments.

[23]GAO-17-236.

[24]GAO, Troubled Asset Relief Program: Treasury Could Better Analyze Data to Improve Oversight of Servicers' Practices, GAO-15-5 (Washington, D.C.: Oct. 6, 2014).

[25]Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Div. O, tit. VII, § 709(a), 129 Stat. 2242, 3030 (2015). Treasury announced in February 2016 that it would allocate an additional $2 billion to the Hardest Hit Fund, and by June 2016, Treasury had obligated the funds to the states.

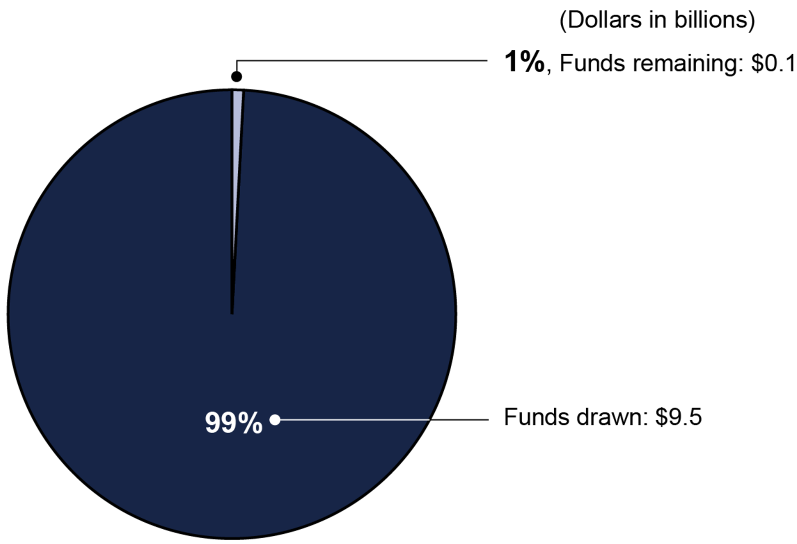
to approve assistance actions for homeowners or blighted properties from December 31, 2020, to June 30, 2021. The officials told us that the extension would allow states to continue making changes to their programs to assist homeowners experiencing financial hardships because of the COVID-19 pandemic. These changes may involve extending deadlines or modifying eligibility criteria, according to Treasury officials. In addition, in a letter to Treasury dated April 8, 2020, SIGTARP recommended that Treasury use available Hardest Hit Funds to enhance existing mortgage assistance to unemployed homeowners in light of the significant unemployment caused by the pandemic.

According to Treasury officials, the agency is in regular communication with states to discuss enhancements or changes states would like to make to their Hardest Hit Fund programs. Treasury approves or rejects proposed program changes individual states submit to the agency, according to agency officials. For example, they told us that Treasury recently approved program changes for Alabama, Indiana, Kentucky, Mississippi, Nevada, Oregon, and Rhode Island. The officials stated that these program changes were based on requests from these states with the intent to assist homeowners affected by the pandemic. However, they noted that limited Hardest Hit Fund program funds remain for states to provide further assistance to homeowners.

As shown in figure 3, Treasury had disbursed $9.5 billion (about 99 percent) of the $9.6 billion program funds allocated to the 18 states and the District of Columbia, as of September 30, 2020. States have until December 31, 2021, to disburse previously committed funds.[26] Treasury works with the states regularly and monitors the states' quarterly financial reports, according to Treasury officials. In addition, the agency monitors the Hardest Hit Fund program and its wind-down processes through receipt and review of state documents, which include Quarterly Performance Reports and Risk and Control Matrices and through on-site or remote compliance reviews, according to Treasury officials. As of June 30, 2020, states had assisted 410,985 homeowners.

[26]Participating states submit requests to Treasury to draw their funds under the Hardest Hit Fund.

Figure 3: Status of Hardest Hit Fund Program Funds, as of September 2020



Source: GAO analysis of the Department of the Treasury's Monthly Report to Congress for the Troubled Asset Relief Program. | GAO-21-39

In May 2020, Treasury issued updated guidance to states on the Hardest Hit Fund Program to assist them with the wind-down process. Guidance topics include instructions on final disbursements, final closeout compliance reviews, clarifying instructions for the final reporting and repayment, and frequently asked questions about the program. According to Treasury officials, in general, state Hardest Hit Fund programs remain open and will continue to accept applications for assistance until funds are fully committed, for either homeowners or blighted properties.

Treasury officials told us that program activities will continue after funds are committed because states continue to disburse funds on these activities. For example, some programs offering monthly assistance to borrowers can go on for 12 months or more. After states have made their final disbursements for homeowner assistance and blighted properties, Treasury schedules and performs final closeout compliance reviews of the states' programs. At the end of the review process, states must return all of their unspent funds to Treasury, including unspent administrative funds. Treasury reported that states began closing down and completing their final repayments to the agency in January 2020. The two largest states in the program—Florida and California—had repaid Treasury in full as of January 29, 2020, and May 29, 2020, respectively. Treasury reported that states had returned $91 million of unspent funds, as of May

31, 2020. According to Treasury officials, states must return all unspent Hardest Hit Fund program funds to Treasury by March 31, 2022.

In December 2018, we made two recommendations related to the monitoring of the Hardest Hit Fund program.[27] First, we recommended that Treasury annually collect and evaluate housing finance agencies' risk assessments, including housing finance agencies' risk levels. Treasury provided evidence that it regularly evaluated risk assessments in 2019 and 2020, and we have closed that recommendation. Second, we recommended that Treasury ensure that the documentation listing the housing finance agency staff responsible for internal control execution is updated routinely. Treasury has implemented this recommendation.

Treasury Plans to Pay Its Share of Claims for the FHA Short Refinance Program through 2022

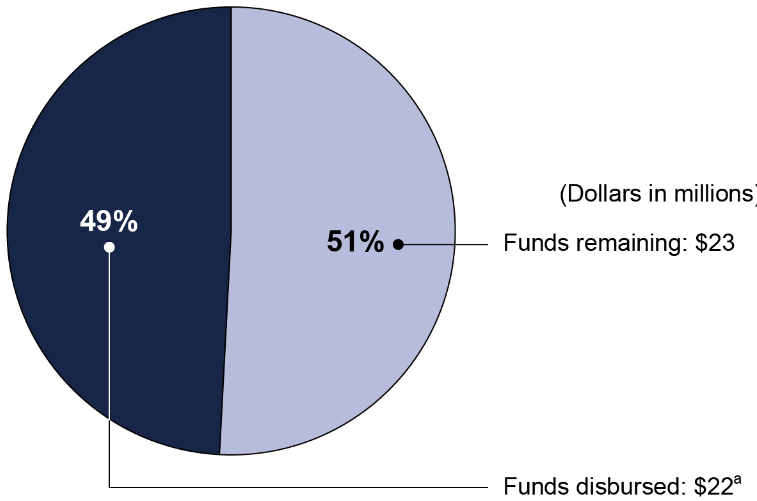
The FHA Short Refinance program allowed eligible homeowners to refinance into FHA-insured mortgage loans through December 2016. Under this program, Treasury made TARP funds available to provide coverage to lenders for a share of potential losses on these loans. As of September 30, 2020, Treasury had disbursed about $22 million (about 49 percent) of the $45 million in funds obligated to support the FHA Short Refinance program (see fig.4).[29] This disbursed amount includes about $11.6 million in administrative expenses to establish and maintain a letter of credit, and another $10 million of reserve funds.[30] As of September 30, 2020, Treasury had paid $373,742 in claims under the program and provided loss coverage to 4,200 refinanced loans totaling $620 million, of which 466 refinanced loans could still require a Treasury contribution.

[27]GAO-19-100.

[29]In 2013, Treasury reduced the amount obligated to this program from $8.1 billion to $1.0 billion, in part because the participation levels were lower than originally projected. In March 2015, Treasury further reduced the amount obligated to the program from $1.0 billion to $0.13 billion. According to Treasury officials, the reduction was also intended to minimize the administrative costs associated with the program. In September 2017, Treasury deobligated $80 million, reducing the cost of the program from $125 million to $45 million.

[30]Treasury established a letter of credit facility with TARP funds to pay claims associated with this program. The letter of credit facility includes a pre-funded $10 million reserve account for any future loss claim payments.

Figure 4: Status of Federal Housing Administration Short Refinance Funds, as of September 30, 2020



Source: GAO audits of the financial statements of the Office of Financial Stabilty Troubled Asset Relief Program. | GAO-21-39

[a]This includes about $11.6 million in administrative expenses and $10 million of reserve funds, as of September 30, 2020. The reserve funds are on deposit with Citibank, N.A. to provide loss coverage for the program. Treasury will be reimbursed for all unused amounts from this Citibank account.

According to Treasury officials, the agency monitors claim payments for this program in real time. Multiple Treasury personnel review and approve each claim before the payment is issued. Treasury plans to honor its share of claims against the letter of credit through December 31, 2022. Treasury reported that its maximum exposure for all active loans was $4 million, as of September 30, 2020. Additionally, the estimated total cost of the program, as of that date, was $13.1 million, according to Treasury officials.[31]

Agency Comments

We provided a draft of this report to Treasury for review and comment. Treasury provided technical comments that we have incorporated as appropriate.

[31]According to Treasury officials, the estimated lifetime cost for this program includes the total estimated subsidy cost of the program and the total estimated administrative cost associated with the letter of credit that supports the program.

We are sending copies of this report to the appropriate congressional committees and the Secretary of the Treasury. This report will be available at no charge on our website at http://www.gao.gov.

If you or your staff members have any questions about this report, please contact me at (202) 512-8678 or pendletonj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix I.

John H. Pendleton
Director, Financial Markets and Community Investment

List of Congressional Committees

The Honorable Richard Shelby
Chairman
The Honorable Patrick Leahy
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable Mike Crapo
Chairman
The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Mike Enzi
Chairman
The Honorable Bernie Sanders
Ranking Member
Committee on the Budget
United States Senate

The Honorable Chuck Grassley
Chairman
The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate

The Honorable Nita M. Lowey
Chairwoman
The Honorable Kay Granger
Ranking Member
Committee on Appropriations
House of Representatives

The Honorable John Yarmuth
Chairman
The Honorable Steve Womack
Ranking Member
Committee on the Budget
House of Representatives

The Honorable Maxine Waters
Chairwoman
The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
House of Representatives

The Honorable Richard Neal
Chairman
The Honorable Kevin Brady
Republican Leader
Committee on Ways and Means
House of Representatives

Appendix I: GAO Contact and Staff Acknowledgments

GAO Contact

John H. Pendleton, (202) 512-8678 or pendletonj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Karen Tremba (Assistant Director), Isidro Gomez (Analyst in Charge), Lynda Downing, Yola Lewis, John McGrail, Marc Molino, Shenandoah Sowash, and Farrah Stone made key contributions to this report.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through our website. Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. You can also subscribe to GAO's email updates to receive notification of newly posted products.

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, https://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on Facebook, Flickr, Twitter, and YouTube.
Subscribe to our RSS Feeds or Email Updates. Listen to our Podcasts.
Visit GAO on the web at https://www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact FraudNet:

Website: https://www.gao.gov/fraudnet/fraudnet.htm

Automated answering system: (800) 424-5454 or (202) 512-7700

Congressional Relations

Orice Williams Brown, Managing Director, WilliamsO@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

Strategic Planning and External Liaison

Stephen J. Sanford, Acting Managing Director, spel@gao.gov, (202) 512-4707
U.S. Government Accountability Office, 441 G Street NW, Room 7814, Washington, DC 20548