Evaluation Report

Treasury's Public Reporting on the Home Affordable Modification Program

SIGTARP

OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR THE TROUBLED ASSET RELIEF PROGRAM

SIGTARP-21-002

August 26, 2021

OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM
1801 L STREET, NW, 4TH FLOOR
WASHINGTON, D.C. 20220

August 26, 2021

MEMORANDUM FOR: The Honorable Janet L. Yellen – Secretary of the Treasury

FROM: The Honorable Christy Goldsmith Romero – Special Inspector General for the Troubled Asset Relief Program

SUBJECT: Evaluation of Treasury's Public Reporting on the Making Home Affordable Program's Home Affordable Modification Program (SIGTARP-21-002)

The objective of this evaluation was to assess Treasury's public reporting on the Home Affordable Modification Program ("HAMP").[1] We appreciate the courtesy extended to our staff and have addressed Treasury's comments where appropriate. Our conclusions are:

In its 2020 agency report, Treasury committed to operating programs under the Emergency Economic Stabilization Act in full view of the public, with the highest possible standards of transparency, accountability, and integrity. HAMP is the largest ongoing program, with approximately 645,000 homeowners using HAMP to stay in their homes as of June 2021. Pursuant to the Dodd-Frank Act, Treasury publicly reports loan-level data that provide transparency. Given that these are large data files, transparency could be enhanced if Treasury analyzed and summarized the data on the 645,000 homeowners by geography (region, state, and city/county) and demographics (race, ethnicity, and income level). Publicly reporting this information, which SIGTARP recommends, would be valuable to provide insight on who is currently benefitting from HAMP, understand the effectiveness of HAMP in achieving its goals to modify mortgages to be affordable and sustainable, and understand how federal taxpayer dollars are being used.

Public reporting on the performance of the 118 mortgage servicers administering HAMP under contracts with Treasury, and on Treasury's oversight of the servicers, could lead to greater accountability and insight into poor servicer performance. Treasury has decreased its compliance reviews of servicers, only conducting reviews of the top 14 servicers and decreasing reviews for servicers like Wells Fargo, JP Morgan Chase, and Bank of America

[1] SIGTARP conducted this evaluation in accordance with the "Quality Standards for Inspection and Evaluation" established by the Council of the Inspectors General on Integrity and Efficiency. For a discussion of the evaluation's objectives, scope, and methodology, see Appendix A.

from four to two reviews in 2020. Treasury does not report on its oversight, such as compliance reviews, which SIGTARP recommends.

Treasury does not publicly report on individual servicer performance in HAMP. Key performance indicators, which SIGTARP recommends reporting, would provide insight and could lead to improved performance and program effectiveness. For example, reporting by individual servicer the number and rate of homeowners canceled out of HAMP (called "redefaults"), triggered if a homeowner misses three payments, could show above-average redefault rates, leading to greater Treasury scrutiny and potentially exposing wrongful redefaults of homeowners out of the program. In addition, redefaults that disproportionately affect minorities or communities of color could lead to greater Treasury scrutiny and potentially expose discriminatory practices.

Treasury has continued to find mortgage servicers that wrongfully redefaulted homeowners out of HAMP or took action that could lead to redefaults, such as wrongfully labeling a current homeowner as delinquent or incorrectly setting the mortgage payment too high. Over the last two years, Treasury found that Ocwen Loan Servicing, Bank of America, Citigroup, and NewRez LLC wrongfully redefaulted one or more homeowners out of HAMP. Treasury also found that Ocwen, Bank of America, Citigroup, NewRez, US Bank, Specialized Loan Servicing, Carrington Mortgage, and Bayview wrongfully labeled homeowners as delinquent; incorrectly set their payments too high; did not or did not timely recast the mortgage, which could lower payments; or violated other HAMP rules.

Servicer misconduct that violates HAMP rules harms homeowners, even if only one or a few homeowners at a time. When Treasury finds a violation, it requires the servicer to remedy it for the specific homeowner. In certain cases, it requires the servicer to do a lookback review for other homeowners harmed. Treasury uses small sample sizes (e.g., 25 loans) and when finding violations for one to three homeowners would say the problem was not systemic, even for repeated violations. Treasury often did not increase its sample size and look back to determine if the servicer similarly harmed other homeowners, which SIGTARP recommends.

Several HAMP servicers have been the subject of publicly announced federal and/or state enforcement actions for homeowner abuse. For example, in December 2020, the Consumer Financial Protection Bureau and 53 state authorities brought an enforcement action against Nationstar Mortgage, one of the largest HAMP servicers, for homeowner abuse related to mortgage modifications, mortgage transfers, escrow, incorrectly calculating mortgage payments, and threatening foreclosure for homeowners in loss mitigation, among other violations. There were over 115,000 harmed homeowners that resulted in Nationstar paying $86.3 million. Treasury has not publicly reported on its oversight efforts after this action related to Nationstar, to which Treasury has distributed $1.6 billion through HAMP in incentive payments, including $88 million in fiscal year 2020.

There may be ongoing confidential investigations of HAMP servicers by federal or state agencies that would benefit from public reporting of Treasury's oversight findings. Transparency is critical to accountability.

Background

Congress made foreclosure mitigation and home preservation express purposes of the Emergency Economic Stabilization Act of 2008 ("EESA"). EESA's largest ongoing program is the Home Affordable Modification Program ("HAMP"), which prevents avoidable foreclosures by modifying mortgages for 1.7 million homeowners to be more affordable and sustainable. Treasury has distributed $3.9 billion to 160 mortgage servicers under contracts with the department to administer the program, $10.7 billion to investors, and $7.1 billion to homeowners. The Consolidated Appropriations Act, 2016 (P.L. 114-113) terminated HAMP for new applicants as of December 31, 2016, exempting existing participants.

As of June 2021, there were approximately 645,000 homeowners in HAMP, located in every state in the nation. Mortgage servicers administer HAMP according to Treasury's contract, rules, and guidelines. The largest are Ocwen Loan Servicing, Nationstar Mortgage, Wells Fargo, Specialized Loan Servicing, JP Morgan Chase, and Bank of America.

Treasury conducts oversight of HAMP mortgage servicers. As Treasury explained in its 2020 annual report, "Treasury continues to monitor servicer compliance with MHA [Making Home Affordable Program, which includes HAMP] guidelines that pertain to post-modification activities and which require remedial action," and "all mortgage servicers participating in MHA are subject to program guidelines that require the servicer to offer MHA assistance to all eligible borrowers and to have effective systems, processes, and controls to administer the programs." Treasury is obligated or committed to pay up to $1.24 billion in incentive payments through 118 mortgage servicers until December 2023, with 87% through 14 servicers, after which Treasury will continue its oversight through at least March 2024.

Treasury Provides Transparency by Publishing Loan-Level Data on HAMP Pursuant to the Dodd-Frank Act—Transparency That Treasury Can Further Enhance by Analyzing and Providing Summary Demographic Information on the 645,000 Homeowners in HAMP

The Government Accountability Office emphasizes the importance of communicating quality information to external parties, including regulators and the public, throughout the lifecycle of a program.[2] In its fiscal year 2020 Agency Financial Report on EESA, Treasury committed to "operating with the highest possible standards of transparency, accountability, and integrity" and "operating its investments and housing programs in full view of the public."[3] The Dodd-Frank Act required loan-level reporting in HAMP, which Treasury publishes in a data set, separated into 10 geographic regions. Treasury's Office of Financial Stability ("OFS") stated in the 2020 report:

> OFS regularly publishes data files related to MHA and transaction reports that show activity related to MHA and HHF [Hardest Hit Fund]. The release of the data file fulfills a requirement within the Dodd-Frank Act to make available loan-level data about the program. OFS updates the file monthly. Researchers interested in using the MHA Data File can access the file and user guide at: TARP: MHA Data File.

This loan-level information required by the Dodd-Frank Act provides transparency. However, given that it consists of large data files, Treasury can further enhance transparency by analyzing the data and reporting summaries of geographical (region, state, and city/county) and demographic information (race, ethnicity, and income levels) on the existing 645,000 homeowners in HAMP. This information would be valuable to Treasury, members of Congress, and the public to provide insight on who is currently benefitting from HAMP, understand the effectiveness of HAMP, and understand how federal taxpayer dollars are being used.

Treasury also reports quarterly on mortgage delinquencies in HAMP on a one-page report. Treasury's quarterly reporting of delinquencies for the quarter ended on March 31, 2021, shows that 42% percent of homeowners in HAMP Tier 2 and about 58% of homeowners in Streamline HAMP were delinquent on their mortgage payments by more than 90 days after four years in HAMP. However, Treasury has not reported its interpretation of the data or any actions it will take in response, limiting transparency.

[2] Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014, Principle 15.
[3] *See* Treasury, *Agency Financial Report, Office of Financial Stability – Troubled Asset Relief Program, Fiscal Year 2020*, November 5, 2020.

Public Reporting on the Performance of the 118 Mortgage Servicers Administering HAMP and Treasury's Oversight of the Servicers Could Lead to Greater Accountability and Insight into Poor Servicer Performance

Transparency into mortgage servicer performance and Treasury's oversight of servicers could lead to greater accountability and insight into poor servicer performance.

Treasury Has Decreased Its Compliance Reviews

Treasury described its compliance reviews of mortgage servicers in its 2020 agency financial report:

> Servicers are subject to periodic, compliance reviews by OFS's compliance agent, Making Home Affordable-Compliance (MHA-C), a separate, independent division of Freddie Mac serving as financial agent to Treasury, to monitor whether servicers' obligations under MHA requirements are being met.

Treasury told SIGTARP that it conducts compliance reviews for only the top 14 HAMP servicers and relies on self-reporting for the remaining 104 servicers. Treasury does not report on these reviews or self-reporting. From the documentation provided to SIGTARP, in 2020, Treasury reduced its compliance reviews of large HAMP servicers, such as Wells Fargo, JP Morgan Chase, and Bank of America, to two reviews a year, rather than four reviews in 2019.

Treasury Does Not Publicly Report on Individual Servicer Performance in HAMP

There are key performance indicators that would provide insight and could lead to improved performance and program effectiveness. This includes, for example, the number and rate of homeowners who have canceled out of HAMP (referred to by Treasury as a "redefault"), subjecting them to losing their homes and to private loan modifications that are at disadvantaged terms compared to HAMP. Under HAMP, a redefault is triggered when a homeowner misses three payments. Homeowners are significantly harmed if a mortgage servicer wrongfully redefaults them out of the program, wrongfully lists them as delinquent, or wrongfully sets their payments too high, which could lead to redefaults. Above-average redefault rates by an individual servicer could lead to greater Treasury scrutiny and potentially expose a servicer that is wrongly redefaulting homeowners out of the program. Redefaults that disproportionately affect minorities or communities of color is another performance indicator that could lead to greater Treasury scrutiny and potentially expose discriminatory practices.

Treasury Has Found in Its Oversight Mortgage Servicers That Wrongfully Redefaulted Homeowners out of HAMP, Wrongfully Labeled Current Homeowners as Delinquent, and Incorrectly Set Mortgage Payments Too High

In 2017, SIGTARP reported that Treasury had found wrongful redefaults and other homeowner abuse by servicers in HAMP, as reflected in Treasury's servicer compliance reviews.[4] SIGTARP's analysis of Treasury's compliance reviews over the last two years showed that Treasury continued to find servicers that wrongfully redefaulted homeowners out of HAMP, marked current homeowners as delinquent, set mortgage payments too high, and had other violations of HAMP rules. Prominent examples found by Treasury include (references to quarters reflect the quarter Treasury conducted its review):

- Ocwen Loan Servicing LLC, the largest HAMP servicer, or PHH, a subsidiary of Ocwen, wrongly redefaulted a homeowner in forbearance in the fourth quarter of 2020 and wrongfully reported one borrower as delinquent in the third quarter of 2019. Treasury also found that the servicer did not timely reduce the borrower's unpaid principal balance in the fourth quarter of 2020. In addition, Treasury found that the servicer did not send timely notices to homeowners that interest rates and therefore payments were increasing in the fourth quarter of 2019. The servicer did not accurately apply borrower incentive payments in all four quarters of 2019 and was late in recasting mortgages, which could lower mortgage payments, in the first and second quarters of 2019. SIGTARP previously reported in 2017 that Treasury found Ocwen wrongfully redefaulted homeowners out of HAMP, set mortgage modification terms based on faulty calculations, reported erroneous data, and wrongfully denied homeowners HAMP assistance.[5]

- Bank of America redefaulted three homeowners on Coronavirus Disease 2019 forbearance plans without providing them the required advance notice and did not send recast offers to five homeowners, which could have reduced their payments, all in the fourth quarter of 2020.

- Citigroup wrongfully redefaulted one homeowner out of HAMP in the second quarter of 2019 and one homeowner in the third quarter of 2019. In addition, it did not send a recast offer to two homeowners in the first quarter of 2020, which could have reduced their payments.

- NewRez LLC wrongfully redefaulted one homeowner in the first quarter of 2019, one homeowner in the third quarter of 2019, two homeowners in the fourth quarter

[4] *See* SIGTARP, *Quarterly Report to Congress*, October 26, 2017. SIGTARP reported that Treasury found that servicers wrongfully redefaulted homeowners out of HAMP; lost paperwork; misapplied mortgage payments made in HAMP, causing delinquencies that incur late fees; transferred the mortgage without transferring the HAMP paperwork, leaving the new servicer unaware the homeowner is in HAMP and penalizing the individual for underpayment or failing to honor HAMP's lower interest rate; failed to notify homeowners after five years when their interest rate and monthly payment are set to increase, as Treasury requires; failed to notify homeowners that after six years in HAMP they can lower their mortgage payment by re-amortizing the mortgage, as Treasury requires; failed to reduce the principal on mortgages despite Treasury paying them; and charged Treasury for mortgages that were not eligible for HAMP.
[5] See SIGTARP, *Quarterly Report to Congress*, October 26, 2017.

of 2019, one homeowner in the first quarter of 2020, and one homeowner in the third quarter of 2020. Treasury also found that the servicer used inaccurate information in recasting mortgages and was late in sending the recast notice.

- U.S. Bank incorrectly increased one homeowner's interest rate in the first quarter of 2019 and wrongly reported one homeowner as delinquent in the third quarter of 2019, two homeowners as delinquent in the second quarter of 2019, and two homeowners as delinquent in the first quarter of 2019.

- Specialized Loan Servicing LLC ("SLS") did not timely reduce principal for homeowners in the first quarter of 2019 and in the third and fourth quarters of 2019 for loans transferred to SLS that were not set up properly.

- Carrington Mortgage Services LLC inaccurately calculated borrower pay-for-performance incentives in the third and fourth quarters of 2019, and did not recast mortgages accurately 99 times in all four quarters of 2019 and in the first quarter of 2020.

- Bayview Loan Servicing LLC wrongfully reported one homeowner as delinquent, did not timely reduce one homeowner's principal, and had other incorrect reporting in the first quarter of 2019.

Servicer misconduct that violates HAMP rules harms homeowners, even if one or a few at a time. Treasury uses small sample sizes (e.g., 25 loans), often finding that the issue was not systemic, even if the same problem appeared in multiple quarters. Treasury usually did not increase its sample size and look back to determine if the servicer similarly harmed other homeowners, which SIGTARP recommends.

Other regulators may be looking at similar issues with these specific entities and are likely unaware of Treasury's findings, which are not public.

Several HAMP Servicers Have Been the Subject of Publicly Announced Federal and/or State Enforcement Actions for Homeowner Abuse, Some of It Related to Mortgage Modifications; Treasury Has Not Reported on the Oversight It Has Taken after Learning about These Actions

Most recently, in December 2020, 51 state Attorneys General, 53 state regulators, and the Consumer Financial Protection Bureau ("CFPB") brought an $86.3 million enforcement action against Nationstar Mortgage for consumer abuse, including abuse related to mortgage modifications for over 115,000 harmed borrowers. Nationstar is the fourth largest mortgage servicer in the nation and one of the largest participants and recipients of EESA funding in HAMP. The CFPB complaint charged Nationstar with unfair and deceptive practices from 2012 to 2016, and state Attorneys General filed charges under the applicable state law, some for conduct from 2011 to 2017, for:

- Failing to oversee and implement the transfer of mortgage loans properly,

- Failing to appropriately identify loans with pending loan modification applications when a loan was being transferred to Nationstar for servicing,
- Failing to timely and accurately apply payments made by certain borrowers,
- Threatening foreclosure and conveying conflicting messages to borrowers engaged in loss mitigation,
- Failing to process borrowers' applications for loan modifications properly,
- Failing to review and respond to borrower complaints properly,
- Failing to make timely escrow disbursements, including the failure to timely remit property tax payments,
- Failing to timely terminate borrowers' private mortgage insurance; and
- Collecting monthly modified payment amounts on certain loans where the amounts charged for principal and interest exceed the principal and interest amount contained in the trial plan agreement.

To put the $86.3 million that Nationstar paid in this action in perspective, Treasury has distributed $1.6 billion to Nationstar under HAMP in incentive payments to Nationstar, investors, and homeowners, including $88 million in fiscal year 2020. SIGTARP previously reported to Congress in April 2019 that Treasury had found Nationstar wrongfully canceled homeowners out of HAMP, set modified mortgage payments based on faulty calculations, and wrongfully denied people for HAMP. Also, in 2018, Nationstar entered into an agreement with the Florida Attorney General to resolve an investigation for improperly reporting homeowners impacted by Hurricane Irma as delinquent and, in some cases, demanding full repayments.

Additional key examples of enforcement actions against HAMP servicers include:

- In April 2017, 22 state Attorneys General sued Ocwen, the largest HAMP servicer, alleging serious mistreatment of homeowners. In December 2013, CFPB and authorities from 49 states and the District of Columbia alleged Ocwen deceived homeowners and took shortcuts, including improperly denying homeowners a mortgage modification and failing to apply homeowner payments properly.
- In January 2017, CFPB ordered CitiFinancial Servicing and CitiMortgage, Inc. to pay $28.8 million for keeping borrowers in the dark about options to avoid foreclosure and burdening them with demands for excessive paperwork when applying for foreclosure relief.

Additionally, there may be ongoing confidential investigations of HAMP servicers by federal or state agencies outside of Treasury that would benefit from public reporting of Treasury's oversight findings. Transparency is critical to accountability.

Recommendations

1. Treasury should summarize geographical and demographical (i.e., race, ethnicity, and income level) information of homeowners currently in HAMP on a semiannual basis.

2. Treasury should publicly report on HAMP mortgage servicer performance on a quarterly basis, with the following data: the servicer's redefault rate and whether it is below average, average, or above average; the number of homeowners who redefaulted in that quarter and their race, ethnicity, income level, state, and urban/suburban/rural area; and the number of redefaulted HAMP homeowners who went into foreclosure.

3. Treasury should publicly report on its oversight of HAMP mortgage servicers, including, at a minimum, any Treasury response to enforcement actions and Treasury findings and action taken in compliance reviews.

4. When Treasury finds that a mortgage servicer in HAMP wrongfully redefaulted a homeowner out of HAMP, wrongfully listed a current homeowner as delinquent, or wrongfully set a homeowner's payment too high, Treasury should increase its sample size to conduct a larger lookback to see if the servicer took similar wrongful action against other homeowners in HAMP, rather than only looking for systemic conduct.

Appendix A – Objective, Scope, and Methodology

SIGTARP performed this evaluation under the authority of EESA, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended. The objective of this evaluation was to assess Treasury's public reporting on HAMP. The scope of the evaluation covered HAMP from January 2017 to June 2021. SIGTARP interviewed officials from Treasury in Washington, D.C. SIGTARP reviewed Treasury's website, HAMP rules and requirements, and reporting. In addition, SIGTARP analyzed financial and other program data on HAMP. SIGTARP also reviewed the Government Accountability Office's internal control standards for the Federal government.

SIGTARP conducted this evaluation from October 2019 through June 2021 in Washington, D.C., in accordance with the "Quality Standards for Inspection and Evaluation," established by the Council of the Inspectors General on Integrity and Efficiency. Those standards require that SIGTARP plan and perform the evaluation to obtain evidence sufficient to provide a reasonable basis for findings and conclusions based on the evaluation objectives. SIGTARP believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the evaluation objectives.

Limitations on Data: SIGTARP relied on Treasury to provide complete and relevant supporting documentation on HAMP in response to SIGTARP's requests. To the extent that the documentation provided did not reflect a comprehensive response to SIGTARP's requests or questions, this evaluation may have been limited.

Use of Computer-Processed Data: SIGTARP relied on computer-processed data for this evaluation, including Treasury's quarterly performance summaries and monthly transaction reports, to determine the percentages of borrowers with late payments and the amounts of funds committed and disbursed. SIGTARP did not validate the accuracy of the data, but determined the data was sufficiently reliable for the purposes of this evaluation.

Internal Controls: SIGTARP performed a limited review of Treasury's internal controls by interviewing Treasury officials and reviewing selected Federal laws and regulations, and Treasury policies and procedures.

Prior Coverage: SIGTARP has covered HAMP in seven prior reports: (1) March 25, 2010, "Factors Affecting Implementation of the Home Affordable Modification Program"; (2) June 18, 2012, "The Net Present Value Test's Impact on the Home Affordable Modification Program"; (3) July 24, 2013, "Rising Redefaults of HAMP Mortgage Modifications Hurt Homeowners, Communities, and Taxpayers"; (4) July 30, 2014, "Treasury Should Use HAMP and HHF Together to Help as Many Homeowners as Possible Avoid Foreclosure"; (5) October 29, 2014, "Homeowners Can Get Lost in the Shuffle and Suffer Harm When Their Servicer Transfers Their Mortgage but Not the HAMP Application or Modification"; (6) April 29, 2015, "Treasury's Opportunity to Increase HAMP's Effectiveness by Reaching More Homeowners in States Underserved by HAMP"; (7) January 27, 2016, "Mortgage Servicers Have Wrongfully Terminated Homeowners Out of the HAMP Program."

Appendix B – Management Comments

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 25, 2021

The Honorable Christy Goldsmith Romero
Special Inspector General
for the Troubled Asset Relief Program
1801 L Street NW, 4th Floor
Washington, DC 20036

Dear Ms. Romero:

I write in response to the Special Inspector General for the Troubled Asset Relief Program's (SIGTARP's) draft report of August 4, 2021 (Draft), regarding an evaluation of Treasury's public reporting on the Home Affordable Modification Program (HAMP). We are pleased SIGTARP has found that Treasury's public reporting meets the transparency requirements of the Dodd-Frank Act. This letter provides Treasury's official response to the Draft.

Background of HAMP and Treasury's Public Reporting

In early 2009, Treasury launched the Making Home Affordable (MHA) program to help struggling homeowners avoid foreclosure and stabilize the housing market. MHA is aimed at helping homeowners experiencing financial hardships to remain in their homes until their financial position improves or they relocate to a more sustainable living situation. At the same time, MHA protects the interests of taxpayers by disbursing funds only when transactions are completed and only as long as contracts remain in place.

The cornerstone of MHA has been HAMP, which provides eligible homeowners the opportunity to reduce their monthly mortgage payments to more affordable and sustainable levels to avoid foreclosure. In order to convince mortgage investors and servicers to participate in HAMP, Treasury pays out incentives when a mortgage is successfully modified, over a period of years. When a permanent mortgage modification is completed, and provided that the borrower continues to make payments on the mortgage, Treasury pays monthly incentives to the borrower (for a period of up to 6 years), the servicer (for 3 years), and the investor (for up to 6 years), depending on the type of modification.[1]

All MHA programs, including HAMP, closed to new applications on December 31, 2016 in accordance with the provisions of the Consolidated Appropriations Act, 2016. HAMP was successful in facilitating the completion of 1.7 million permanent mortgage modifications. Over the life of HAMP, Treasury has distributed $7.1 billion in incentives to homeowners, $10.7 billion in incentives to investors, and $3.9 billion to mortgage servicers.

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[1] Specifics regarding incentive payments and the time period over which they are provided, depending on the type of modification, may be found in the MHA Handbook (version 5.3), available at https://www.hmpadmin.com/portal/programs/docs/hamp_servicer/mhahandbook_53.pdf.

At this stage of the HAMP program, the only remaining incentives to be paid are to homeowners and investors. Homeowner incentives are paid through the mortgage servicers, who apply the incentive payments to the homeowner's account. Investor incentives are paid through the mortgage servicers, who distribute the payments to the investors. Treasury has already concluded making virtually all of its incentive payments to mortgage servicers.[2] The last incentive payments will be made in December 2023, six years after the final mortgage was modified under HAMP. The maximum amount of incentives to be paid over the next 27 months is $1.13 billion, although the actual amount will likely be significantly less as homeowners drop out of the program due to relocation, refinancing, or delinquency. Put another way, at least 95% of all HAMP incentive payments have already been disbursed.

Because HAMP is now closed, the remaining tasks for Treasury on this program are to monitor mortgage servicer compliance with MHA guidelines that pertain to post-modification activities, to continue to make incentive payments, and to provide transparency on the program.

To monitor mortgage servicer compliance, Treasury works through Making Home Affordable-Compliance (MHA-C), a separate, independent division of Treasury's financial agent, Freddie Mac. MHA-C conducts compliance reviews for the top 14 HAMP servicers, which together represent nearly 98% of all funds that Treasury is due to pay out over the next two years of the MHA program wind down. At earlier phases of the program, MHA-C conducted compliance reviews more frequently to assess the high levels of activity. As the program has wound down, Treasury has aligned the frequency of compliance reviews with the level of program activity.

Treasury also releases significant data to inform the public about the status of all of its programs, including MHA. Such reporting includes:

- A data file containing loan level data on all modifications completed under MHA
- Monthly TARP Transaction Reports on Housing Programs
- Monthly Reports to Congress as required by the Emergency Economic Stabilization Act of 2008, §105(a)
- Monthly TARP Updates
- Monthly Meeting Minutes of the Financial Stability Oversight Board
- Quarterly HAMP Performance Summaries
- Quarterly Reports by the Financial Stability Oversight Board
- Annual Agency Financial Reports

At earlier stages of the program, Treasury issued additional reports to inform the public and stakeholders about its ongoing efforts to address the economic disruption caused by the 2008-09 financial crisis. Appropriately, as the programs have closed or wound down and activity slowed, Treasury has continued to adapt our reporting to meet the needs of the public and stakeholders. For example, once HAMP closed to new applicants, there was no need to continue reporting data to the public on applicant statistics that would not change.

[2] There are less than 100 loans for which Treasury has not yet concluded making payments of servicer incentives, because the borrowers are currently in COVID-19 forbearance. Once those loans are reported as current, all incentives will be paid.

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Similarly, once HAMP servicers were no longer evaluating applicants, MHA-C's compliance testing model was appropriately modified to reflect the few remaining relevant metrics. For a number of reasons, including that not all servicers participated in certain components of the testing that took place after that time and that sample sizes for certain tests may not have met established thresholds, Treasury determined that continuing to publicly report its servicer assessments would be inconsistent and potentially misleading. Accordingly, while Treasury has continued to monitor servicer compliance, we ceased publishing quarterly servicer assessments.[3] Treasury continues to provide documents regarding servicer compliance to SIGTARP on a quarterly basis.

SIGTARP's Draft

The Draft acknowledges that Treasury reports loan level information on HAMP in a large data set, which complies with the Dodd Frank Act. The Draft also highlights the effectiveness of Treasury's compliance reviews, and reports in detail errors made by mortgage servicers that have been identified due to Treasury's ongoing compliance efforts. However, the Draft does not describe how the identified errors have since been remediated due to Treasury's efforts.

SIGTARP's Recommendations

The Draft contains four recommendations. SIGTARP first recommends that Treasury conduct additional analysis on the loan level data that it already publicly releases. At present, it would not be a worthwhile use of resources to create additional analyses of publicly-available data regarding a program that is nearly wound down, particularly given the demands on Treasury staff to design and implement programs in response to the ongoing COVID-19 pandemic and accompanying economic disruption.

SIGTARP next recommends that Treasury create and publish quarterly reports on each HAMP servicer's performance, including redefault rates. SIGTARP contends that this would be helpful because "Above average redefault rates by an individual servicer could lead to greater Treasury scrutiny and potentially expose a servicer that is wrongly redefaulting homeowners out of the program." Draft at 6. Comparing statistics such as redefault rates across servicers would not be beneficial because each servicer holds a different book of loans, and a servicer with a higher percentage of at-risk borrowers would likely have a higher rate of redefaulted borrowers. Furthermore, whenever Treasury's compliance reviews identify an inappropriate disqualification, that error is corrected and in most cases requires a lookback review of similar populations. Moreover, both Treasury and SIGTARP are already aware of each servicer's redefault rates and can increase their scrutiny accordingly; creating additional public reports at this phase of the program would not be an efficient use of scarce taxpayer resources.

SIGTARP also recommends that Treasury increase its public reporting on its oversight of HAMP servicers, including actions taken in compliance reviews. Treasury provides SIGTARP each quarter with all of MHA-C's compliance findings. As noted above, Treasury retired its quarterly servicer compliance assessments in November 2017, after consulting with SIGTARP, and does

[3] Treasury described these changes and its reasoning to SIGTARP's Deputy Chief of Staff, among others, on November 15, 2017.

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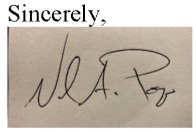
not see any reason to revisit that decision. In addition, to the extent SIGTARP recommends that Treasury publicly disclose what actions it takes in response to compliance findings, we are concerned that publicly reporting these actions may provide servicers with insight into Treasury's decision-making that could undermine our compliance regime.[4]

Finally, SIGTARP recommends that Treasury increase its sample sizes and conduct lookback reviews when servicers are found to have incorrectly redefaulted a homeowner out of HAMP, incorrectly listed a homeowner as delinquent, or incorrectly set a homeowner's payment too high. As an initial matter, while the sample size for each of these areas is set at 25, at this late stage of the program servicers increasingly do not have 25 loans that qualify to be sampled. Thus, MHA-C is sometimes sampling 100% of the relevant loan population. Whenever issues are identified that impact 10% of the loans in the sample, suggesting a systemic process issue, Treasury determines whether it is appropriate to require the servicer to conduct a lookback review. Treasury does not believe it is necessary to require lookback reviews for errors that do not suggest a larger process issue.

* * *

We look forward to working with SIGTARP as we continue to wind down the remaining programs funded through TARP, including HAMP. Please feel free to contact Treasury's Office of Financial Stability at (202) 622-4421 if you have any questions about this letter.

Sincerely,



Noel Poyo
Deputy Assistant Secretary for Community and Economic Development

[4] For example, if Treasury publicly reports that it took only minimal action in response to a compliance issue with Servicer A's computer systems, Servicer B may decide not to remediate a similar issue with its own systems.