



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 26, 2016

The Honorable Christy G. Romero
Special Inspector General
for the Troubled Asset Relief Program
1801 L Street NW, 4th Floor
Washington, D.C. 20036

RE: Treasury Response to SIGTARP's October 2016 Quarterly Report

Dear Ms. Romero:

I write in response to SIGTARP's October 26, 2016 Quarterly Report to Congress (Report), and in particular, the section discussing the performance of mortgage servicers participating in Treasury's Home Affordable Modification Program (HAMP). The Report describes the results of compliance reviews performed by Treasury's Office of Financial Stability between 2014 and 2016, including instances where mortgage servicers did not comply with HAMP requirements.¹ The Report also states that Treasury should increase its efforts in response to such non-compliance. We appreciate SIGTARP's analysis of Treasury's findings and are writing to clarify certain information in the Report.

We agree that mortgage servicers should be held accountable for their performance under HAMP, the largest component of the Making Home Affordable Program (MHA). That is why Treasury has implemented rigorous compliance procedures, which evaluate whether servicers are adhering to HAMP requirements. Each quarter, Treasury's compliance agent reviews between 450 and 650 loan files, and examines as many as 60 compliance criteria, at each of the largest MHA servicers. That translates to anywhere between 1,800 and 2,600 loan files per servicer on an annual basis. The servicers covered by these quarterly compliance reviews account for approximately 85 percent of HAMP modifications. This approach is designed to provide Treasury comprehensive insight into how well servicers are implementing MHA programs.

When Treasury identifies compliance issues like those described in the Report, Treasury requires servicers to take remedial actions. Such actions include, but are not limited to (i) identifying and re-evaluating affected loans, and where appropriate, making a borrower whole; (ii) if an issue is identified as being potentially systemic, requiring a look-back analysis in order to provide a systemic remedy; and (iii) strengthening the servicer's internal controls in order to prevent the issue from recurring. When information reported to Treasury is found to be inaccurate, servicers are required to make all necessary corrections and, if the error caused an inaccurate payment by Treasury, TARP funds are recovered as appropriate. We also have withheld financial incentives from servicers that performed poorly until they made specified improvements.

¹ These results are also summarized in Treasury's quarterly MHA Program Performance Reports, which are available at www.financialstability.gov.

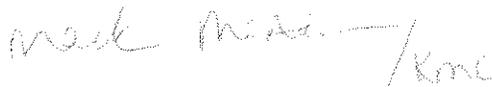
Treasury also publishes quarterly assessments for the largest MHA servicers in order to increase transparency and drive servicers to improve their performance. The assessments summarize the results of Treasury's compliance reviews, including the servicer's actual error rate on a variety of compliance metrics that reflect whether servicers are properly identifying and contacting borrowers who are potentially eligible for MHA (such as the "Second Look" metric), whether servicers are correctly evaluating homeowner eligibility criteria (such as the "Income Calculation" metric), and whether data reported by servicers is accurate (such as the "Incentive Payment Data" metric). The assessments also evaluate the servicer's compliance results against established performance benchmarks.

Treasury's servicer assessments have been effective. Servicers' error rates on key compliance metrics declined substantially following the introduction of the assessments in 2011. For the second quarter of 2016, the average error rates on Treasury's Second Look, Income Calculation, and Incentive Payment Data metrics were 0.7 percent, 1.7 percent and 1.0 percent, respectively. In addition, all servicers in the assessment either met or approached Treasury's performance benchmarks on metrics that assess the assignment of a single point of contact at the servicer, the timeliness of the servicer's evaluation of HAMP applications, and the implementation of requirements related to interest-rate step-ups in HAMP. We continue to drive further improvement in servicer performance, by introducing new metrics and tightening performance benchmarks.

* * *

We are always working to improve our housing programs, and we appreciate your input in that regard. We look forward to continuing to work with you as we wind down the MHA program in the coming months. Please contact me if you would like to discuss this issue further.

Sincerely,

Handwritten signature of Mark McArdle in black ink, with a horizontal line extending from the end of the signature.

Mark McArdle
Deputy Assistant Secretary
Office of Financial Stability