

This Response describes the actions Treasury has taken and intends to take to address the eight recommendations in the GAO's June 2010 report titled, "*Further Action Needed to Fully and Equitably Implement Foreclosure Mitigation Programs.*"

GAO Recommendation 1:

Establish clear and specific criteria for determining whether a borrower is in imminent default to ensure greater consistency across servicers.

Summary of Treasury's Actions in Response to this Recommendation

Modifying the mortgages of homeowners facing imminent default is a valuable tool for servicers and investors and we have incentivized them to take advantage of this option.

Ultimately, servicers and investors are in the best position to judge when the imminent default classification is appropriate.

Although there may be variations in servicers' imminent default criteria, this is appropriate given variations in servicers' books and differing investor requirements. The ultimate effect on homeowners of any variation is not consequential. Homeowners who are tested under more restrictive imminent default regimes and are denied the imminent default classification can still be evaluated for HAMP consideration if they ultimately do become delinquent. More liberal imminent default regimes may result in more HAMP modifications than are strictly required, including homeowners who may actually be able to pay their full mortgage payment without assistance, but this flexibility is consistent with existing guidelines allowing and subsidizing NPV-negative modifications.

Moreover, the cost of the infrastructure and compliance regimes necessary to introduce a new, complex model and the necessary servicer efforts to change protocols are significant.

GAO Recommendation 2:

Develop additional guidance for servicers on their quality assurance programs for HAMP, including greater specificity on how to categorize loans for sampling and what servicers should be evaluating in their reviews.

Summary of Treasury's Actions in Response to this Recommendation

During reviews of servicers, MHA-C, as Treasury's HAMP Compliance Agent, assesses servicers' quality assurance processes. MHA-C has provided further guidance for quality assurance process enhancements including, but not limited to, the items mentioned in the recommendation as well as requested action to be taken as a result of those servicer reviews. Treasury agrees that it would be helpful to provide more detailed guidance not just as a result of servicer on-site compliance reviews, and Treasury intends to issue a supplemental directive with more detailed guidance by the end of September.

GAO Recommendation 3:

Specify which complaints servicers should track to ensure consistency and to facilitate program oversight and compliance.

Summary of Treasury's Actions in Response to this Recommendation

Treasury believes that the current system of tracking all complaints is the more appropriate method to ensure consistency and facilitate program oversight and compliance. In accordance with HAMP policies that have been in place since the inception of the program, servicers must have procedures and systems in place to respond to all inquiries and complaints about HAMP. Servicers are also working to ensure that inquiries and complaints are provided fair consideration and timely and appropriate resolution. Treasury reviews the procedures, systems, and tracking of complaints at servicers as part of regular compliance reviews.

GAO Recommendation 4:

More clearly inform borrowers that the HOPE Hotline may also be used if they are having difficulty with their HAMP application or servicer, or feel they have been incorrectly denied HAMP; monitor the effectiveness of the HOPE Hotline as an escalation process for handling borrower concerns about potentially incorrect HAMP denials; and develop an improved escalation mechanism if the HOPE Hotline is not sufficiently effective.

Summary of Treasury's Actions in Response to this Recommendation

Treasury has promoted the HOPE Hotline since June 2009 as the primary resource for all questions and help for homeowners participating in HAMP. That focus remains unchanged. Every non-approval letter from a HAMP servicer must have the HOPE Hotline number with instructions on how to get more information about why the homeowner was not approved and how to access the MHA Help escalations agents to contest his/her non-approval.

The HOPE Hotline averaged over 21,000 calls per month last quarter from homeowners who were having difficulty with their HAMP application or servicer or felt they had been incorrectly denied a HAMP modification.

Treasury and Fannie Mae promote our escalations service frequently in media interviews, directly to homeowners, and in trainings and meetings with partners and housing counselors.

We have added language in multiple locations on Treasury's website that reads: If you have additional questions about the program, please call the Homeowner's HOPE™ Hotline at 1-888-995-HOPE (4673). If you need help working with your mortgage

company or believe that you have been wrongfully denied for a modification, please call the Hotline and ask for “MHA Help”.

We have also added similar language to new materials: a general MHA brochure: <http://www.makinghomeaffordable.gov/docs/MHA%20Brochure.pdf> and a brochure about the HAFA program: <http://www.makinghomeaffordable.gov/docs/HAFA%20Brochure%207-2010.pdf>. Treasury will continue to raise awareness of the HOPE Hotline through future communications and materials.

GAO Recommendation 5:

Finalize and issue consequences for servicer noncompliance with HAMP requirements as soon as possible.

Summary of Treasury’s Actions in Response to this Recommendation

Treasury has created the HAMP Compliance Committee to review the results of all compliance activities performed and ensure consistent treatment of servicers. The HAMP Compliance Committee has established a process to evaluate the nature and scope of instances of non-compliance and determine appropriate responses, including remedies, in a consistent manner. These remedies may include those that are non-financial such as process improvements, analysis of impact on homeowners, and re-evaluation of homeowners, as well as financial remedies such as withholding incentives or clawing back incentives already paid.

To date, Treasury has imposed non-financial remedies that have resulted, for example, in servicers:

- Reevaluating homeowners’ HAMP eligibility including re-performance of NPV;
- Soliciting overlooked population of homeowners; and
- Providing clear communication to homeowners that no foreclosure sales would occur until homeowners’ eligibility was evaluated.

Treasury is currently finalizing a remedies policy that codifies the process and remedies described above.

GAO Recommendation 6:

Require reporting of when principal reduction was considered but not offered, to ensure more consistency and transparency in the implementation of this program feature across servicers.

Summary of Treasury’s Actions in Response to this Recommendation

As required by Supplemental Directive 10-5, Modification of Loans with Principal Reduction Alternative, all borrowers are required to be evaluated using principal reduction with the alternative waterfall and failure to do so is considered noncompliance. Since servicers are required to record all inputs and outputs from the alternative waterfall into our system of record (IR2), servicer performance and noncompliance can be easily identified.

GAO Recommendation 7:

Finalize and implement performance measures and goals for assessing servicers' performance under the first-lien modification program, as well as the recently announced HAMP components and TARP-funded homeowner assistance programs.

Summary of Treasury's Actions in Response to this Recommendation

In February 2009, Treasury set a goal to "offer reduced monthly payments for up to three to four million at-risk homeowners," providing these homeowners with a second chance to modify their mortgages and "avoid foreclosure." This projection was based on the best available estimate at that time of the number of HAMP – eligible households that were likely to require assistance during the four-year duration of the program.

Since the program began, the Administration has consistently strived to not only meet this baseline goal, but also exceed it by translating this initial help into sustainable outcomes for homeowners that allow families to remain in their homes or avoid foreclosure through transitioning to other housing through efforts like the Home Affordable Foreclosure Alternatives program (HAFA). We believe that the most significant measures of success for the program are not just how many homeowners start trial modifications or even permanent modifications, but whether families are able to avoid foreclosures and how effective the program is in stabilizing neighborhoods and the housing market.

Additionally, the program's public reports suggest a number of other performance measures that go beyond whether a homeowner has received a permanent modification. Since the first Servicer Performance Report in July 2009, these public reports have grown as more data becomes available and have become far more indicative of the effect HAMP has had galvanizing the mortgage industry and proliferating affordable solutions for homeowners.

The monthly reports state the number of trial offers, trials started, and permanent modifications completed each month since November 2009. The monthly reports also show servicer-specific progress – providing the percentage of delinquent loans against offers, trials, and permanent modifications. The reports also provide information by servicer on the percentage of trial modifications converted to permanent modifications.

These comparative performance metrics by servicer provide a good measurement of the program's progress. Treasury plans to continue monthly reporting of these program performance metrics.

GAO Recommendation 8:

Implement a prudent design for remaining HAMP-funded programs.

Summary of Treasury's Actions in Response to this Recommendation

HAMP-funded program design is largely complete, and by statute new programs that use TARP funds cannot be started. We expect, however, to implement refinements as needed to HAMP programs as we continue to evaluate program performance and market development going forward. In doing so, we will keep this recommendation in mind.