The HAMP Termination Act of 2011, H.R.839

Bill Provisions. The bill would prohibit new mortgage loan modifications under the Home Affordable Modification Program (HAMP), which is funded under authority generally referred to as TARP, pursuant to the "Emergency Economic Stabilization Act of 2008" (also known as EESA). However, the bill would grandfather in assistance to homeowners who, prior to the date of enactment, had already been extended an offer to participate in HAMP, either on a permanent or trial basis.

HAMP Program. The HAMP program was put in place by the Obama Administration in early 2009. Servicers of over 90% of mortgages nationwide currently participate in HAMP, under which homeowners who have defaulted on, or are at serious risk of defaulting on, a mortgage can undergo a Net Present Value (NPV) analysis by their loan servicer to determine if doing a loan modification would reduce expected loan losses. If so, a HAMP loan modification is required to be offered. A HAMP modification entitles a homeowner to reduced mortgage payments, at a sustainable debt to income ratio of 31%. The program provides incentives to loan investors and servicers in consideration for the loan modifications, and incentives for homeowners to continue to make on-time payments.

Program Results. The program is authorized to run through the end of 2012. At the end of January, there are 539,493 homeowners with permanent HAMP loan modifications. New permanent HAMP modifications have averaged around 29,000 per month over the last six months of 2010. Therefore, assuming a modestly declining rate from this, a reasonable estimate is that program participation will double by the end of next year, for a cumulative total of 1.1 million homeowners. Based on this estimate, the bill would deny modifications to more than a half million homeowners at risk of foreclosure.

Median savings on a HAMP loan mod is $527 a month (37% of the median monthly payment prior to modification). Treasury estimates aggregate homeowner savings to date of nearly $5 billion. After 12 months of a HAMP loan mod, 85% of homeowners have remained in a permanent modification. The OCC has reported that the re-default rate for HAMP loan mods (60+ days delinquent) at six months was about half the rate of non-HAMP modifications.

Republicans have argued that the HAMP program makes things worse for borrowers, because of borrowers having "false hopes" and because many borrowers with trial modfications failed to gain a permanent modification. In fact, of the 565,058 homeowners with cancelled trial modifications through the end of 2010, only 5.1% have been foreclosed and only 14.9% are in foreclosure. 45.1%

have received a proprietary modification, and the rest are in other categories such as having paid the loan off, becoming current on the loan, having completed a short sale, or having some other action pending.

Cost. To date, the program has spent a total of around $1 billion for the existing 540,000 permanent HAMP loan mods, with an ultimate cost estimate for these modifications of around $5 billion. Because these loans are grandfathered in, the bill would not affect these costs. Per the estimate above, if total program volume doubled, the additional cost would be around $5 billion. CBO has a lower estimate, estimating a savings of only $1.4 billion from prohibiting new modifications. CBO also estimates the average cost per assisted homeowner under a HAMP loan modification is only $13,000. Finally, because of the provisions of the original TARP legislation and a Democratic amendment to the Dodd-Frank bill, any unused TARP funds at the end of the program are returned to taxpayers.

Why the HAMP Program Has Not met Initial Projections. There are a number of reasons the program has not met the original Obama Administration goal of helping 3 to 4 million homeowners:

- The program appropriately excludes different categories of borrowers – including investors, owners of second homes, homeowners whose mortgages are unsustainable even with HAMP assistance, and homeowners that can pay their mortgage without government assistance
- Banks and other mortgage servicers were understaffed and unprepared to carry out loan modifications – resulting in widespread complaints about lost files, non-responsiveness, etc.
- Legally, mortgage holders can't be forced to reduce mortgage payments. Programs have had to be voluntary, incentivizing lenders to reduce mortgage payments in lieu of foreclosing on the loan.

In any event, it is contradictory to conclude, as Republicans have done, that the program should be terminated (no more homeowners assisted) on the grounds that it not met early projections.