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Treasury's New Homeowner Aid Prompting Republican Ire

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Treasury Secretary Jacob Lew's decision to give more help to homeowners who have already gotten mortgage assistance has sparked opposition from Republicans aiming to end President Barack Obama's foreclosure prevention program.

The Treasury Department announced on Dec. 4 that homeowners in their sixth year of payments on a modified mortgage will get a $5,000 principal reduction to help them build equity and handle possible financial trouble. The assistance, which could total $5 billion, is part of the Home Affordable Modification Program, or HAMP, which began in 2009 to stem the flood of foreclosures after the housing crash.

HAMP has helped about a million borrowers facing default stay in their homes by lowering their monthly payments. After the administration encountered servicing delays and failed to reach its goal of assisting as many as 4 million Americans, officials are now giving additional reductions to borrowers who already received modifications. Republican lawmakers say helping homeowners who are current on their mortgages is another sign of a broken program they plan to end after taking control of Congress in 2015.

"HAMP has been a monumental failure," Representative Patrick McHenry, a Republican from North Carolina, said in an email. "This is beyond the pale and further proof this disastrous program must be ended."

HAMP is one of half a dozen foreclosure-prevention initiatives funded with $38.4 billion from the Troubled Asset Relief Program that provided $245 billion in bailouts for banks and other firms during the financial crisis.

5 Million Foreclosures

Since 2007, more than 5 million families have lost their homes to foreclosure. The vacant properties they left behind caused prices to plunge even more. Nationally, real estate values fell by about 35 percent before reaching a bottom in early 2012. In hard-hit cities like Phoenix, Las Vegas and Miami, the drop exceeded 50 percent.

At the end of 2010, about 2.3 million homes were in foreclosure, the most since the Great Depression. The number dropped to about 1 million in the third quarter, the lowest in almost seven years.

"It hardly seems to be the worst use of TARP money to help out some of these families who found themselves in a jam through no fault of their own," said Dean Baker, co-director of the Center for Economic and Policy Research in Washington. "It's just a fraction of the money that went to helping out the banks."

HAMP aids homeowners who have fallen behind on mortgage payments by renegotiating loan terms to lower monthly payments. The program made about 1.4 million modifications by the end of September and 961,648 of the loans are still active. Thirty percent of the loans, or 419,401, defaulted after the modification. That rate is below the industry average for modified mortgages.

As the interest rate on many of these loans rises to 3 percent in the sixth year and 4 percent in the seventh year from 2 percent in the first five years, officials say the $5,000 reduction will help curb additional defaults. A 1 percentage point increase in rates on a $200,000 loan adds about $100 per month to payments.

"We're trying to be as aggressive and thoughtful as possible to prevent foreclosures and keep the housing market from taking a step backward as these loans reset," said Tim Bowler, deputy assistant secretary for financial stability at Treasury. "Two people lose when there's a problem with someone paying a mortgage -- the one suffering the financial hardship and the one living next door who sees home values drop from having a troubled property on the block."

In making the $5,000 payouts, HAMP isn't distinguishing between borrowers who might need the support and those who don't. A homeowner who got a modification five years ago because of a job loss could be financially stable today and still get the payoff.

Republican Congress

"If people still need this kind of help, five years down the road, then they are simply not in a home they can afford," said Mark Calabria, director of financial regulation studies at the Cato Institute research group in Washington and a former senior staffer on the Senate Banking Committee. "The Republican leadership in Congress wants to end the program, and we're way beyond the point where people could argue there's a housing crisis."

Treasury has spent $14.6 billion on foreclosure-prevention programs including HAMP -- about 38 percent of the allocated TARP funds. The Republican-controlled Congress will be eyeing at least a portion of the remainder, said Douglas Holtz-Eakin, the former director of the Congressional Budget Office and now president of the American Action Forum in Washington.

"With the stroke of a pen, Capitol Hill can redirect that money to other uses such as paying down the debt," said Holtz-Eakin, who served on the 2009 Financial Crisis Inquiry Commission created by Congress. "This is not a program that meets its objectives, or even comes close to them."

Modification Delays

HAMP didn’t reach the Obama administration’s goal partly because of delays by loan servicing companies. They lost paperwork, miscalculated the amounts due and botched the transfer of servicing rights to other companies, according to reports by the Special Inspector General of TARP. Homeowners who applied for HAMP sometimes waited as long as a year to hear if they had been approved, it said an Oct. 29 report.

“While these borrowers hang in limbo, the administration decides to give thousands of dollars of so-called incentives to current participants?” said Representative McHenry. “The program has harmed far more applicants than it has helped.”

Three years ago, the House of Representatives passed a bill to end HAMP with the support of almost two dozen Democrats. McHenry sponsored the HAMP Termination Act of 2011, which stalled in the Senate, and said he will reintroduce it in 2015.

Relocation Assistance

When Treasury announced the $5,000 HAMP award, it also expanded its Home Affordable Foreclosure Alternatives, or HAFA, initiative. It helps owners who can’t get a modification sell properties for less than they owe. HAFA more than doubled its relocation assistance to $10,000.

“Preventing a foreclosure, by either a modification or a short sale, benefits communities because it means there’s one less empty house on a block,” said Treasury’s Bowler.