



MEMORANDUM

To: Reporters and Editors
Re: GAO report on TARP home mortgage program
Da: Friday, July 24, 2009

The Government Accountability Office (GAO) has released its sixth report on the Troubled Asset Relief Program (TARP). This report addresses the Department of Treasury's plan to use \$50 billion in TARP funds to encourage banks to lower the monthly mortgage payments of borrowers facing foreclosure. On Oct. 30, 2008, Sen. Chuck Grassley wrote to Treasury and the Federal Deposit Insurance Corporation (FDIC) asking that they ensure that homeowners who improperly obtained mortgages by misrepresenting their income not be rescued with taxpayer dollars. He has continued to ask questions about the proper and effective dispersal of TARP money. Grassley made the following comment on the GAO report.

“This report heightens my fear that Treasury will give out billions of dollars without ensuring the spending will work as intended. There's real doubt that this money will prevent foreclosures in the long term and help legitimately struggling homeowners. Once this money is spent, it will be gone. Unfortunately, Treasury isn't ready.

“Redeferat rates are a serious problem in loan modifications. A recent report by the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS) showed redefeat rates of 52 percent during the first 12 months after mortgage modification in a similar program managed by the FDIC. To combat redefeat, Treasury plans to require homeowners with high household debt to undergo counseling. But according to the GAO, Treasury does not intend to monitor the counseling to ensure success. Treasury is about to spend billions of taxpayer dollars to prevent foreclosures, and a redefeat rate anywhere near 52 percent in this \$50 billion program would be a catastrophe. The purpose is to prevent foreclosures, not just delay them for a year. Treasury needs to adopt the GAO's recommendation to monitor the counseling process and take all possible steps to keep redefeats at a minimum.

“Also troubling is GAO's statement that the need for Treasury's \$10 billion Home Price Decline Protection subprogram is 'unclear.' It seems Treasury is proposing to spend taxpayer money to offer incentives for mortgage modifications in areas of the

country where home prices are severely depressed without first determining that the modifications would not have occurred anyway. GAO is right to question whether this \$10 billion program is necessary.

“The GAO also is critical of the lack of staffing and internal management controls at Treasury on this program. In short, Treasury needs to (1) adopt GAO’s recommendations without qualification; (2) do everything within its power to reduce the risk of redefaults; (3) reassess the Home Price Decline Protection subprogram; and (4) screen homeowners who obtained their original mortgages dishonestly from participation in this federal bailout plan.”

The report, *Troubled Asset Relief Program: Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable* [GAO-09-837](#), July 23, 2009, is available at www.gao.gov.