

U.S. Treasury-More HAMP Homeowners Falling Behind

Corbett B. Daly

Reuters

August 6, 2010

The Obama administration on Friday acknowledged it had underestimated the number of homeowners who fell seriously behind on their mortgage payments even after getting government help.

Treasury officials blamed the error on mortgage finance giant Fannie Mae, which acts as the program administrator for President Barack Obama's \$50 billion Home Affordable Modification Program (HAMP).

The program had been criticized for its overly optimistic estimates of the number of struggling borrowers helped by its subsidies of new mortgage terms.

The actual numbers of permanent modifications that have lasted at least nine months through the end of May is tiny: just 4,764 borrowers. And 53,041 borrowers had one for at least six months through May.

Treasury said about 14.9 percent of the 4,764 borrowers who have had a permanent modification for at least nine months by the end of May had re-defaulted on their loan. That's more than six times the 2.4 percent rate they reported on July 20.

For loans that had been permanently modified for at least six months, about 6.1 percent had re-defaulted, up from just 1.7 originally estimated. Re-defaults are defined as 90 days or more late.

For loans 60 days late and not yet in re-default, the number of borrowers in trouble is even higher.

For loans that had been permanently modified for at least nine months, 19.6 percent of the loans were at least two months behind on their payments, more than two and a half times the 7.7 percent rate first reported.

On loans permanently modified for at least half a year, 10.1 percent were 60 days or more behind on payments, compared to the 5.9 percent originally reported.

"We are confident that this data table correctly reflects the performance of the permanent modifications over time. Early program results indicate that the vast majority who receive permanent modifications through HAMP benefit from them and remain in the program," said Treasury spokesman Mark Paustenbach.

The issue arose after several Wall Street analysts said the numbers Treasury first issued seemed suspiciously low.

Treasury then asked Fannie Mae to review the numbers.

Fannie Mae spokesman Brian Faith said his company found "an issue in its implementation of the delinquency statistic methodology."

"Fannie Mae has now corrected the implementation and validated the revised table through review and verification by an independent third-party consultant contracted by Fannie Mae's Internal Audit Group," Faith said.

Treasury on July 20 said that the number of borrowers dropping out of the program grew in June at almost twice the pace of those getting a permanent modification. Those figures were not revised.

The dropout rate could signal a rise in foreclosures in the second half of the year at a time when the housing market is still fragile and analysts fear another housing slump could threaten the nascent economic recovery.

About 91,000 borrowers dropped out of the program in June, putting the total number of dropouts at 530,000. At the same time, about 49,000 borrowers received a permanent modification in June, bringing that total to 389,000.

That means more than 40 percent of the roughly 1.3 million borrowers who have started in the program since its March 2009 inception have since dropped out, while just over 30 percent have received permanent new terms for their loan.