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# Program to Help Prevent Foreclosures Falls Short

By SEWELL CHAN

WASHINGTON — The Obama administration’s program to help homeowners avoid foreclosure has fallen far short of its goals, in part because the [Treasury Department](#) has failed to spell out what its objectives should be, according to an assessment offered to Congress on Wednesday.

Only 390,000 homeowners have seen their [mortgage](#) terms permanently modified since the \$50 billion program was announced in March 2009. That is a small fraction of the three to four million borrowers who were supposed to receive assistance under the program, which is financed by money from the \$700 billion Wall Street bailout authorized in late 2008.

Neil M. Barofsky, the special inspector general for the [Troubled Asset Relief Program](#), as the bailout is called, testified that “one of the greatest failures” by the Treasury Department had been the absence of clear goals for the program.

“It’s a simple recommendation that we made, that Treasury put forth how many people it truly expects to help stay in their houses through permanent modifications,” Mr. Barofsky told members of the Senate Finance Committee. “It’s a recommendation that all three of us on this panel have made to Treasury and that Treasury has ignored.”

That criticism was echoed by **Elizabeth Warren**, chairwoman of the Congressional Oversight Panel for the bailout, and Richard J. Hillman, managing director for financial markets and community investment at the **Government Accountability Office**.

Mr. Hillman said a recent G.A.O. report had found that the program “made limited progress in preserving homeownership, has suffered from inconsistent program implementation, and continues to confront additional challenges.”

Ms. Warren, who is a candidate to lead the new Consumer Financial Protection Bureau created under the far-reaching financial regulatory legislation signed by **President Obama** on Wednesday, said the bailout program had been successful in averting an economic collapse, but she too was critical about the way the mortgage-modification program had been handled.

“Fifteen months into this program, for every one family that appears to have made it to a permanent modification that’s likely to stabilize that family in that home, 10 more have been moved out through foreclosure,” she said. “This is a program that’s just — it’s behind the curve.”

Asked by Senator **Max Baucus**, Democrat of Montana and chairman of the Finance Committee, why the program was not working, Ms. Warren said: “It’s too slow. It’s too small.”

She noted that the program was based upon fees paid to servicers to renegotiate mortgage terms.

“In many cases, the servicers can continue to make more money if the family goes through foreclosure,” she said. “It’s just not a program that’s working for homeowners. It’s not a program in some cases that’s working for investors. And most importantly, it’s not a program that’s working for the economy over all.”

**Herbert M. Allison Jr.**, the assistant Treasury secretary who oversees the bailout program, said in an interview by phone that the criticisms of the mortgage plan were overstated and that the program had helped 1.3 million homeowners.

The program offers mortgage servicers incentive payments if they complete mortgage modifications, which typically involve reductions in principal or in the interest rate. But to qualify for the permanent modifications, borrowers have to document economic hardship, demonstrate a certain debt-to-income ratio and prove that they live in the home — a threshold that many homeowners have not been able to meet.

Mr. Allison said the department was limited in its ability to compel servicers, who participate in the program voluntarily, to reduce mortgage amounts. “If we started to compel them, the risk is that we would lose servicers,” he said. “They could claim that it was a material change to the contract, and exit the program.”

He added: “We can’t control outcomes, because we can’t control the number of people who become delinquent, who have hardships, who have debt-to-income ratios above 31 percent, who decide to pay and remain current, who decide to remain in their homes.”

Other parts of the hearing reiterated previous criticisms made about the handling of the bailout: that the money was used to bolster big [banks](#) even as smaller, community-based financial institutions failed; that the government decided to fully pay the counterparties who would have lost money if the [American International Group](#), the giant insurer, had been allowed to fail; and that the Treasury had compelled [General Motors](#) and [Chrysler](#) to close thousands of auto dealerships without sufficient consideration of the effect on employment.

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