Watchdog: Financial system support up $700 billion

Increased housing aid swells U.S. taxpayers' commitments in past year

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WASHINGTON — Increased housing commitments swelled U.S. taxpayers' total support for the financial system by $700 billion in the past year to around $3.7 trillion, a government watchdog said on Wednesday.

The Special Inspector General for the Troubled Asset Relief Program said the increase was due largely to the government's pledges to supply capital to Fannie Mae and Freddie Mac and to guarantee more mortgages to the support the housing market.

Increased guarantees for loans backed by the Federal Housing Administration, the Government National Mortgage Association and the Veterans administration increased the government's commitments by $512.4 billion alone in the year to June 30, according to the report.

"Indeed, the current outstanding balance of overall Federal support for the nation's financial system...has actually increased more than 23% over the past year, from approximately $3.0 trillion to $3.7 trillion -- the equivalent of a fully deployed TARP program -- largely without congressional action, even as the banking crisis has, by most measures, abated from its most acute phases," the TARP inspector general, Neil Barofsky, wrote in the report.

The total includes Federal Reserve programs and a myriad of asset guarantees, including Federal Deposit Insurance Corp. protection for bank deposits.

The increased government commitments more than offset about a $300 billion decline in the U.S. Treasury's TARP commitments in the past year as programs have closed and banks have repaid taxpayer funds.

Housing programs criticized

Barofsky also in the report ramped up his criticism of the Treasury's housing relief efforts, saying that its program to reduce monthly mortgage payments for struggling homeowners was showing "anemic" participation numbers and had failed to "put an appreciable dent in foreclosure filings."

He said Treasury had refused his repeated recommendations to announce more effective goals and benchmarks for its mortgage modification program, which could reach up to $50 billion in TARP funds.

"Treasury's refusal to provide meaningful goals for this important program is a fundamental failure of transparency and accountability that makes it far more difficult for the American people and their representatives in Congress to assess whether the program's benefits are worth its very substantial cost," Barofsky wrote.

Among other recommendations repeated in the report, Barofsky called for the Treasury to consider making its voluntary mortgage principal reduction program mandatory, saying this would make it less likely for "underwater" homeowners to abandon their properties.

The Treasury has declined to adopt the recommendation, citing the prospect that mandatory principal reduction would cause mortgage servicing firms to opt out of the program and fairness issues in reducing principal for both responsible homeowners hit by value declines and homeowners who overleveraged their properties in refinancings.

U.S. Treasury officials defended the Home Affordable Modification Program, saying that it was still on track to reach its goal to keep 3 million to 4 million homeowners in their homes by the end of 2012 and was adapting to changing conditions by offering forbearance to unemployed people and extra funding for the hardest-hit markets.

Herbert Allison, Treasury assistant secretary for financial stability, said the Treasury often agrees with Barofsky's recommendations, "but once in a while, we differ on what type of policy will best carry out our mandate."

The report provoked swift criticism of Obama administration housing policies from U.S. Rep. Darrell Issa, a California Republican who has taken every opportunity to blast the Treasury's handling of financial bailout programs.

"The fact that the Obama administration is treating TARP like its own personal slush-fund is beyond egregious and a complete betrayal of what the American people were told would be then when their tax-dollars were used to bailout Wall Street," Issa said in a statement, adding that the housing efforts were "dumping good money after bad."