



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 19, 2017

The Honorable Christy Goldsmith Romero
Special Inspector General
for the Troubled Asset Relief Program
1801 L Street, NW, 4th Floor
Washington, DC 20036

Dear Ms. Romero:

I write in response to the Special Inspector General for the Troubled Asset Relief Program's (SIGTARP) audit report (Report) of June 16, 2016, concerning blight elimination conducted with funds from the Housing Finance Agency (HFA) Innovation Fund for Hardest Hit Housing Markets (the Hardest Hit Fund, or HHF). Treasury values SIGTARP's work and appreciates the observations and recommendations SIGTARP makes concerning the operation of the Troubled Asset Relief Program (TARP).

We are committed to preventing waste, fraud, and abuse in all TARP programs, including the Hardest Hit Fund. Since the inception of HHF, both Treasury and states participating in the program have employed procedures designed to ensure that HHF funds are spent responsibly, including in blight elimination programs. We described these procedures in our letter to you of June 15, 2016, which provided our official response to a draft version of the Report. In that letter, we also stated that we would carefully consider the recommendations outlined in the Report. With this letter, we provide Treasury's response to those recommendations.

Background

HHF was created in February 2010 to provide assistance to the District of Columbia and 18 states designated "hardest hit" because they had experienced the nation's steepest home price declines and most severe unemployment. All HHF programs are designed to prevent avoidable foreclosures and stabilize housing markets. However, not all HHF programs are identical. Rather, each state designs and administers its own HHF programs so that they can be tailored to meet the specific needs of that state's local housing markets. This ability of a state to innovate and tailor its programs to its needs is a hallmark of HHF.

Eight states participating in HHF—Michigan, Ohio, Indiana, Illinois, South Carolina, Alabama, Tennessee, and Mississippi—have introduced blight elimination programs as an effective way to prevent foreclosures and stabilize housing markets in their respective communities. Through these programs, nearly 14,600 blighted properties had already been removed as of September 30, 2016. These states have each designed their respective blight elimination programs to reflect the conditions of their local housing markets, the infrastructure in place, and the resources available to implement their objectives.

For example, some states have land banks that can conduct blight elimination activities, while other states must instead work with municipal entities, non-profit organizations, or other types of program partners to perform such activities. In all cases, contracts for demolition and other blight elimination activities must adhere to state and local laws. Such constraints affect how a program is designed, such as the varied characteristics of blighted properties that exist within a state. These variations can affect, for example, the cost of demolition and greening, the likelihood of required asbestos abatement, and the feasibility of different bidding practices. As we discussed in our June letter, states have employed different methods to ensure that costs of blight elimination activities funded through HHF are reasonable.

SIGTARP's Recommendations

Since providing you with our June letter, we have carefully reviewed and discussed SIGTARP's recommendations with numerous stakeholders, including each state that operates a blight elimination program under HHF. In addition, we have reviewed each state's blight elimination program guidelines and related materials to better understand how each program addresses the risks identified in the Report, in the context of their unique respective environments. Finally, we have reviewed Treasury's existing practices for evaluating the internal controls states are required to maintain for HHF programs, including blight elimination programs. We have taken and will continue to take actions to address SIGTARP's recommendations while preserving the states' ability to innovate and tailor their programs to their specific needs.

Treasury agrees with SIGTARP that blight elimination costs should only be reimbursed with HHF funds if such costs are necessary and reasonable, and we have reaffirmed this view in written guidance to the states. Treasury has issued guidance requiring states to document their methods for ensuring that HHF funds are only used for costs that are both necessary and reasonable for completing required blight elimination activities. Such methods may include, but are not limited to (i) ensuring that contracts for demolition and other blight elimination activities are awarded through full and open competition, consistent with practices required under federal, state or local laws, (ii) defining the nature and amount of eligible costs in program guidelines, based on a cost analysis performed by or on behalf of the Eligible Entity, and (iii) implementing procedures designed to ensure that program partners and their respective contractors comply with program requirements.

Treasury also agrees with SIGTARP that HHF should promote full and open competition—consistent with practices required under law—when contracting to perform blight elimination activities. Treasury has required states to document a policy for use of full and open competition in the awarding of contracts for demolition and other blight elimination activities funded through HHF, whether by program partners or otherwise.

In addition, Treasury agrees with SIGTARP that states should use best practices in these areas to help prevent waste, fraud, and abuse in programs that rely heavily on complex organizational structures. Treasury has enhanced its guidance to states regarding the internal controls that states must maintain for HHF programs. The guidance identifies key risks associated with state HHF programs, including blight elimination programs, and describes controls to mitigate such risks. Among other things, the revised guidance strengthens controls designed to detect and remediate inappropriate or illegal behavior, potential fraudulent activities, or conflicts of interest.

Finally, Treasury agrees with SIGTARP that oversight of blight elimination activities is an important component of efforts to verify that costs are necessary and reasonable. Treasury will evaluate states' compliance with the foregoing through its regular, on-site compliance reviews, and require states to take corrective action if deficiencies are noted.

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We thank SIGTARP for raising these important issues. We look forward to working with SIGTARP and its staff to maximize the efficacy of Treasury's programs and reduce the potential for waste, fraud, and abuse as we continue to wind down the Troubled Asset Relief Program. Please feel free to contact Treasury's Office of Financial Stability at (202) 622-4421 if you have any questions regarding this letter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark McArdle', written over a horizontal line.

Mark McArdle
Deputy Assistant Secretary for Financial Stability