



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

October 4, 2012

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

Re: Status Update on Recommendations in the SIGTARP Quarterly Report

Dear Ms. Romero:

This letter describes the actions taken by the U.S. Department of the Treasury (Treasury) in response to the outstanding recommendations since the Special Inspector General for the Troubled Asset Relief Program's (SIGTARP) *Quarterly Report to Congress*, dated July 25, 2012.

Treasury looks forward to the release of SIGTARP's sixteenth quarterly report on the Troubled Asset Relief Program (TARP) in October 2012. We request that you include the enclosed *Status Update on SIGTARP Recommendations* in that report. The enclosed status update outlines steps Treasury is taking to implement action plans that are responsive to SIGTARP's outstanding recommendations as well as the progress made in completing the action plans for each outstanding recommendation.

We appreciate the recommendations you have made as well as the constructive relationship we have with you and your team. We look forward to continuing to work together as we move forward.

Sincerely,

Timothy G. Massad

Enclosure

**The U.S. Department of the Treasury**  
**Status Update on SIGTARP's Outstanding Recommendations**

**October 4, 2012**

The U.S. Department of the Treasury (Treasury) welcomes the recommendations on the Troubled Asset Relief Program (TARP) from the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). This update serves as a status report on Treasury's response to SIGTARP's open recommendations.

Treasury has given careful consideration to all of SIGTARP's recommendations. Treasury's policies and programs currently address many of the issues you have raised, and in many cases Treasury has taken specific actions to implement your recommendations. When we determined that a recommendation would not help carry out Treasury's statutory duties under the Emergency Economic Stabilization Act (EESA), we developed alternative methods to address SIGTARP's underlying concerns and explained those methods in our summary responses to SIGTARP and to Congress.

Specific Recommendations from SIGTARP's Reports

***[Compliance]: Additional anti-fraud protections should be adopted in MHA to verify the identity of the participants in the transaction and to address the potential for servicers to steal from individuals by receiving Government subsidies without applying them for the benefit of the homeowner.***

Making Home Affordable-Compliance (MHA-C), which acts as Treasury's compliance agent for the Making Home Affordable Program (MHA), has developed and implemented procedures to verify that incentives paid to servicers are accurately applied to the respective homeowner participating in MHA during its servicer compliance reviews. MHA-C selects and reviews modified mortgage loans and assesses the servicers' controls and processes for appropriately applying such homeowners' reduction in principal. MHA-C also reviews investor payments remitted to servicers to verify that servicers are not retaining these incentives. Treasury believes this current process is sufficient to mitigate the risk of servicer misappropriation of homeowner subsidies.

Additionally, Treasury has undertaken a pilot program to verify owner-occupancy and identity, as described in our October 7, 2010 status update. Working with MHA-C, Treasury has identified a vendor that will assist in gathering borrower information used to confirm the borrower's identity and owner occupancy. The vendor will also collect information needed to verify the accuracy of the individual's Dodd-Frank Certification. Treasury has released Supplemental Directive 12-04 that provides additional guidance to servicers for compliance with the requirements of Dodd-Frank, as well as MHA requirements related to borrower identity and owner-occupancy, as applicable, for non-GSE mortgages. The Supplemental Directive became effective September 30, 2012. Treasury will be going to full implementation of its program to verify owner-occupancy, borrower identity and Dodd-Frank certifications, in accordance with the

terms of the Supplemental Directive. Treasury expects to complete its implementation in the coming months.

***[PPIP]: Treasury should have appropriate metrics defined and an evaluation should be in place to monitor the effectiveness of the PPIF managers, both to ensure that they are fulfilling the terms of their agreements and to measure their performance against pre-established benchmarks and against each other.***

Treasury's fund advisor, Hewitt EnnisKnupp, Inc., along with its subcontractor Moody's Analytics have assisted Treasury in developing appropriate risk and performance metrics for the PPIP program and for the individual PPIFs. As a result, Treasury has substantially implemented this recommendation and provided SIGTARP with relevant reports related to the implementation of this recommendation in April 2012 and will continue to do so going forward.

***[Contracting]: OFS should review previously paid legal fee bills to identify unreasonable or unallowable charges, and seek reimbursement for those charges, as appropriate.***

Treasury has taken steps to implement the recommendations noted in the Venable report. For example, we reviewed the "best practices" identified in the Interim Report, including the local rules of court established by the Delaware Bankruptcy Court and the FDIC's Outside Counsel Deskbook, and have distributed guidance to all law firms currently under contract requiring them to provide additional details in their invoices. Treasury also provided instructions and training to COTRs and staff responsible for the review of these invoices. The guidance, instruction and training material were all incorporated into our policies and procedures entitled, Inspection, Acceptance and Invoice Certification Procedures which was finalized on October 27, 2011, and which has been provided to SIGTARP in previous quarters. With regard to the recommendations made in your Final Audit Report on Legal Fees Paid Under the Troubled Asset Relief Program, OFS contacted the legal counsel for the Office of Treasury Procurement Services (OTPS) for its guidance on the Venable contract. OTPS's legal counsel noted that SIGTARP's audit report relied on the incorrect provision of the Federal Acquisition Regulations (FAR), and that under the correct provision of the FAR Treasury did not have the authority to seek reimbursements at this time. Delivered to you in hard copy, please find some additional information Venable provided regarding some of its invoices. This information reinforces what Treasury has previously said—that we were in frequent communication with our outside counsel, that we closely monitored their work, and that we were well positioned to evaluate the quality and value of that work. The taxpayers did receive good value.

***[Housing] Treasury should publicly assess the top 10 MHA servicers' program performance against acceptable performance benchmarks in the areas of: the length of time it takes for trial modifications to be converted into permanent modifications, the conversion rate for trial modifications into permanent modifications, the length of time it takes to resolve escalated homeowner complaints, and the percentage of required modification status reports that are missing.***

Treasury established specific obligations and benchmarks for key MHA Program requirements and performance metrics throughout the MHA Program. Servicer performance data on trial duration, conversion rates for permanent modifications, complaint escalation resolution time and OMR reporting are currently published in the monthly MHA Servicer Performance Report. In June 2011, Treasury began publishing more detailed results of servicer performance for the largest MHA servicers (measured by MHA activity) in the MHA Servicer Assessments. Servicers are reassessed on a quarterly basis, with results published in subsequent reports. Treasury continues to review the universe of benchmarks used in these quarterly Servicer Assessments, and will continue to develop and improve the process where appropriate.

***[Compliance] Treasury should protect borrower personally identifiable information ("PII") and other sensitive borrower information compiled for the Hardest Hit Fund ("HHF") by: (1) requiring that within 90 days, all Housing Finance Agencies (and their contractors) ("HFAs") participating in HHF develop and implement effective policies and procedures to ensure protection against unauthorized access, use and disposition of PII and other sensitive borrower information; (2) Treasury reviewing each HFA's policies and procedures to determine if they are effective, and taking such action as is required to ensure effectiveness; (3) requiring that all parties granted access to borrower information should be made aware of restrictions on copying and disclosing this information; (4) requiring annual certifications by HFAs to Treasury that [sic] they are in compliance with all applicable laws, policies and procedures pertaining to borrower information; and (5) requiring that HFAs promptly notify Treasury and SIGTARP within 24 hours, when a breach of security has occurred involving borrower information.***

Treasury provided a separate response to SIGTARP in a letter dated May 1, 2012.