DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 27, 2016

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

RE: Treasury Response to SIGTARP's Quarterly Report

Dear Ms. Romero:

I write regarding your July 27, 2016 Quarterly Report to Congress (Report). Treasury welcomes oversight of the Troubled Asset Relief Program (TARP), and we appreciate the work you do in that regard. Your most recent Report contains a section on the Treasury's Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund or HHF). This letter responds to that section of the Report.

I. Treasury Has Worked Continuously With HFAs to Promote the Effective and Expeditious Use of HHF Funds.

The Hardest Hit Fund was established in 2010 to prevent foreclosure and stabilize housing markets in states hit hardest by the financial crisis. At that time, Treasury committed $7.6 billion to state housing finance agencies (HFAs) in 18 states and the District of Columbia, which had experienced the nation's steepest home price declines and most severe unemployment. Since then, the HFAs have developed and implemented 80 distinct programs under HHF, each tailored to the unique needs of its communities. To date, these programs have collectively assisted over 256,000 homeowners and enabled the removal of more than 11,000 blighted properties.[1]

From the outset of the program, Treasury has worked continuously with the HFAs to improve the reach and effectiveness of their programs, and to adapt programs to the conditions of an ever-changing housing market. At the height of the crisis, HHF programs consisted largely of mortgage assistance and reinstatement programs targeted to unemployed homeowners. Since then, several states have expanded program eligibility to include other hardships, such as medical conditions, disability, death, and divorce. In addition, HFAs introduced other types of programs designed to prevent foreclosure and help stabilize local housing markets through a variety of

[1] As of March 31, 2016, HFAs have disbursed approximately $5.6 billion (or 74 percent) of the original $7.6 billion in support of HHF programs. However, this figure does not include funds committed by HFAs—but not yet disbursed—for existing transactions.

measures such as principal reduction, property tax reinstatement, short sale/transition assistance, reverse mortgage assistance, blight elimination, and down payment assistance.[2]

Recognizing the accomplishments of the Hardest Hit Fund—and the ongoing need for foreclosure prevention in HHF states—Congress authorized Treasury in December 2015 to commit an additional $2 billion to the HFAs already participating in HHF. Treasury acted swiftly to allocate the additional funding among HFAs in a manner that considered each HFA's past performance, ongoing need for foreclosure prevention, and ability to utilize additional funds effectively and efficiently. In addition, the funds were allocated subject to a "use-or-lose" requirement: funds that are not utilized by HFAs in a timely fashion will be periodically reallocated to other HFAs that meet defined utilization criteria.[3] We believe these efforts underscore Treasury's commitment to assist homeowners expeditiously and hold HFAs accountable for their performance under HHF.

II. Factors to Consider When Analyzing HFA Performance.

The Report characterizes a number of states as low-performing based on "admission rates" and "wait times" for HHF programs. However, these measures—when standing alone—may not be meaningful indicators of an HFA's performance.[4] We have summarized below certain factors, which we believe should be carefully considered in that regard.

First, the Report calculates the state admission rate as the number of homeowners receiving assistance as a percentage of homeowners who have applied for assistance. This calculation, however, does not account for several important factors that could affect both the rate at which applicants are approved for assistance, and differences in approval rates between HFAs. Such factors include, for example: whether applicants have satisfied the eligibility and documentation requirements established by the HFA; differences in such requirements among HFAs; differences in programs offered by HFAs; and differences in the rates at which ineligible homeowners apply for assistance in each state. In addition, HFAs have different definitions of what constitutes an application for purposes of reporting HHF data.

Second, the average length of the application process can vary significantly among states, based on their respective programs, eligibility criteria, documentation requirements, and reporting conventions. For example, HFAs calculate the length of the application process differently when homeowners apply for assistance on more than one occasion. In addition, HFAs often reach out to homeowners whose applications are incomplete and encourage them to complete their

---

[2] For the reasons set forth in this paragraph, we disagree with the Report's characterization of HHF as "primarily an unemployment assistance program." P. 97.

[3] More information concerning the most recent round of HHF funding can be found at: https://www.financialstability.gov.

[4] The Report refers to "low HHF performance" in states like Michigan and Ohio, each of which fully committed its original funding for direct borrower assistance. P. 86. The Report also refers to "low HHF performance" in California, although the state has disbursed $1.3 billion—75% of its original HHF allocation—and assisted more homeowners than any other state in HHF. P. 86.

applications. Depending on how quickly the homeowner responds, this can add considerable time to the period reported by the HFA.

In sum, the issues described above limit the comparability of admission rates and other measures between HFAs, as well as the conclusions that can be drawn from those measures. Moreover, while programmatic eligibility criteria and documentation requirements can affect admission rates and wait times, they are also important safeguards against fraud, waste, and abuse. Treasury reviews the eligibility criteria and key documentation standards proposed by the HFAs with that in mind, while balancing the desire to maximize participation among homeowners in need of assistance and implement an efficient process.

III. Treasury Closely Monitors HFA Performance Under HHF.

The Report discusses certain states that have not assisted as many homeowners as others. We understand and appreciate the concerns noted in the Report. Treasury closely monitors each HFA's performance and works continuously to help them identify and address areas of concern. These efforts include: analyzing financial and other data concerning the HFA's performance; conducting on-site reviews to evaluate each HFA's compliance with program requirements; engaging in ongoing dialogues with HFAs through in-person meetings and regularly scheduled calls; and hosting annual summits where HFAs can meet and share best practices. In addition, when an HFA does not make sufficient progress in its implementation of HHF, Treasury provides the HFA with a detailed performance analysis and requires the HFA to address underlying deficiencies. We also make information concerning HFA performance available to the public. We will continue to assist HFAs in exploring program changes and other actions to better serve homeowners in their communities.

In addition, Treasury is committed to ensuring that homeowners in need of assistance are treated fairly, and that HFAs are applying eligibility criteria and other requirements consistently across all applicants. For example, through its on-site compliance reviews, Treasury tests the HFA's underwriting activities to verify that applicants are evaluated based on the applicable eligibility criteria. Treasury also performs testing of homeowners denied for assistance to determine the appropriateness of the denial.

* * *

In closing, Treasury is committed to improving housing programs funded through TARP, and we appreciate SIGTARP's input in that regard. We look forward to continuing to work with you on the Hardest Hit Fund programs. Please contact me if you would like to discuss this issue further.

Sincerely,

Mark McArdle
Deputy Assistant Secretary
Office of Financial Stability