



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

January 7, 2013

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 October 25, 2012.

Treasury looks forward to the release of SIGTARP's seventeenth quarterly report on the Troubled Asset Relief Program (TARP) in January 2013. We request that you include the enclosed *Status Update on SIGTARP Recommendations* in that report. We note that SIGTARP has declined to publish some of our recent letters responding to SIGTARP recommendations or noting errors in SIGTARP's quarterly reports. 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

January 7, 2013

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. This process mitigates the risk of servicer misappropriation of homeowner subsidies.

Additionally, Treasury undertook a pilot program to verify owner-occupancy and identity, as described in our October 7, 2010 status update. Working with MHA-C, Treasury identified a vendor that was able to assist in gathering borrower information used to confirm the borrower's identity and owner occupancy. The vendor was also able to 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, and Treasury subsequently implemented its program to verify

owner-occupancy, borrower identity and Dodd-Frank certifications, in accordance with the terms of the directive. Treasury considers this recommendation closed.

[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. Treasury considers this recommendation closed.

[CPP] In order to fulfill Treasury's responsibility to wind down its TARP Capital Purchase Program investments in a way that protects taxpayer interests, before allowing a TARP bank to purchase Treasury's TARP shares at a discount to the TARP investment (for example as the successful bidder at auction), Treasury should undertake an analysis, in consultation with Federal banking regulators, to determine that allowing the bank to redeem its TARP shares at a discount to the TARP investment outweighs the risk that the bank will not repay the full TARP investment. Treasury should document that analysis and consultation.

Treasury appreciates SIGTARP's recommendations regarding the wind down process for the Capital Purchase Program and is continuing to review them. We would note at this time that our strategy for winding down the program was developed after extensive analysis and consultation with Federal banking regulators, and we continue to communicate with regulators as we develop the next steps in the process. We consider on a regular basis whether banks that remain in the program are likely to repay the respective investments in the near future or whether it is preferable to sell any particular investment. In addition, no bank can bid to purchase its shares if its federal banking regulator objects, and a bank will succeed only if its bid is the highest in an open, competitive auction. We remain committed to balancing the need to wind down the program in a timely manner with maximizing value for the taxpayers.

[CPP] In order to fulfill Treasury's responsibility to wind down its TARP investments in a way that promotes financial stability and preserves the strength of our nation's community banks, Treasury should undertake an analysis in consultation with Federal banking regulators that ensures that it is exiting its Capital Purchase Program investments in a way that satisfies the goals of CPP, which are to promote financial stability, maintain confidence in the financial system and enable lending. This financial stability analysis of a bank's exit from TARP should determine at a minimum: (1) that the bank will remain healthy and viable in the event of an auction of Treasury's preferred shares; and (2) that the bank's exit from TARP does not have a negative impact on the banking industry at a community, state, regional, and national level. Treasury should document that analysis and consultation.

Treasury appreciates SIGTARP's recommendations concerning the CPP wind down process and is continuing to review them. As noted above, our strategy was developed in consultation with the Federal banking regulators, and we believe it serves the various objectives we must consider and balance. While we believe it addresses the concerns you raise, we are always willing to examine our practices and refine them where appropriate. We will be happy to share more detailed thoughts regarding your suggestions at a later time.

[CPP] Treasury should better document its decision whether or not to auction its preferred shares in a TARP bank to adequately reflect the considerations made for each bank and detailed rationale.

We share your belief that adequate documentation of decisions is important. While we believe our practices are strong in this regard and address your concerns, we are nevertheless reviewing them in light of your recommendation.