DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 27, 2017

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

RE: Treasury Response to SIGTARP's Quarterly Report

Dear Ms. Romero:

I write in response to your July 27, 2017 Quarterly Report to Congress (Report), and in particular, the section discussing certain changes made under Treasury's Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (the Hardest Hit Fund or HHF). Treasury welcomes oversight of the Troubled Asset Relief Program (TARP), and we appreciate the work your office does in that regard. Treasury shares your commitment to preventing fraud, waste and abuse in TARP programs, and we write to clarify certain information included in the Report.

As you know, HHF is a $9.6 billion program, created in February 2010 to prevent foreclosure and stabilize housing markets in 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. HHF provides the greatest possible flexibility to each state to design and administer its own HHF programs in order 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.

Treasury continuously works with the states to identify ways to improve the reach and effectiveness of their HHF programs. This has included, for example, expanding eligibility criteria to reach a larger pool of struggling homeowners; streamlining operations so that homeowners can be assisted more expediently; and finding innovative—or new—measures to address specific conditions slowing a community's recovery from the housing crisis. State housing finance agencies and certain affiliated entities (collectively, states) currently operate 88 distinct programs under HHF, including, for example, programs that provide mortgage payment assistance, principal reduction, and down payment assistance to homeowners, as well as programs that seek to prevent foreclosure and stabilize housing markets through blight elimination. As of March 31, 2017, HHF has already assisted more than 305,000 homeowners and helped to remove more than 17,000 blighted properties.

Throughout this process, Treasury remains committed to facilitating oversight and transparency into its administration of the Hardest Hit Fund, by both the general public and Treasury's oversight bodies. We publicly post all changes to HHF contracts on Treasury's website. We also disclose to SIGTARP, in real time, detailed descriptions of all such changes, and we provide additional information when requested. In addition, we report key changes to HHF programs in monthly reports submitted to Congress, and we disclose those changes in Treasury's Quarterly Hardest Hit Fund Performance Summary. Both of these reports are made available to the public on Treasury's website.[1] We also note that changes to state HHF programs are disclosed by the state, either on their websites or through direct communications to their partners.

The Report discusses two changes that affect HHF. The first of these changes relates to how a participating state may use funds recovered from recipients of HHF assistance after the close of the state's HHF programs (which the Report refers to as "post-program recoveries"); this change applies uniformly to all programs funded through HHF. The second relates to the expansion of Ohio's Neighborhood Initiative Program (NIP), to allow for removal of multi-family properties that are a blight to Ohio's communities; this change only applies to Ohio's NIP program. We address below the areas of the Report that discuss these changes.

I. Post-Program Recoveries

In early 2016, Treasury changed the way states in HHF treat "post-program recoveries." By way of background, in the case of most HHF programs, assistance is disbursed in the form of a loan from the state to the homeowner, secured by a lien on the homeowner's property. These loans are forgiven over a term (which can vary from three to 30 years, depending on the state). In general, if a homeowner transfers the property (*e.g.*, by sale or cash-out refinance) before the term of the loan ends, the homeowner is required to repay to the state the *unforgiven* portion of the loan to the extent the transfer produces sufficient cash proceeds to do so. This structure helps to target assistance to struggling homeowners who intend to remain in their homes. Repayments by homeowners assisted under HHF account for more than 99 percent of all funds recovered by states to date.

In the case of HHF blight elimination programs (like Ohio's NIP program), HHF funds are disbursed to the state's blight partner (*e.g*., a city or county land bank) in the form of a loan secured by a lien on the property. These loans are forgiven over a three- or five-year term.As with homeowner assistance programs, blight partners are also required to repay the unforgiven portion of the loan to the extent they receive sufficient cash proceeds from a transfer to do so. This structure provides for greening and maintenance of the land following the demolition of the blighted structure, and for the expeditious return of the land to a productive use after the demolition occurs. HHF blight elimination programs have generated minimal recoveries to date.

For so long as a state is operating programs under HHF, Treasury requires that any funds recovered by the state are placed back into the state's own HHF programs, so that they may help additional homeowners and stabilize neighborhoods in that state. Recovered funds that remain unspent at the conclusion of the state's HHF programs will be returned to Treasury. As noted in the Report, this structure is an important protection against waste, fraud, and abuse.

Initially, Treasury also required states to remit to Treasury any funds recovered after the originally scheduled close of HHF in 2017, a date that has since been extended. After the passage of the Consolidated Appropriations Act, 2016—which authorized Treasury to obligate

[1] https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/hhf/Pages/default.aspx

an additional $2 billion to HHF—Treasury amended its contracts with states to provide the additional funding and allow states to make disbursements for HHF through December 31, 2021. At that time, Treasury also evaluated whether to retain the remittance requirement, in light of the fact that recoveries could continue for up to thirty years after HHF's extended term ends. For example, both Treasury and the states would have to maintain infrastructure—*e.g.*, staff, information systems, and office space—to process such recoveries, as well as monitor states' compliance with the remittance requirement. Treasury ultimately decided to eliminate that requirement, based in part on the minimal amount of recoveries estimated to occur in the years following the program's close, as well as the administrative burdens remittance would create for both Treasury and the states.

The Report notes, among other things, that post-program recoveries could ultimately be more than Treasury estimated, in light of recent increases in recoveries, potential changes to state HHF programs associated with the additional funding provided last year, and differences among the terms of state HHF programs. We agree. The estimate relied upon by Treasury used the most current data available at the time the decision was made. However, as we noted at the time of the decision, the ultimate timing and amount of recoveries will depend on a variety of factors that cannot be predicted. These include, for example, gains or declines in home prices, employment rate fluctuations, and other economic and programmatic factors. Notably, these factors may also have the potential to *decrease* post-program recoveries.

Moreover, even if the factors identified in the Report increase recoveries over time, it is not clear from the information included in the Report the extent to which such factors will increase recoveries *after* the close of HHF programs. Put another way, if the increases projected by SIGTARP occur *prior to* the close of HHF programs, such recoveries will be returned to Treasury if not expended under HHF. Further, any increase occurring after HHF programs end may ultimately be marginal. For example, the Report suggests that increased funding of HHF blight elimination programs may have the effect of increasing post-program recoveries. Considering that HHF blight elimination programs account for less than 0.05 percent of recoveries to date, we question whether any such increase would be significant.

II. Inclusion of Multi-Family Properties in Ohio's NIP Program

The Report also discusses a recent enhancement to Ohio's NIP program. By way of background, HHF does not have one uniform "HHF blight elimination subprogram." Currently, eight states participating in HHF—Michigan, Ohio, Indiana, Illinois, South Carolina, Alabama, Tennessee, and Mississippi—have introduced blight elimination in their respective states. 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.

Treasury has taken significant steps to ensure that taxpayer funds are used responsibly in HHF blight elimination programs, and only for their intended purpose. Each state's blight elimination program has been designed so that HHF funds are expended only after the work has been completed and invoiced, and the state has confirmed that the costs are eligible for reimbursement. Moreover, states are required to implement controls to ensure that blight elimination costs are both reasonable and necessary. Treasury evaluates the effectiveness of these controls through regular on-site compliance reviews. As you noted in your April 2017 Quarterly Report to Congress, Treasury has implemented SIGTARP recommendations for HHF blight elimination programs that “have the potential to save up to $161 million for the federal government.”

Treasury recently approved Ohio’s request to begin using HHF funds to eliminate blighted, multi-family properties (with five or more units), in addition to single family properties (with one to four units). Treasury approved the request following extensive communications with Ohio and internal review of the risks and benefits of the proposal. Treasury noted that Ohio’s program has yielded positive results in the past, with one recent study finding that foreclosure rates were significantly decreased in markets where demolition occurred.[2] The state also submitted data supporting the increased costs associated with removing larger multifamily structures, and measures designed to control those costs. These measures include requiring full and open competition for awarding contracts for blight elimination activities, periodic reviews of the types and amounts of expenses eligible for reimbursement, and Ohio’s audit of all reimbursement requests funded through HHF to confirm compliance with applicable requirements. Treasury will continue to monitor the results of Ohio’s program and to assess Ohio’s compliance with HHF program requirements.

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Even as TARP nears its end, we remain committed to improving our housing programs. We look forward to continuing to work with you as we wind down TARP.

Sincerely,

Lorenzo Rasetti
Chief Financial Officer
Office of Financial Stability

[2] Dynamo Metrics, *Estimating Demolition Impacts in Ohio: Mid-Program Analysis of Ohio Housing Finance Agency Neighborhood Initiative Program Report Brief* (June 23, 2016), available at: http://ohiohome.org/savethedream/documents/BlightReport-NIP.pdf.