DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

April 26, 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 regarding your April 26, 2017 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. The Report contains a section on blight elimination being funded under Treasury's Housing Finance Agency (HFA) Innovation Fund for the Hardest Hit Housing Markets (the Hardest Hit Fund or HHF). This letter responds to that section of the Report.

HHF was 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. 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.

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 states. Through these programs, more than 16,000 blighted structures have already been removed as of December 31, 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.

I. Treasury and the HFAs Protect Taxpayer Funds in HHF Blight Elimination Programs.

Treasury believes that the responsible use of taxpayer funds is essential, and has required states to maintain internal control systems to accomplish that mission. Each state's blight elimination program has been designed so that no HHF funds are expended for blight elimination until after the work has been completed, invoiced, and the state has confirmed that the costs are eligible for reimbursement. As you note in the Report, Treasury has required that each state only use HHF funds to reimburse blight elimination costs which are necessary and reasonable. Each state has taken steps to implement this requirement, including the use of a competitive process for awarding blight elimination contracts.

In order to verify that the states are properly executing these requirements, Treasury has tailored its compliance approach to address the specific risks of blight elimination programs. Treasury regularly conducts on-site compliance reviews of states' HHF programs. These on-site reviews include internal control assessments and evaluations of the states' processes to administer their HHF blight elimination programs. Treasury verifies, on a sample basis, that the properties selected for demolition satisfy the states' eligibility criteria, the states' processes are being followed, and documentation supports the states' disbursement of HHF funds.

II. Treasury's Data Indicates That The Increase in HHF Demolition Costs Is Significantly Less Than That Cited in the Report.

Treasury closely monitors demolition costs funded through HHF. While those costs have fluctuated over time, the cumulative increase in HHF demolition costs is significantly less than that cited in the Report. According to data reported to Treasury, the median cost of demolition funded through Michigan's Hardest Hit Fund program has increased from $9,440 per property in the fourth quarter of 2014 to $10,861 per property in the fourth quarter of 2016, an increase of 15% over two years. As you can also see in the attached graph (Figure 1), costs rose over the first few quarters of production, and varied from quarter to quarter until leveling off in the third quarter of 2016. In Ohio, the median cost of demolition funded through HHF has increased from $8,195 in the fourth quarter of 2014 to $8,600 in the fourth quarter of 2016, an increase of 5% over two years. As you can see in Figure 2, our data shows that costs in Ohio have fluctuated over time, but are slightly lower than the earliest stages of the program. We will continue to monitor these trends closely as part of our efforts towards ensuring that costs funded through HHF are necessary and reasonable.

The description above is based on the median demolition costs per property, rather than the mean demolition costs per property. Treasury has consistently, in both HHF and the Making Home Affordable program, monitored trends by tracking medians. Treasury monitors median demolition costs, both quarter over quarter (QoQ) and program-to-date (PTD). We have found that this calculation is more useful than tracking the mean, which is often skewed by outliers. For example, properties with high levels of asbestos are significantly more expensive to demolish than other properties. Even a small number of outlier properties could significantly increase the mean cost of demolition, but would generally have a less disproportionate impact on the median. In addition, the conclusions which can be drawn from costs during the earliest stages of blight elimination programs are limited. Volume in these early stages is low, and the properties initially included in the program may not be representative of the larger population. Therefore, Treasury has found it more useful to focus on program-to-date trending.

III. HHF Blight Elimination Costs Can Vary For A Number of Reasons.

As SIGTARP examines cost variations in HHF blight elimination programs, several factors contributing to these cost variations should be noted. First and foremost, costs vary based on economies of scale, the geographic location of blighted properties demolished in any given period, the size and complexity of the structures removed, and the presence of asbestos. Additional factors could particularly differ by region and/or locality, such as the labor market. For example, the availability of skilled workers and the strength of the local economy impact labor costs. Further, seasonal factors may have an impact on costs of certain blight elimination activities, such as backfill, seeding, and other aspects of post-demolition greening. If, as a result of your work, SIGTARP finds additional factors that are contributing to increased costs for

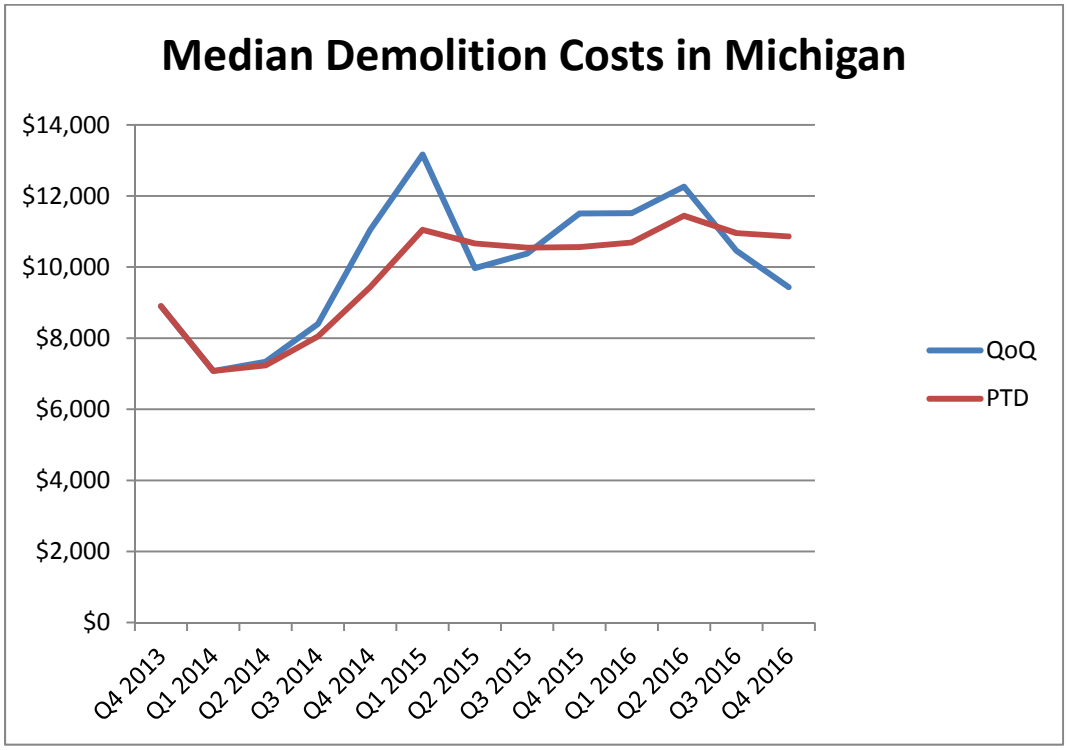
blight elimination, we look forward to your recommendations for how such factors could be addressed in order to further protect taxpayer funds.

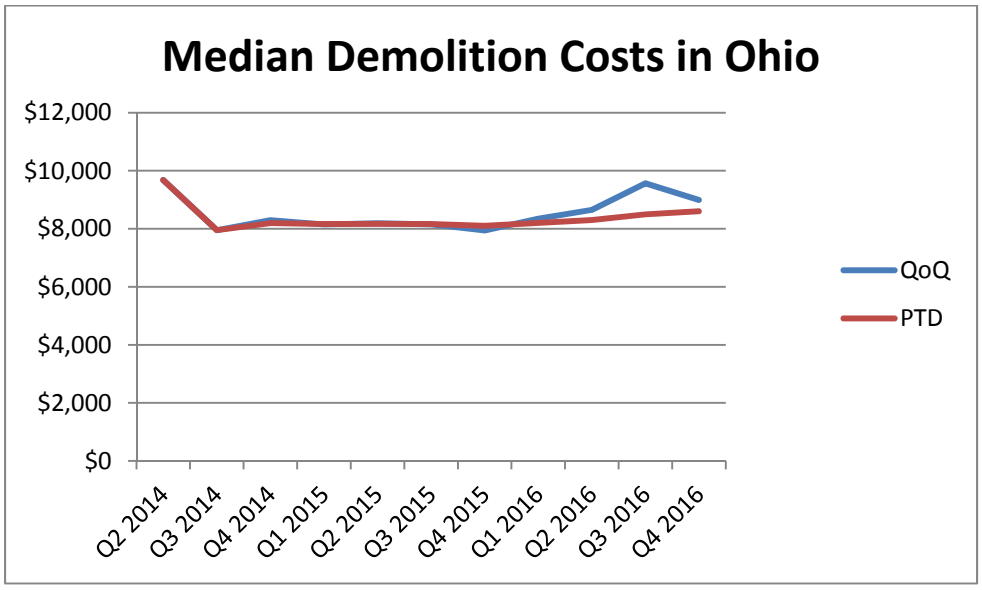
* * *

We are always working to improve our housing programs, and we appreciate SIGTARP's input in that regard. We look forward to continuing to work with you on our HHF programs.

Sincerely,

Lorenzo Rasetti
Chief Financial Officer
Office of Financial Stability


Median Demolition Costs in Michigan
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
Q4 2013
Q1 2014
Q2 2014
Q3 2014
Q4 2014
Q1 2015
Q2 2015
Q3 2015
Q4 2015
Q1 2016
Q2 2016
Q3 2016
Q4 2016
QoQ
PTD


Median Demolition Costs in Ohio
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
Q2 2014
Q3 2014
Q4 2014
Q1 2015
Q2 2015
Q3 2015
Q4 2015
Q1 2016
Q2 2016
Q3 2016
Q4 2016
QoQ
PTD