DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

April 19, 2017

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

Dear Ms. Romero:

I write in response to the Special Inspector General for the Troubled Asset Relief Program's (SIGTARP) audit report (Report) of January 11, 2017, concerning denials of assistance under the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (the Hardest Hit Fund or HHF). Treasury values SIGTARP's work and appreciates the observations and recommendations SIGTARP makes regarding the operation of the Troubled Asset Relief Program (TARP).

We are committed to using the funds allocated by Congress to prevent avoidable foreclosures in HHF jurisdictions, while also preventing fraud, waste, and abuse. Since the inception of HHF, both Treasury and states participating in the program have employed procedures designed to provide HHF funds to homeowners in need of assistance while still safeguarding taxpayer funds. We described these procedures to you in our letter dated December 22, 2016, in which we responded to a draft version of the Report. In that letter, we also stated that we would carefully consider the recommendations outlined in the Report. With this letter, we provide Treasury's response to those recommendations.

Background

HHF is one of the housing programs created under TARP pursuant to the Emergency Economic Stabilization Act of 2008 (EESA). HHF was created in February 2010 to provide assistance to the District of Columbia and 18 states designated as "hardest hit" because they had experienced the nation's steepest home price declines and most severe unemployment.

HHF is designed to prevent avoidable foreclosures and stabilize housing markets, in keeping with EESA's purposes of protecting home values and preserving homeownership. HHF provides the greatest possible flexibility to eligible state housing finance agencies to design programs that are responsive to the needs of their specific states. Individual HFAs create, administer, and monitor their own HHF programs, subject to requirements set forth in their contracts with Treasury. The HFAs currently operate 88 distinct programs under HHF, each with different objectives, processes, and requirements, but all with the overarching goal of preventing avoidable foreclosures and stabilizing housing markets.

In the seven years since HHF's inception, the program has delivered meaningful results to these states and their residents. As of December 31, 2016, HHF programs had disbursed nearly $6.5 billion for HHF program activities and related administrative expenses to provide assistance to more than 290,000 homeowners and remove over 16,000 blighted structures. Historical trends have shown that approximately 80 percent of homeowners approved for HHF programs have received assistance due to a hardship related to either unemployment or underemployment. Historical trends have also shown that more than 80 percent of borrowers who have received assistance through HHF have an income of less than $50,000 per year.

SIGTARP's Recommendations

Since providing you with our December letter, we have carefully reviewed SIGTARP's recommendations and assessed the HHF programs operated by the HFAs.

Treasury agrees with SIGTARP that HFAs should not impose unnecessary program criteria that would prevent low-income homeowners from receiving HHF assistance. The HFAs formulate their programs and eligibility criteria based on the specific conditions in their state and in accordance with the needs of their residents. Because economic circumstances differ from state to state, a uniform set of eligibility criteria would be contrary to the design and intent of HHF. Further, uniform eligibility criteria would result in overly restrictive standards in some states and overly permissive standards in others. To date, HFAs have exercised the flexibility inherent in the design of HHF to make 258 amendments to their contracts with Treasury, in order to expand eligibility criteria, create new programs, and otherwise improve the reach and effectiveness of their programs. Since SIGTARP's report was issued, three states have expanded the eligibility criteria under their existing HHF programs or created new programs.

Treasury also agrees with SIGTARP that struggling homeowners should not be required to miss a mortgage payment in order to receive HHF assistance. Many homeowners who are current on their mortgage are nonetheless at risk of default due to unemployment, unexpected medical bills or other financial hardships. Accordingly, the overwhelming majority of HHF programs operated by every HFA have not required mortgage delinquency. The few programs that have required mortgage delinquency have been those designed to specifically target delinquent homeowners. Many homeowners, including those facing current or future unemployment, have received HHF assistance while remaining current on their mortgage.

Finally, Treasury agrees with SIGTARP that state agencies should be required to keep detailed records on why HHF applicants are denied assistance. For this reason, pursuant to the contracts between Treasury and state HFAs, each HFA is required to retain all data and other records related to their HHF-funded programs. The Office of Financial Stability (OFS) conducts regular on-site compliance reviews of each HFA. During these reviews, OFS's compliance team uses the data and records retained by the HFA to test, on a sample basis, denials of assistance by the HFA. This testing includes reviewing the reason(s) for a denial and testing whether the denial was supported by appropriate documentation in order to verify that the correct decision was rendered.

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We thank SIGTARP for raising these important issues. We look forward to working with SIGTARP and its staff to maximize the efficacy of Treasury's programs and reduce the potential for waste, fraud, and abuse as we continue to wind down TARP.

Sincerely,

Lorenzo Rasetti

Lorenzo Rasetti
Chief Financial Officer
Office of Financial Stability