DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 13, 2018

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

Re: Audit Report Relating to HHF Procurement Practices

Dear Ms. Romero:

I write in response to the March 8, 2018 Interim Audit Report (Report) from the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) concerning competition requirements in HHF procurement. On March 1, 2018, we provided an official response to the draft version of the Report, in which we stated our intention to consider carefully the Report's recommendation. With this letter, we provide an update on Treasury's efforts to respond to SIGTARP's recommendation.

Treasury established the Hardest Hit Fund (HHF) in February 2010, as an emergency program to help prevent foreclosure and stabilize housing markets in areas hardest hit by the housing crisis. HHF leverages the existing infrastructure of state housing finance agencies (HFAs), including people, information systems, and organizational processes such as procurement practices. Treasury has committed $9.6 billion under contracts with HFAs (along with, in some instances, related non-profit corporations) in 18 states and the District of Columbia. Approximately 90 percent of HHF funding is used to assist struggling homeowners directly—*e.g.*, payments toward their monthly mortgage obligations—or to demolish blighted homes. HFAs use the remainder to cover the administrative costs they incur to operate the program.

Since the inception of HHF, the HFAs have created 92 different programs to address the unique needs of their states. Such programs now include, 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 June 30, 2018, HHF programs have assisted nearly 370,000 homeowners and removed more than 27,000 blighted properties.

The HHF program is nearly concluded. Of the $9.6 billion allocated to the program, the states have drawn approximately $9.0 billion (94.2 percent) as of August 31, 2018, and disbursed $8.4 billion (87 percent) as of June 30, 2018. Many of the states currently operating HHF programs have already closed or expect to close their largest programs this year. Accordingly, the orderly wind-down of the HHF program is an important focus of both Treasury and the states.

SIGTARP's Recommendation Regarding Procurement Practices

While SIGTARP acknowledges that HHF is not a grant program, it recommends that Treasury impose additional requirements on the states by adopting the same procurement requirements that apply to grant programs. In particular, SIGTARP recommends that Treasury apply Subpart D of 2 C.F.R. part 200 to the HHF program. These regulations, promulgated by the Office of Management and Budget (OMB), include a requirement that state agencies that receive federal grant funds follow the same policies for procurement using such funds as the state uses for procurements from its non-federal funds.[1] Here, the HFAs are state agencies that already use their own policies to conduct procurements with HHF funds. Accordingly, adopting SIGTARP's recommendation would have no impact upon procurements by state HFAs.

SIGTARP notes that, in seven states, the respective HFAs have designated a non-profit corporation to administer certain aspects of their HHF programs, including procurements. In response to SIGTARP's recommendation, Treasury has investigated procurement practices in each of these states. Treasury has determined that, in most such states, the non-profit corporation follows the same or similar procedures as the HFA; that is, the state policies that OMB has determined should apply to federal grant funds distributed to state agencies as set forth in 2 C.F.R. part 200, Subpart D.

Treasury has identified only two states where the non-profit corporation's procurement procedures differ from that of the state HFA. In each case, the corporation's procedures provide that its board of directors, which include representatives from the HFA, should review contracts above a certain threshold. In each case, the amount of goods and services procured with HHF funds to date is less than one-third of the state's HHF administrative budget. Both states have also confirmed that, as the HHF program nears its end, they do not foresee an increase in procurements. Treasury therefore believes that existing HHF program requirements are consistent with the requirements set forth in 2 C.F.R. part 200, Subpart D.

Although not part of any recommendation, Treasury agrees with SIGTARP that the HFAs and applicable non-profit corporations should adhere to their respective policies and procedures when procuring HHF-funded contracts. Treasury will incorporate an evaluation of internal controls in this area as part of its regular compliance reviews.

Even as the HHF program nears its end and we focus on the orderly wind down of TARP, we remain committed to taking appropriate actions to improve program performance and protect the interests of taxpayers.

Sincerely,

Lorenzo Rasetti

Lorenzo Rasetti
Chief Financial Officer
Office of Financial Stability

[1] 2 C.F.R. § 200.317