DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 23, 2018

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 October 13, 2017 Audit Report (Report) from the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) concerning the management of the Housing Finance Agency Innovation Fund for Hardest Hit Housing Markets (HHF) in Georgia. We previously provided an official response to the draft version of the Report on October 11, 2017, in which we stated our intent to consider carefully the recommendations SIGTARP outlined in the Report. We have since done so, and we have implemented or are working to implement a number of recommendations. With this letter, we provide Treasury's response to SIGTARP's recommendations.

By way of background, HHF is a $9.6 billion program that was created in February 2010 under the Emergency Economic Stabilization Act of 2008 (EESA) to provide assistance to the District of Columbia and 18 states designated "hardest hit" by the financial crisis because they had experienced the nation's steepest home price declines and most severe unemployment. While all state HHF programs are designed to prevent avoidable foreclosures and stabilize housing markets, these programs are not identical. Rather, each state housing finance agency (together with certain affiliates, HFAs) designs, operates, and tailors its own innovative programs based upon the specific needs of its state. This includes determining eligibility criteria for homeowners, properties, and loans.

Since the inception of HHF, the HFAs have created 90 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 September 30, 2017, HHF has already assisted more than 333,000 homeowners and helped to remove more than 21,000 blighted properties.

The HHF program is nearly concluded. Of the $9.6 billion allocated to the program, the states have drawn approximately $8.8 billion (91 percent) as of January 31, 2018. Of the 19 states currently operating HHF programs, at least nine 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 Recommendations Regarding Georgia HHF

We agree with SIGTARP that Georgia's HHF programs have underperformed in the past, and we have worked with Georgia to improve its performance over the last seven years, to positive results. In the last two years alone, Georgia expanded its principal reduction program to better address persistent negative equity and launched a down payment assistance program to stimulate market activity in distressed markets and promote neighborhood stabilization and recovery. As of September 30, 2017, Georgia HHF programs had assisted 10,344 homeowners, representing a cumulative increase of 23 percent over the prior twelve months, and cumulatively disbursed $208.6 million (approximately 65 percent of program funds). With respect to the third quarter of 2017 alone, Georgia HHF programs had assisted 753 homeowners, representing an increase of 42 percent over the prior quarter, marking a quarterly high point in borrowers assisted and program funds disbursed. If recent trends continue, Georgia will exhaust remaining HHF funds in 2019, one year prior to the scheduled close of HHF in 2020.

The Report contains 13 recommendations aimed at improving the performance and reach of Georgia's HHF programs. We have been working closely with the Georgia HFA to address these recommendations, and we have already implemented ten of them. For example, the Georgia HFA has increased its outreach and marketing efforts, expanded its eligibility criteria to provide better access to at-risk homeowners, removed certain eligibility criteria that placed undue limitations on applicants who received assistance, increased its ability to assist unemployed and underemployed homeowners, and taken steps to improve its application process and counseling services. In addition, Treasury staff recently met with Georgia state officials to discuss program performance. We will continue to work with the state to address the remaining three recommendations, which pertain to additional aspects of the application process and housing counseling services.

SIGTARP's Recommendations Regarding the HHF Program

While the findings of the Report focus on the performance of the Georgia HHF program, 17 of SIGTARP's 30 recommendations sweep more broadly and recommend that Treasury impose changes to the entire HHF program in all HHF states. Treasury agrees with seven of these recommendations and considers them to be implemented. For example, Treasury has worked extensively with mortgage servicers and HFAs for years to allow mortgages to be recast to lower principal balances, wherever possible, upon receipt of HHF funds. In addition, for years, state HFAs have analyzed economic conditions at local levels (*e.g.*, county, zip code, or a subset thereof), tracked and monitored the reasons why applications have not been approved, taken steps to increase HHF assistance to veterans, taken into account various reasons for financial hardship in the operation of their programs, and worked to streamline their application processes.

Nearly all of the remaining 10 recommendations suggest that Treasury should change HHF's structure to one that involves centralized program administration and implementation. These include recommendations that call for uniform eligibility criteria – *e.g.*, criteria related to timing of hardship, timing and length of delinquency, definition of "underemployment," whether the homeowner has already received assistance under the Making Home Affordable program, and whether the homeowner has filed for bankruptcy – and uniform application requirements. Such recommendations conflict with the stated policy objectives of HHF and the policy decisions Treasury made in 2010 when it launched the program. It is of paramount importance to provide maximum flexibility to the state HFAs. Requiring uniform eligibility criteria or other program terms across all HHF states would – in many cases – run counter to the design and purpose of the program. Because HFAs have a deep knowledge of their state's housing market and are present in their communities, they can work with other local stakeholders – such as locally-elected officials, municipalities, and community organizations – to determine how best to use HHF funds, particularly given legal and operational constraints. This necessarily involves balancing a number of competing priorities, such as the desire to target resources to those most in need, while at the same time helping the greatest number of homeowners and communities through measures that are both expeditious and most likely to be successful in the long run.

We also note that SIGTARP has long maintained that it is not a policymaker and that its recommendations should not be considered inflexible. As stated above, the HHF program is nearly concluded, which further diminishes the potential effect of broad programmatic changes. For these reasons Treasury has determined that the remaining recommendations should not be implemented.

* * *

Even as the TARP program nears its end, we remain committed to taking appropriate actions to improve program performance and protect the interests of taxpayers. We look forward to continuing to work with you as we wind down TARP.

Sincerely,

Lorenzo Rasetti

Lorenzo Rasetti
Chief Financial Officer
Office of Financial Stability