DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 22, 2016

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) draft report of December 8, 2016 (Draft). The Office of Financial Stability (OFS) appreciates your review and looks forward to working with SIGTARP as we continue to support the programs under the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (the Hardest Hit Fund or HHF). Pursuant to our customary protocol, we will review all of SIGTARP's recommendations and respond to each one at a later date.

HHF is one of the housing programs created under the Troubled Asset Relief Program (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 "hardest hit" because they had experienced the nation's steepest home price declines and most severe unemployment. In the nearly seven years since, HHF has delivered meaningful results to these states and their residents that suffered the worst impact of the financial crisis. As of September 30, 2016, HHF programs had disbursed nearly $6.2 billion for HHF program activities and related administrative expenses to assist more than 280,000 homeowners and remove nearly 15,000 blighted structures. Whether it was helping struggling homeowners to make their mortgage payments or removing blighted structures to stabilize housing prices in distressed neighborhoods, the primary beneficiaries were workers and families that experienced economic hardship. Approximately 80 percent of homeowners approved for HHF programs have received assistance due to a hardship related to either unemployment or underemployment. States also report that more than 80 percent of borrowers who have received assistance through HHF have an income of less than $50,000 per year.[1]

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 (HFAs) 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 84 distinct programs under HHF, each with different objectives, processes and requirements, but all with the overaching goal of

[1] https://www.treasury.gov/initiatives/financial-stability/reports/Pages/Housing-Finance-Agency-Aggregate-Report.aspx

preventing avoidable foreclosures and stabilizing housing markets. As economic conditions and housing markets change over time, the state HFAs continually work with Treasury to evaluate their programs and eligibility criteria and make changes as appropriate. To date, state HFAs have made 254 amendments to their contracts with Treasury, in order to expand eligibility criteria, create new programs, and alter other program terms.

When HHF was launched, state HFAs primarily focused HHF resources on addressing the impacts of crisis-level unemployment through mortgage payment assistance and reinstatement programs. As economic conditions changed, the state HFAs adapted and expanded their program offerings to prevent avoidable foreclosures and stabilize housing markets through other measures. For example, 16 states offer principal reduction, five states offer reinstatement for property taxes, eight states have launched blight elimination programs, and seven states have introduced programs for down payment assistance to stabilize home prices in targeted, recovering neighborhoods.

Pursuant to their eligibility criteria, each state HFA requires homeowners to demonstrate a hardship to receive assistance under HHF programs.[2] Such hardships include not only unemployment or underemployment, but also medical issues, death of a family member, divorce, and other hardships that can impair a homeowner's ability to stay current on his or her mortgage. Most state HFAs offer programs that assist homeowners without requiring the homeowner to have fallen behind on his or her mortgage in order to demonstrate a hardship. Depending on the type of assistance being sought, many homeowners, including those facing current or future unemployment, could receive HHF assistance while remaining current on their mortgage.

Under their contracts with Treasury, each state HFA is required to retain all data and other records related to their HHF-funded programs. OFS conducts regular on-site compliance reviews of each state 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 for a denial and testing whether it was supported by appropriate documentation in order to verify that the correct decision was rendered.

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OFS appreciates SIGTARP's analysis and is closely examining its recommendations. We are proud of HHF's successes and will continue to work with states to help them make their programs more effective.

Sincerely,

Mark McArdle
Deputy Assistant Secretary for Financial Stability

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[2] This requirement does not apply to blight elimination or down payment assistance programs.