DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 28, 2015

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

RE: Treasury Response to SIGTARP's Quarterly Report

Dear Ms. Romero:

I write in response to your October 28, 2015, Quarterly Report to Congress (Report). Treasury welcomes oversight of all of its programs, including TARP, and we appreciate the work you do in that regard. Your most recent Report contains a section on TARP's Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund or HHF). This letter focuses on that section of the report.

The Hardest Hit Fund is a unique collaboration between the federal government and state Housing Finance Agencies (HFAs) to develop innovative programs specifically tailored to their state housing markets. During the height of the housing crisis, Treasury allocated $7.6 billion to the 19 participating HFAs to help homeowners in the hardest-hit communities prevent avoidable foreclosures. In 2010, the President announced the program, acknowledging the strategic benefits of the partnership: "This program will allow housing finance agencies in the places hardest-hit by the housing crisis find innovative ways to help homeowners stay afloat, and empower local agencies that know these communities best."[1] Treasury has worked continuously with the HFAs to enhance and adapt their programs to align with changing market conditions and to improve performance. This has resulted in a dynamic collaboration, through which HFAs have introduced measures such as principal reduction (with loan modification or recast), property tax reinstatement, lien extinguishment, short sale/transition assistance, reverse mortgage assistance, blight elimination, and down payment assistance. The HFAs also continue to improve previously introduced mortgage payment and mortgage reinstatement assistance programs to reach and help more people. In the last 12 months, across the states, HFAs have increased the number of homeowners assisted by 21 percent and have increased the funds disbursed by 38 percent. In addition, seven HFAs have already committed the vast majority of their funds and are no longer accepting new applications, due to the success of their programs.

The Report describes admission rates in terms of a "50-50 chance" of receiving assistance, which creates the impression that a high number of homeowners who qualify for the programs are improperly denied assistance. This is not the case. To begin with, each HFA has developed specific, defined eligibility criteria for determining whether to approve a homeowner for assistance. Treasury routinely tests denied files during periodic compliance reviews to assess

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[1] https://www.whitehouse.gov/the-press-office/president-obama-announces-help-hardest-hit-housing-markets.

whether homeowners have been improperly denied, and Treasury has not found significant numbers of improper denials. In addition, the Report fails to consider whether submitted homeowner applications are complete and include proper supporting documentation. Further, the Report calculates admission rates in a manner that does not account for states where homeowners receive assistance under multiple programs or where homeowners were initially determined to be ineligible but then reapplied. The Report asserts that admission rates are low, but fails to account for variances between states in their application processes. Because each state has different programs and eligibility criteria, this necessarily leads to different admission rates.

The Report also cites long waiting periods for assistance. We agree that it is important to provide timely assistance, but note that in most state programs, the single biggest factor in waiting times is the delay in receiving completed documentation from the homeowner. In addition, presenting wait times for programs with very little activity can be misleading. The highest median "waiting periods" cited in the Report are for periods during which as few as four to 40 homeowner applications were pending, some of which were being considered for different types of assistance throughout the cycle of their applications or were delayed because borrowers needed to send in additional information. Treasury also notes that the Report does not adjust for statistical anomalies such as homeowners who received assistance early in the program and then return or reapply under a new or modified program for which they may have subsequently become eligible. Many HFAs calculate the length of time from application to assistance based on the date of the first application, which would make the homeowner's waiting time appear to be unusually long in that circumstance.

Regardless, Treasury and the state HFAs have seen areas for potential improvement and have worked together to increase admission rates and reduce waiting periods, including through the implementation of strategies to improve application processing and underwriting quality that are not accounted for in the Report.

It is our view that the Report, similar to a number of prior reports, offers observations and recommendations that are inappropriate for the state-based design and structure of the HHF programs. The Report reiterates previously suggested changes to the HHF programs that, as we have noted in the past, would require a centralized management approach from Treasury. Such an approach is not well-suited for a program that is intentionally designed to permit the individual HFAs to develop and implement effective tactics targeted to local conditions in order to stabilize local housing markets and prevent avoidable foreclosures.

As noted, we are always working to improve our housing programs, and we appreciate your input in that regard. We look forward to continuing to work with you on the Hardest Hit Fund. Please contact me if you would like to discuss this issue further.

Sincerely,

Mark McArdle
Deputy Assistant Secretary
Office of Financial Stability