DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

April 20, 2015

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

Re: Treasury Response to SIGTARP Report

Dear Ms. Romero:

I write in response to the Special Inspector General for the Troubled Asset Relief Program's (SIGTARP) draft report titled "Treasury Should Do Much More To Increase the Effectiveness of the TARP Hardest Hit Fund Blight Elimination Program" (Report).[1] We thank you for conducting this review, have carefully reviewed the Report, and look forward to working with SIGTARP as we continue to support the six separate state blight elimination programs adopted pursuant to the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (HHF).

On balance, we are concerned with what appears to be SIGTARP's fundamental misunderstanding of how HHF is structured and designed to operate, as well as the extent of Treasury's involvement in and oversight of states' HHF programs, including their blight elimination programs. SIGTARP seems to suggest that Treasury adopt a central planning and implementation role in states' HHF programs, which would be antithetical to the structure and objective of HHF. This proposition underlies both the findings and recommendations. That said, we are committed to carefully considering the utility and feasibility of the nine recommendations offered by SIGTARP and incorporating improvements in processes with respect to these programs where appropriate. This letter provides Treasury's official response to the Report.

I. HHF Programs are State Initiated and Increased Direction from Treasury Would Run Counter to the Purpose of the Programs and Likely Decrease Their Effectiveness

SIGTARP finds that "Treasury Takes a Hands-Off Approach to the HHF Blight Elimination Program and Has Very Limited Involvement in the Planning or Execution of the Program."[2] For example, SIGTARP states that "Treasury has not engaged in comprehensive planning for HHF blight elimination that could ensure the success of the program," and "has left much of the

[1] We note that Treasury was not provided a full draft report prior to publication—the executive summary was omitted for example.
[2] Report at 17.

planning to the state HFAs." SIGTARP appears to suggest that Treasury manage and direct the day-to-day implementation of each of the states' programs, which as noted previously, would be inconsistent with the design and intent of the HHF program.

By way of background, the HHF program was created in February 2010 under the Emergency Economic Stabilization Act of 2008 (EESA) to provide aid 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. The objective of HHF is to allow the participating state housing finance agencies (HFAs) to develop creative, effective approaches to help prevent foreclosures and stabilize their local housing markets. HHF is designed to allow the maximum possible flexibility to eligible HFAs to use HHF funds to develop and implement innovative foreclosure prevention initiatives responsive to the needs of their specific state. Each proposed program must be approved by Treasury.

Treasury does not administer these programs. HHF was designed specifically for implementation and administration by state HFAs. The HFAs are required to develop and manage these programs subject to the contracts they signed with Treasury. Among their provisions, these contracts require the HFAs to establish monitoring mechanisms and implement a system of internal controls to minimize the risk of fraud, mitigate conflicts of interest, and maximize operational efficiency and effectiveness.

Six states — Michigan, Ohio, Indiana, Illinois, South Carolina, and Alabama — have identified blight elimination as an effective way to prevent foreclosures in their respective states, and accordingly, have developed separate programs to do so. Thus, contrary to the language used repeatedly in the Report, there is no "TARP Hardest Hit Fund Blight Elimination Program." Instead, there are currently six separate state programs focused on blight elimination. HFAs have designed their blight elimination programs to reflect the unique needs of their states, their years of experience operating programs at the state level, and the feedback of partners and stakeholders including other state agencies, local governments, land banks, non-profit housing and community development organizations, locally elected officials, and community leaders..[3]

As the Report notes, several of the state programs are still getting underway. Others are well advanced. In Michigan, for example, the HFA has already committed half the funds it initially allocated for blight elimination activities. Michigan has since increased its allocation for this purpose in light of early results in some of the originally designated cities and response to strong interest from other blighted communities. To date, more than 3,200 blighted properties have been removed and improved in Michigan's hardest hit communities as a result of their blight elimination program. Blight elimination activities are also underway in Ohio and Indiana; both states project strong acceleration of demolition and greening efforts now that they are in full implementation mode, and as winter has passed. Illinois and South Carolina have both finished the design phase of their programs and have publicly announced their projected awards of

[3] The effectiveness of this locally based approach was noted with respect to Indiana, which received a National Council of State Housing Agencies award for Program Excellence in 2014 for its extraordinary efforts to engage the public and key stakeholders as it developed its blight elimination program.

available funds. Alabama has completed its program design and initiated training with prospective partners.

Treasury is actively working with the HFAs to increase the pace of blight removal in these states in a number of ways. We created a monthly call for those HFAs with blight elimination programs, and have led breakout sessions at our annual summits and discussion groups at National Council of State Housing Agencies conferences. Treasury has also facilitated communication and collaboration between HFAs and the Environmental Protection Agency (EPA). The EPA has shared best practices information with the states, which has in turn been shared with their partners. These are complicated programs that take time to thoughtfully design and implement, and involve the close cooperation of dozens of local partners (including land banks, local governments, utility companies, and others). The states are making steady progress.

The level of Treasury involvement suggested by SIGTARP is not only antithetical to the objectives and structure of HHF but could actually hamper progress. It does not adequately consider the HFAs' extensive expertise and experience in administering housing and community development programs in their respective states, and the long-standing relationships they have with key partners. Blight elimination programs require detailed knowledge of local economic conditions, neighborhoods, laws, and regulations. Hundreds of entities are involved in these programs across the six states, and Treasury's role is neither structurally designed nor intended to directly oversee each of these subordinate service providers; that role is the specific requirement and obligation of the states, just as it is under all other HHF programs. Success in HHF will best be achieved by actively partnering with the HFAs which are implementing and managing these programs to leverage their local expertise and facilitate the sharing of best practices and innovative approaches.

II. The States Are Best Positioned to Establish the Target Goals for Their Respective Programs

SIGTARP states in the report that Treasury, and not the local HFAs, needs "to determine the target outcomes it wants to achieve with [the] HHF Blight Elimination Program to ensure that the program results in a stabilized neighborhoods and decreased foreclosures." As these are six different programs operated by six different HFAs, Treasury believes that goals established by each HFA with Treasury's consent and approval are better suited to the dynamic, state-specific nature of HHF. Per their agreements with Treasury, the HFAs are required to provide detailed information about the intended purpose and scope of their programs, as well as specific goals for their programs, including blight elimination programs.[4] Mandating static goals would not adequately take into account the unique circumstance of each state and their local conditions. Treasury instead expects HFAs to show steady progress toward those goals, works with them to identify and address barriers, and advises the HFAs in making changes to programs as needed to better meet their housing market demands. HFAs are encouraged to modify their performance

[4] These targets (which are in their contract amendments), as well as their performance reports to date for all HHF programs, are published online at www.treasury.gov/hhf.

measures or seek additional metrics as their programs evolve to accurately reflect program changes.

HFAs also designate goals for their partners in blight programs: each state's contracts set forth benchmarks their partners must achieve by a date certain or they risk the state rescinding their funds. Treasury also requires HFAs to develop meaningful measures of the long-term effects of their blight elimination programs. Treasury recognizes that the measures will differ by jurisdiction (since market needs differ) and that removing and greening blighted properties and measuring the effects will take time. While some benefits of blight elimination may occur immediately (e.g., improved safety), long-term impacts on local housing markets can take months or years to be fully realized.

III. Treasury Effectively Oversees the States' Separate Blight Elimination Programs

SIGTARP states in the Report that "Treasury is keeping itself in the dark" with inadequate oversight of HFA blight programs. Respectfully, we believe that view is incorrect. Treasury's compliance approach covers all state HHF programs, and has been tailored to address the specific risks and requirements of blight elimination programs. Treasury Compliance performs on-site compliance reviews that include internal control assessments and review of the states' systems and processes to administer their blight programs. On a sample basis, Treasury Compliance verifies property eligibility, examines pre- and post-demolition evidence (such as photographs), and reviews environmental inspection reports and contractor invoices that support the states' disbursement of HHF funds. HFAs' procedures for ensuring adherence to historical preservation requirements and overseeing their partners are also reviewed.

In addition, Treasury's agreements with the HFAs require them to implement oversight and internal control programs designed to minimize the risk of fraud and maximize operational effectiveness. These agreements also require an annual independent assessment of HFAs' internal control programs.

With respect to the use of HHF funds, HFAs may only use HHF funds for actual costs incurred and agreed upon under the contracts with their partners, and they disburse funds only upon receipt of invoices and all proper documentation that work has been satisfactorily completed. The HFAs also hold a lien against the property, which serves as recourse to enforce partners' continued compliance with their contractual obligations. When Treasury visits states for on-site compliance reviews, we review payments and relevant documentation to ensure that these procedures are followed.

Treasury is committed to maintaining effective oversight of HHF, and believes that its compliance program effectively does so. Treasury will continue to update and enhance our compliance program as appropriate.

IV. Hardest Hit Fund Programs are Transparent

Finally, SIGTARP states that the states' blight elimination programs lack transparency, and recommends that Treasury provide increased central reporting on the various programs. We disagree.

In the announcements of both rounds of funding for the Hardest Hit Fund, Treasury articulated the steps it would take to assure transparency. Those steps included posting online all funded program designs (including anticipated volume of activity) and, on a quarterly basis, publishing online program activity and spending to create accountability for results.

Treasury and the HHF-participating HFAs have taken these steps. Over time, we have added summary reports that allow the public to quickly see the current state of these programs, as well as direct links to the HFAs' websites. This information can be found at www.treasury.gov/hhf.

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HHF was designed as an innovation fund to help prevent foreclosures in states that have been hit hard by concentrated economic distress. We are happy to work with SIGTARP to improve the processes with respect to these programs.

Sincerely,

Mark McArdle
Chief Homeownership Preservation Officer
Office of Financial Stability