DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

April 1, 2016

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: December 14, 2015 Hardest Hit Fund (HHF) Blight Elimination Risk Letter

Dear Ms. Romero:

I write in response to the December 14, 2015 letter from the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) concerning the use of Hardest Hit Fund (HHF) program funds in the City of Evansville, Indiana. Treasury values SIGTARP's work and appreciates the observations and recommendations SIGTARP makes concerning the operation of the Troubled Asset Relief Program. We have reviewed the letter with care, as well as the recommendations contained therein. We also have followed-up with the Indiana Housing and Community Development Authority (IHCDA), which administers HHF-funded programs in Indiana. This letter provides Treasury's response to the three recommendations made in that letter. We agree with the spirit of each and have summarized below the actions we took in response.

HHF 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. State HHF programs are not identical. Rather, each state Housing Finance Agency (HFA) tailors its programs to the specific needs of its state. This includes determining eligibility criteria for homeowners, properties, and loans. State HHF programs are designed to prevent foreclosure and stabilize housing markets, consistent with EESA and the related contracts with Treasury. State HHF programs are administered by the state HFA. Treasury conducts periodic reviews of each state HHF program and evaluates whether the state is in compliance with HHF program requirements. Seven states – Michigan, Ohio, Indiana, Illinois, South Carolina, Alabama, and Tennessee – have introduced blight elimination as an effective way to prevent foreclosures and stabilize state housing markets in their respective communities. They have designed their respective blight elimination programs to reflect the particular needs of their states, their years of experience operating programs at the state level, and the feedback received from their respective communities.

Your letter raised concerns regarding the use of HHF funds to demolish lived-in residences as part of the Evansville project. In response to your letter, a Treasury compliance team conducted an on-site review of the IHCDA blight elimination program with an emphasis on the City of Evansville. During the course of the review, the compliance team examined inspection reports related to the properties identified in the letter as having been lived in. Those reports noted

significant repairs that were needed before the properties could meet the applicable building code. In addition, the reports noted structural deficiencies along with the presence of mold, suspected asbestos, and lead-based paint, which were major factors in selecting properties for the Evansville blight elimination project. Treasury's compliance team was also advised that all of the properties were voluntarily conveyed before any demolition occurred, and that no HHF funds were used for acquisition costs. Finally, Evansville provided relocation assistance to households that applied for it.

In addition to notifying Treasury of SIGTARP's concerns, the letter also made three recommendations. First, the letter recommended that Treasury provide direction to the state HFAs regarding blight elimination, and specifically that HFAs should not use HHF funds strategically to select lived-in residences for blight elimination. We agree. Treasury has consulted with the HFAs about their blight elimination programs. We also have consulted with blight experts at the federal level, as well as housing advocates. After those discussions, we issued guidance on January 15, 2016, requiring that properties not be legally occupied at the time of review or approval by the HFA for blight elimination under HHF.

Second, the letter recommended that Treasury take the necessary steps to require state HFAs to adopt and implement effective internal controls to ensure that the properties selected for blight elimination are not lived-in residences. We agree. Treasury's contracts with the HFAs already require each HFA to maintain an internal control program designed to, among other things, minimize the risk of fraud, maximize operational efficiency and effectiveness, and ensure the effective delivery of services and compliance with such contracts. Treasury's compliance office conducts periodic reviews of each state HHF program and evaluates whether the state has established and maintained an adequate system of internal controls.

Third, the letter recommends that Treasury recover certain HHF funds that were disbursed for the removal of lived-in residences, including $246,490 relating to the Evansville project. We agree that we should consider using available remedies under our contracts where appropriate. Treasury's on-site review of the IHCDA blight elimination program found no instances of non-compliance with the state's blight elimination program guidelines or its contract with Treasury. Given these circumstances, we are not seeking to recover funds at this time. We will continue to conduct compliance reviews of all states implementing blight elimination programs under HHF, including IHCDA, and, where appropriate, utilize available remedies if we identify instances of non-compliance.

We thank SIGTARP for bringing this important matter to our attention. We look forward to working with SIGTARP and its staff to maximize the efficacy of Treasury's programs and reduce the potential for waste, fraud, and abuse as we continue to wind down the Troubled Asset Relief Program. Please feel free to contact me if you have any questions about this letter.

Sincerely,

Mark McArdle
Deputy Assistant Secretary for Financial Stability