TEN YEARS OF TARP: EXAMINING THE HARDEST HIT FUND

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERGOVERNMENTAL AFFAIRS

AND THE

SUBCOMMITTEE ON
GOVERNMENT OPERATIONS

OF THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
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TEN YEARS OF TARP: EXAMINING THE HARDEST HIT FUND

Tuesday, May 22, 2018

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERGOVERNMENTAL AFFAIRS, JOINT WITH THE SUBCOMMITTEE ON GOVERNMENT OPERATIONS,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The subcommittees met, pursuant to call, at 10:01 a.m., in Room 2154, Rayburn House Office Building, Hon. Gary J. Palmer [chairman of the Subcommittee on Intergovernmental Affairs] presiding.

Present from the Subcommittee on Intergovernmental Affairs: Representatives Palmer, Grothman, Duncan, Massie, Walker, and Raskin.

Present from the Subcommittee on Government Operations: Representatives Meadows, Hice, Jordan, Sanford, DeSantis, Blum, and Connolly.

Mr. PALMER. The Subcommittee on Intergovernmental Affairs and the Subcommittee on Government Operations will come to order.

Without objection, the presiding member is authorized to declare a recess at any time.

Today's hearing marks the 10th anniversary of the Troubled Asset Relief Program, also known as TARP. Since 2009, this committee has conducted oversight of TARP programs and management. TARP was created in 2008 in the aftermath of the Nation's worst economic recession in modern history.

Often referred to as the bank bailout program, TARP was a $400 billion program intended to stabilize the U.S. financial system and preserve home ownership. In 2010, the Treasury Department created the TARP program known as the Hardest Hit Fund to mitigate the impact of the housing crisis and to prevent foreclosures. The Hardest Hit Fund allocates up to $9.6 billion in TARP funds for locally tailored aid to 19 participating State housing finance agencies through 2020.

Early in the program's tenure, the Government Accountability Office and the Special Inspector for TARP issued reports on State implementation challenges and the program's lack of established merits and goals.

In 2017, the Office of the Special Investigator General of TARP, or SIGTARP, issued a report questioning $3 million in administrative expenses charged by State housing finance agencies. Such expenses included bonuses, barbecues, gym memberships, severance payments, trips to the zoo, and other perks funded by Federal TARP dollars through the Hardest Hit Fund.

The Treasury Department determined approximately 70 percent of these expenses are allowable under the terms of its participation agreement with the States. In other words, less than 30 percent of the $3 million questioned by SIGTARP was deemed recoverable by Treasury.

It is the duty of Federal and State partners to ensure that taxpayer dollars for Federally funded, State-administered programs are used for their intended purposes. None of the payments identified by SIGTARP's report advance the main purpose of the program, to prevent foreclosure and provide assistance to homeowners most affected by the housing crisis.

Although many States have, according to Treasury, voluntarily refunded over $450,000 to the program since SIGTARP's report, it is apparent that the questions over appropriate expenditures and program efficiencies remain.

According to SIGTARP's 2017 semi-annual report to Congress, fewer than half of all homeowners who sought assistance were admitted to the program, and nearly 30 percent of homeowners withdrew their applications.

With nearly 2 billion in remaining funds left to be disbursed by the Treasury to the States, it is necessary to ensure proper safeguards are in place.

I thank the witnesses from the Treasury Department, SIGTARP, and the representatives from three States, including my home State of Alabama, for being here today.

I now recognize the ranking member of the Intergovernmental Affairs Subcommittee, Mr. Raskin, for 5 minutes for his opening statement.

Mr. RASKIN. Chairman Palmer, Chairman Meadows, thanks so much for calling today's hearing. And I want to thank all the witnesses for coming.

The Hardest Hit program was set up to provide targeted aid to families in States that were decimated by the downturn of the housing markets. Funded by the Feds but administered by State governments, the Hardest Hit Fun has financed mortgage modification, unemployment assistance, transition assistance, mortgage reinstatement, and blight elimination.

Since 2010, when it was created, the fund has assisted over 350,000 families and removed 24,000 blighted properties in 18 States and D.C., so I don't want to understate the contributions it's made.

But although it's helped many people avoid losing their homes, the diligent work of the Special Inspector General for TARP has provoked a lot of bipartisan anxiety about how State agencies are administering the program. And I have a number of profound concerns that I look forward to addressing today.

The first is why my State, Maryland, and other States where people were hit very hard during the financial crisis were excluded completely from the Hardest Hit Fund.

It has been very tough for me to read reports about scandalous abuses of the program, waste of money taking place, feather-bedding, and bloated budgets, while my State was completely excluded from it. And I would like somebody to explain that to me, why did the Treasury Department exclude Maryland.

In addition, why do we still have no analysis from Treasury about the success and potential expansion of the program now 7 years into it?

While States in need like mine receive zero dollars under the program, others received many millions of dollars that ended up going to fund excessive and egregious wasteful expenditures that were uncovered in the audits.

And so I want to know, along with the chairman, why did all of this money go and why is this money going to lavish catered barbecue parties, Visa gift cards, employee bonuses, catered lunches with Treasury employees, fancy cars, and employee trips to the zoo.

Now, I know a lot of States did not break the rules in any way. The California Hardest Hit Fund program seems to have the highest rate of homeowner approval, with over 73,000 Americans that have been assisted with apparently no wasteful expenditures reported.

So I look forward today to our digging into the work of the Special Inspector General and her team at SIGTARP who uncovered the fact that Federal dollars meant to help people recovering from the greatest economic catastrophe since the Depression were being wasted on things like a car allowance of $11,000 for a Mercedes-Benz for a CEO.

A September SIGTARP audit report found that the Nevada Affordable Housing Assistance Corporation misspent $8.2 million. In 2017, Treasury reported to SIGTARP that Nevada's HHF did not meet its utilization threshold and will have its allocation reduced by $6.7 million. Nevada was the only State participating in the program to have funds cut.

The Georgia Department of Community Affairs provided the Hardest Hit funds to only 9.000 homeowners and rejected two-thirds of the applicants.

So, Mr. Chairman, there's a lot of questions here that I want us to get to the bottom of today, and I thank you for calling this hearing.

Mr. PALMER. I now recognize the chairman of the Subcommittee on Government Operations, Mr. Meadows, for 5 minutes for his opening statement.

Mr. MEADOWS. Thank you, Mr. Chairman. I'll be very brief.

Inspector General Goldsmith Romero, thank you so much for being here. It was a pleasure to not only visityour workplace with so many dedicated individuals, but to see your leadership. And I just wanted to go on record to recognize that, and thank you for that.

Mr. Farmer, welcome. You know, this isn't Raleigh. Actually, if we could operate D.C. as well as we do Raleigh, we might be in better position. But I want to just say welcome.

I also want to acknowledge your thoughtful insight on some of the issues that we may be talking about today in terms of your proactive stance there. I want to acknowledge that and thank you.

And then my good friend, Mr. Oglesby, who's actually in the audit. Bill is a constituent. And so I want to thank him for his advocacy on this particular area.

And as we look at all of this, this is all about being accountable for the hardworking American taxpayer dollar and making sure that those priorities go and are invested in those areas that best help those that are in need. And so as we look at that, it's critically important that we do that.

Mr. Chairman, I want to thank you for your leadership on this particular area. And I will yield back.

Mr. PALMER. I now recognize the ranking member of the Government Operations Subcommittee, Mr. Connolly, for 5 minutes for his opening statement.

Mr. CONNOLLY. Thank you, Mr. Chairman. And thank you to Mr. Meadows for calling today's hearing to look into mismanagement and wasteful spending in the Hardest Hit program. And thanks to our witnesses for being here.

The Oversight and Government Reform Committee has broad jurisdiction to look into fraud, waste, and abuse throughout the government, including when Federal dollars go to State and local governments or other recipients. Taxpayer dollars should not be viewed as a slush fund, and I welcome the committee's oversight into this issue today.

To ensure accountability wherever taxpayer dollars are spent, it's also important that this committee look into wasteful spending elsewhere in the Federal Government.

I would welcome a deeper look into wasteful spending at the Environment Protection Agency, for example: $43,000 on a soundproof booth for Administrator Scott Pruitt in violation of spending laws; $105,000 on Administrator Pruitt's first-class fights in the first year on the job; $100,000 for a 4-day trip to Moscow; $120,000 on a 4-day trip to Italy; $45,000 for EPA aides to fly to Australia and prepare for yet another trip that had to be cancelled because of Hurricane Harvey; five-figure salary increases for preferred staff even after the White House Office of Personnel denied the request.

This is not to mention Administrator Pruitt's ethical challenges, including his cozy relationship with lobbyists for the industries regulated by the EPA.

This committee should also look into how the Department of Interior was able to spend $139,000 on new doors for Secretary Zinke's office, which makes the $31,000 dining set at the Department of Housing and Urban Development look like small potatoes.

And this is just what we know from publicly reported expenditures. I'm sure if the committee took on a full-fledged and vigorous investigation into the wasteful spending by the Trump Cabinet we'd be able to find other examples of the flagrant misuse of taxpayer dollars.

Ten years ago, a financial crisis hit the American people, the likes of which were unseen since the Great Depression. Housing prices plunged, 8.8 million jobs were lost, a liquidity crisis hit the financial sector, and the unemployment rate hit 10 percent.

The meltdown left hundreds of thousands of homeowners underwater in their mortgages, owing more than their houses were worth. In 2008, U.S. foreclosure filings spiked more than 81 percent, and over 860,000 families lost their homes in foreclosures that year alone.

In response to this crisis, Congress enacted the Emergency Economic Stabilization Act, which, among other things, created the TARP, Troubled Asset Relief Program. TARP is widely considered a bank bailout authorizing the Secretary of the Treasury either to purchase or insure up to $700 billion in troubled assets owned by financial firms.

TARP also sought to provide assistance to homeowners facing foreclosure by stabilizing housing markets and engaging in foreclosure mitigation through the Home Affordable Modification Program, the Federal Housing Administration Short Refinance Program, and the Hardest Hit Fund.

The Hardest Hit Fund made funding available to the State housing finance agencies that had experienced the greatest declines in home prices. The program has helped homeowners stay in their houses and knock down blighted properties, raising property values of the surrounding homes. It's grown into a $9.6 billion program funded by the Federal Government but administered by the States and has assisted more than 300,000 homeowners in 18 States and the District of Columbia.

I support the cooperative federalism embedded in this program with the States and the Federal Government working together to solve common problems. But today's hearing will highlight instances where that cooperative federalism has gone array. A number of Hardest Hit Fund partner States severely mismanaged their programs and/or misspent Federal funds.

In September of 2016, the Special Inspector General for TARP found that the Nevada Housing Division allowed abuse and waste of $8.2 million in Hardest Hit Fund dollars instead of helping homeowners who were facing foreclosure. This included a car allowance of $500 a month for the CEO to drive a Mercedes-Benz totaling $11,000. Nearly the same amount of money was spent on employee bonuses, gifts, outings, and other perks, over 5,800 spent on holiday parties and gifts, 43,000 in bonuses, almost all of which were paid to a CEO who was later terminated.

At the same time, the State agency had all but stopped homeowners from getting assistance through the Hardest Hit Fund, admitting only 117 Nevada homeowners in 2015, a year-on-year drop of 96 percent.

The Special Inspector General for TARP also found that State agencies charged more than 100,000 for barbecues, picnics, celebrations, and other outings that included food and beverage. Instead of putting $14,124 toward assisting homeowners, the North Carolina Housing Finance Agency charged that amount for employee food and beverages.

Overall, SIGTARP found that the agency charged more than $100,000 in unnecessary expenses. At the same time, that same agency denied 18.8 percent of homeowners who applied for housing assistance. State agencies even charged employee parking fees at the Hardest Hit Fund, as was the case in Michigan, which spent over 330,000 for that purpose.

Eight years after the passage of TARP, the Special Inspector General for TARP continues to conduct audits of the Hardest Hit Fund expenditures to ensure that money is spent properly. In August 2017, SIGTARP found that the States had misspent 3 million in TARP funds. We must remember, that's $3 million which could have been used to provide mortgage assistance to underwater homeowners or to rehabilitate neighborhoods.

The only thing more disappointing than State agencies using money meant to help homeowners on unnecessary expenditures is the Treasury Department's reluctance to recover those misspent taxpayers dollars. After receiving SIGTARP's audit, Treasury decided to claw back only 29 percent of the improperly spent funds.

So long as TARP programs exist, it's important that SIGTARP keep a watchful eye on those expenditures to ensure that taxpayer dollars are spent judiciously and for the purpose of which Congress intended.

I'm glad we're having this hearing. I'm glad we're looking at the improper use and expenditure of funds. But I believe the same standard ought to be applied to the Trump Cabinet, and this committee should have hearings on those issues that are just as important to the American public.

I yield back.

Mr. PALMER. Thank you.

I'm pleased to introduce our witnesses. Mr. Kipp Kranbuhl, deputy assistant secretary for small business, community development, and affordable housing policy in the Office of the Assistant Secretary for Financial Institutions at the U.S. Department of Treasury.

Does all does that fit on one business card?

The Honorable Christy Goldsmith Romero, Special Inspector General for the Troubled Asset Relief Program at the U.S. Department of Treasury.

Ms. Verise Campbell, chief executive officer of the Nevada Affordable Housing Assistance Corporation.

Ms. Cathy James, business development manager at the Alabama Housing Finance Authority.

And Mr. Scott Farmer, executive director of the North Carolina Housing Finance Agency.

Welcome to you all.

Pursuant to committee rules, all witnesses will be sworn in before they testify, so please stand and raise your right hand.

Do you solemnly swear or affirm the testimony you're about to give is the truth, the whole truth, and nothing but the truth, so help you God?

The record will reflect that all witnesses answered in the affirmative.

Please be seated.

In order to allow time for discussion, please limit your testimony to 5 minutes. Your entire written statement will be made part of the record.

As a reminder, the clock in front of you shows the remaining time during your opening statement. The light will turn yellow—it's kind of like a yellow light at a traffic stop, that means speed up, you have 30 seconds left—and red when your time is up. Please also remember to press the button, turn your microphone on before speaking.

Mr. Kranbuhl, we'll look forward to your testimony.

WITNESS STATEMENTS

STATEMENT OF KIPP KRANBUHL

Mr. KRANBUHL. Chairman Meadows, Chairman Palmer, Ranking Member Connolly, Ranking Member Raskin, and members of the subcommittees, thank you for the opportunity to testify today about Treasury's efforts to mitigate the effects of the financial crisis on American homeowners through the Hardest Hit Fund, or HHF.

Treasury established HHF in 2010 as a part of the Troubled Asset Relief Program, or TARP, in order to help prevent foreclosure and to stabilize housing markets in States hit hardest by the housing crisis. State housing finance agencies, or HFAs, in 18 States and the District of Columbia were selected to participate as these areas experienced unemployment rates at or above the national average and/or home price declines of greater than 20 percent.

HHF was designed to give the participating HFAs the maximum flexibility to design and administer their own programs, each tailored to local conditions in their respective communities.

As a part of this flexibility, the States have been able to adapt their programs in order to address the changing needs in their communities over time. As of December 31, 2017, States had assisted approximately 350,000 homeowners and funded the demolition and greening of nearly 24,000 blighted properties in distressed communities.

However, the flexibility afforded to HFAs by the Hardest Hit Fund has made Treasury's oversight a critical aspect of the program. Treasury maintains a strong commitment to ensure that the program achieves its goals and that Federal taxpayer dollars are used for their intended purpose.

Treasury requires each HFA to set specific goals for its HHF program and to demonstrate steady progress towards meetings these goals. Treasury also maintains an ongoing dialogue and works with each of the HFAs to identify and address barriers that would keep the HFA from achieving its goals.

Treasury has also connected more than 100 on-site compliance reviews across the participating HFAs, as well as additional targeted review to address specific programmatic risks.

These reviews evaluate a number of critical program functions, such as whether the homeowners are evaluated in accordance with the HFA's guidelines, program disbursements and administrative expenditures are appropriate, the information reported to Treasury is accurate, and the HFAs' internal controls are functioning as intended to minimize the risk of noncompliance.

Treasury takes corrective action when instances of noncompliance arise. This includes, for example, requiring the HFAs to reevaluate homeowners that were improperly denied, to reimburse HHF for improper expenditures, and to strengthen internal controls in order to prevent further noncompliance.

In addition to compliance reviews, Treasury also shares this committee and SIGTARP's commitment to preventing fraud, waste, and abuse in all TARP programs, and we certainly consider the recommendations in that regard. Treasury responds to SIGTARP recommendations in writing, and our responses are made available to the public. We work hard to address the concerns raised by these recommendations in a manner that allows the programs to function as intended and in the context of TARP's wind-down.

For example, Treasury thoroughly reviewed the $2.2 million of cost questions in SIGTARP's August 2017 report. This involved analyzing thousands of individual transactions incurred by all 19 HFAs dating back to the program's inception in 2010.

Following this review, Treasury determined that $656,141 of the questioned cost did not comply with the Federal Government's cost principles. The HFAs were required to reimburse HHF.

For the reasons set forth in our April 6, 2018, letter to SIGTARP, a copy of which has been provided to the committee and is available on our website, Treasury determined that the remaining costs questioned by SIGTARP were allowable under Federal cost principles.

As is the case with all TARP programs, HHF is winding down. Although Congress authorized additional funding in 2015, the program remains a temporary one. As of the end of April 2018, Treasury has disbursed $8.8 billion, or 92 percent of the $9.6 billion obligated under HHF.

Although HFAs may continue issuing new approvals through December 31, 2020, most of the States have already begun to close down HHF programs or will do so this year as they exhaust their available funds. This includes California and Florida, the two largest States in the program.

Treasury's outstanding commitments under TARP represent just 1 percent of the 475 billion authorized by Congress. As TARP winds down, Treasury remains committed to robust oversight and monitoring of all of its TARP programs, including HHF.

I thank you again for the opportunity to testify today and welcome your questions.

[Prepared statement of Mr. Kranbuhl follows:]

Testimony of Kipp Kranbuhl,
Deputy Assistant Secretary,
Office of Financial Institutions - Small Business, Community Development, and Affordable Housing Policy
U.S. Department of the Treasury
Hearing before the House Committee on Oversight and Government Reform
Subcommittees on Intergovernmental Affairs and Government Operations

May 22, 2018

Chairman Meadows, Chairman Palmer, Ranking Member Connolly, Ranking Member Raskin, and Members of the Subcommittees, thank you for the opportunity to testify today about Treasury's efforts to mitigate the effects of the financial crisis on American homeowners through the Housing Finance Agency Innovation Fund for Hardest Hit Housing Markets, also known as the Hardest Hit Fund or HHF.

In 2008, Congress passed the Emergency Economic Stabilization Act of 2008, 12 U.S.C. 5201, *et seq*., (as amended, EESA). This legislation provided Treasury with immediate authorities and resources to restore liquidity and stability to the nation's financial system in the wake of an historic economic crisis. Using its authorities under EESA, Treasury established the Troubled Asset Relief Program, known as TARP, an initiative that was unprecedented in both its design and scale. Congress initially authorized up to $700 billion for TARP programs, though Congress later reduced that authority to $475 billion.

In the following years, Treasury disbursed nearly $412 billion of TARP funds under a variety of programs designed to help stabilize banks, automobile manufacturers, and other institutions integral to the nation's economy. Treasury reserved additional funds for programs designed to protect home prices and prevent foreclosure. The first, and largest, of these housing programs was the Making Home Affordable® program, or MHA. Launched in 2009, MHA was a nationwide effort to help struggling homeowners avoid foreclosure by lowering mortgage payments to affordable levels. However, it soon became clear that a one-size-fits-all approach would not be sufficient to address all of the specific needs of homeowners and communities in the states that were hit hardest by the housing crisis.

Treasury established HHF in 2010 as part of TARP in order to help prevent foreclosure and to stabilize housing markets in states hit hardest by the housing crisis. State housing finance agencies, (together with certain designated entities, HFAs) in eighteen states and the District of Columbia were selected to participate, as these areas experienced unemployment rates at or above the national average, and/or home price declines of greater than 20 percent.[1]

[1] The eighteen participating states consist of Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, and Tennessee.

Unlike MHA – a national program based on uniform criteria set by the Federal government – HHF was designed to give the participating HFAs the maximum flexibility to design and administer their own programs, each tailored to local conditions in their respective communities. As a part of this flexibility, the states have been able to adapt their programs in order to address the changing needs of their communities over time.

As of December 31, 2017, states had assisted approximately 350,000 homeowners and funded the demolition and greening of nearly 24,000 blighted properties in distressed communities.

However, the flexibility afforded to HFAs by the Hardest Hit Fund has made Treasury's oversight a critical aspect of the program. Treasury maintains a strong commitment to ensure that the program achieves its goals and that federal taxpayer funds are used for their intended purpose.

Treasury requires each HFA to set specific goals for its HHF program, and to demonstrate steady progress toward meeting these goals. Treasury works with each of the HFAs to identify and address barriers that would keep the HFA from achieving its goals. Subject to Treasury approval, the HFAs may also modify their programs as needed in order to address the changing needs of their communities. Treasury also maintains an ongoing dialogue with the HFAs through in-person meetings and regularly scheduled calls, and it hosts annual summits where the various participating HFAs can meet and share best practices.

Treasury has also conducted more than 100 on-site compliance reviews across the participating HFAs, as well as additional, targeted reviews to address specific programmatic risks. These reviews evaluate a number of critical program functions, such as whether homeowners are evaluated in accordance with the HFA's guidelines, program disbursements and administrative expenditures are appropriate, the information reported to Treasury is accurate, and the HFA's internal controls are functioning as intended to minimize the risk of non-compliance.

Treasury takes corrective action when instances of non-compliance arise. This includes, for example, requiring HFAs to re-evaluate homeowners that were improperly denied, to reimburse HHF for improper expenditures, and to strengthen internal controls in order to prevent further non-compliance.

In addition to compliance reviews, Treasury also takes SIGTARP's role seriously. We share this Committee's and SIGTARP's commitment to preventing fraud, waste, and abuse in all TARP programs, and we carefully consider recommendations in that regard.

Treasury responds to SIGTARP recommendations in writing, and our responses are made available to the public. We work hard to address the concerns raised by these recommendations, in a manner that allows the programs to function as intended and in the context of TARP's wind-down. With respect to HHF in particular, this has included, for example, issuing written guidance to clarify HFA obligations, recovering funds that were improperly spent, and requiring states to strengthen internal controls to prevent non-compliance in the future.

For example, Treasury thoroughly reviewed the $2.2 million of costs questioned in SIGTARP's August 2017 Audit Report. This involved analyzing thousands of individual transactions incurred by all 19 HFAs, dating back to the program's inception in 2010. Following this review, Treasury determined that $656,141 of the questioned costs did not comply with the Federal government's cost principles. The HFAs were required to reimburse HHF. For the reasons set forth in our April 6, 2018, letter to SIGTARP—a copy of which has been provided to the Committee and is available on our website—Treasury determined that the remaining costs questioned by SIGTARP were allowable under Federal cost principles.

As is the case with all TARP programs, HHF is winding down. Although Congress authorized additional funding in 2015, the program remains a temporary one. As of the end of April 2018, Treasury has disbursed $8.8 billion (or 92 percent) of the $9.6 billion obligated under HHF. Although HFAs may continue issuing new approvals through December 31, 2020, most of the states have already begun to close down HHF programs or will do so this year as they exhaust their available funds. This includes California and Florida, the two largest states in the program.

Treasury's outstanding commitments under TARP represent just one percent of the $475 billion authorized by Congress. As TARP winds down, Treasury remains committed to robust oversight and monitoring of all of its TARP programs, including HHF.

As part of this wind down, the Office of Financial Stability, which oversees HHF and other TARP programs, was recently realigned to report to Treasury's Assistant Secretary for Financial Institutions. This realignment will enable our office to oversee an orderly and successful wind down of HHF that is in line with the wind down of other programs that are also overseen by this office, such as the State Small Business Credit Initiative and the Small Business Lending Fund.

I thank you again for the opportunity to testify today and welcome your questions.

Mr. PALMER. I thank the gentleman for his testimony.
The chair recognizes Ms. Goldsmith Romero for her testimony.

STATEMENT OF CHRISTY GOLDSMITH ROMERO

Ms. GOLDSMITH ROMERO. Chairman Palmer and Chairman Meadows and Ranking Member Raskin, Ranking Member Connolly and members of the committee, I really thank you for the support that you've given to SIGTARP.

SIGTARP's a law enforcement agency as well as a watchdog auditor; 415 defendants we investigated have been charged with crimes, including 100 bankers; 349 have already been convicted; 247 sentenced to prison. We've recovered $10 billion from our investigations. That's money going back to the government, to victims, to homeowners. That's a 35 times return on investment on our budget.

SIGTARP auditors have identified hundreds of millions of dollars in waste, questioned costs, cost savings. So I'm grateful that you're examining the Hardest Hit Fund, because I've been there for the full 8 years of the program.

At the very beginning of the program, Phyllis Caldwell, who's the senior Treasury official who created the program, said to SIGTARP that what they were trying to do at Treasury was develop locally tailored strategies. And she explained this to us as: State agencies choose the type of program, the amount of funding, the number of homeowners that they want to help.

The White House announced that the program would be under strict transparency and accountability rules, and Treasury promised that they would measure performance.

Now, Phyllis Caldwell told us that meant: Are we reaching the right number of people? Are the States meeting their targets? If not, we'll learn and we'll adjust.

By 2012, we found Treasury had moved away from that. The senior Treasury official who was in charge of implementing the program told SIGTARP: This is not our program, this is their program.

After 2 years, at the height of the recession, only 3 percent of the money had gone out to only 7 percent of the homeowners who the program was estimated to help. Treasury has never taken ownership of this program or brought accountability. We made bread and butter IG practices, recommendations for best practices that were often dismissed.

Some State agencies performed well. And so for low-performing State agencies, what we did was we did was we did data analytics. We talked to homeowners. We talked to whistleblowers. We talked to housing counselors and others. We identified obstacles that could be removed.

For example, in Florida, seniors had trouble with online applications, that's not surprising, or trouble getting documents such as tax assessments. In Georgia, homeowners had trouble because they had to go to the IRS and get a tax transcript within 30 days, which you can't do and which other State agencies don't require.

After our report, some of these obstacles were removed and the performance improved. We found waste and misused dollars, which you've already talked about: parties, picnics, catered barbecues, gifts, steak and seafood dinners, $500 a month for an executive to drive a Mercedes.

I found one receipt in Illinois, $549 at a pizza restaurant, and it said: HHF funds officially given from U.S. Treasury and to celebrate, and the name of employee's upcoming wedding.

In comparison, Arizona and California, which has the most dollars, spent zero dollars on food and parties.

We applied Treasury's contract criteria. In 2010, Treasury's top lawyer said that under appropriations law an expense must be necessary to what Congress authorized in TARP. And if the homeowner could get this assistance without it, it wasn't necessary.

Well, the Federal cost principles that have been talked about today start with "necessary." Next, "reasonable." Next, "allocable to the program." And that top lawyer at Treasury warned that if you open this up farther, it's going to authorize an almost unlimited number and variety of expenditures rendering the TARP law meaningless.

And that's what we found, days at the zoo and gym memberships and lawyers' fees to settlement discrimination claims and Visa gift cards, custom shirts, building a customer center where most of the customers are not Hardest Hit Fund, moving to a luxury building, $20,000 severance package.

Ultimately, every misused dollar is one less dollar for homeowners that would reduce the cost. We found that there were no Federal competition requirements that could save money and prevent fraud. We found that blight demolition rose 90 percent in Michigan, 65 percent in Ohio, 70 percent in Indiana. Army Corps of Engineers found asbestos mismanaged.

So what are the top threats today in the program? Waste, anticompetitive conduct. In the blight program, corruption, fraud, antitrust, asbestos exposure. These are the types of areas we are investigating and auditing, so we have a vested interest in prevention.

Greater accountability and controls are needed. There are billions of dollars at stake. More than 100,000 people applied for this program this year. Demolitions are just starting this year or haven't even started in some cities. So it's not too late.

Thank you.

[Prepared statement of Ms. Goldsmith Romero follows:]

SIGTARP Office of the Special Inspector General for the Troubled Asset Relief Program

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HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

WRITTEN STATEMENT

OF

THE HONORABLE CHRISTY GOLDSMITH ROMERO
SPECIAL INSPECTOR GENERAL FOR THE TROUBLED ASSET RELIEF PROGRAM

Before the Subcommittees on Intergovernmental Affairs and Government Operations and the Committee on Oversight and Government Reform
U.S. HOUSE OF REPRESENTATIVES

ON

"Ten Years of TARP: Examining the Hardest Hit Fund"

May 22, 2018

Chairman Palmer, Chairman Meadows, Ranking Member Raskin, Ranking Member Connolly, and members of the Committee, I appreciate the opportunity to discuss The Office of the Special Inspector General for the Troubled Asset Relief Program's ("SIGTARP") oversight of TARP, including TARP's Hardest Hit Fund.

Protecting taxpayer dollars and programs drives SIGTARP's mission

Congress created SIGTARP to protect Americans from fraud, waste, and abuse related to TARP. Accountability through criminal and civil prosecutions is the goal of SIGTARP's law enforcement mission. SIGTARP special agents and investigators work hand-in-hand with federal and state prosecutors. We developed an innovative fraud-detection program that employs technology and intelligence to find crime without waiting for crime tips. There have been **415 defendants charged with crimes including 100 bankers**, 84% of those (349) have already been convicted, and others still await trial. While prosecutions take time, **247 defendants have been sentenced to prison**. The Justice Department has brought **enforcement actions against 11 institutions** as a result of SIGTARP investigations.

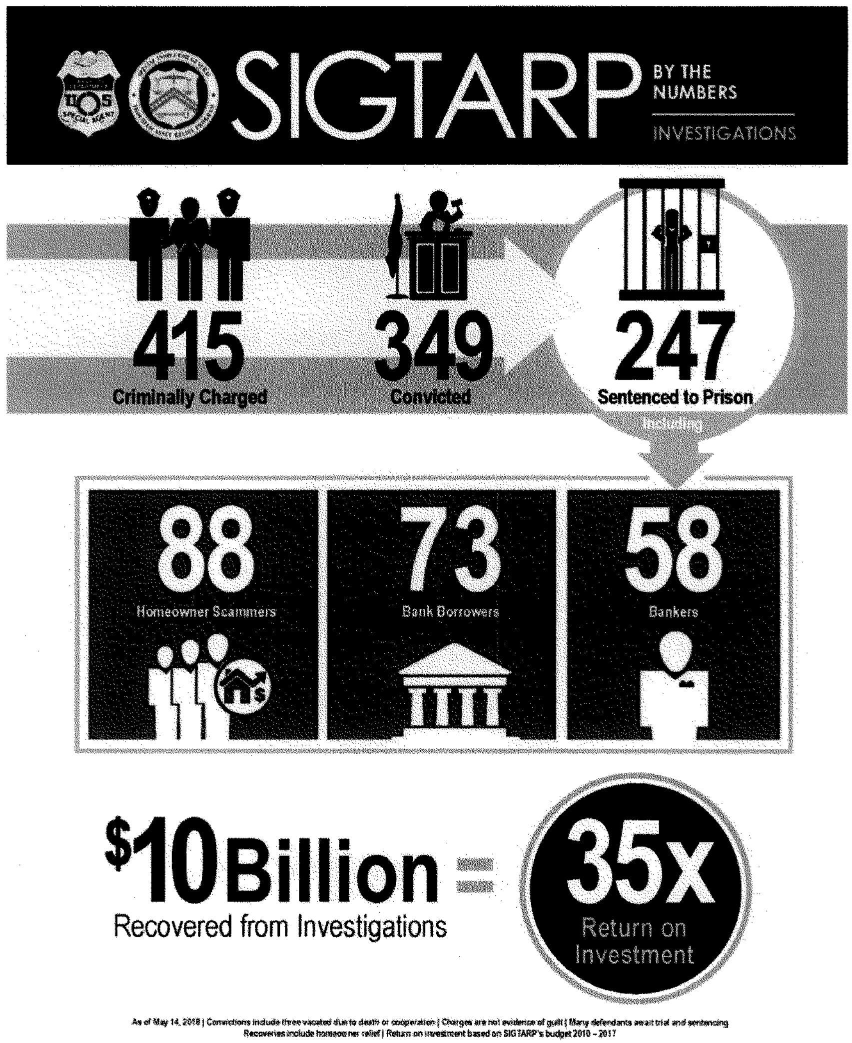
SIGTARP investigations have resulted in **recoveries of $10 billion** in restitution, forfeiture, fines, and homeowner relief – a **35 times return on investment** from SIGTARP's annual budget.

SIGTARP also acts as a watchdog over TARP programs and the $3-4 billion spent in TARP each year. SIGTARP conducts performance audits as well as forensic audits that analyze general ledgers, receipts, and other documents to follow the money. SIGTARP auditors have identified improvements to program effectiveness, mismanagement, millions of dollars in waste, abuse, or other questioned costs for Treasury to recover, and millions of dollars in cost-saving changes.

Results of SIGTARP's Oversight since March 31, 2017

- $90 million recovered for the Federal government
- 38 defendants convicted
- 15 defendants arrested/indicted
- 20 defendants referred to DOJ for prosecution
- 6 jury trials
- $3 million questioned expenses
- Risks of anticompetitive practices identified
- Risk of asbestos exposure and other demolition risks identified
- Costly mismanagement identified

These recent oversight activities by SIGTARP add to the results of SIGTARP's oversight over the years, including the following:


SIGTARP
BY THE NUMBERS
INVESTIGATIONS
415
Criminally Charged
349
Convicted
247
Sentenced to Prison
Including
88
Homeowner Scammers
73
Bank Borrowers
58
Bankers
$10 Billion
Recovered from Investigations
35x
Return on Investment
As of May 14, 2018 | Convictions include three vacated due to death or cooperation | Charges are not evidence of guilt | Many defendants await trial and sentencing
Recoveries include homeowner relief | Return on investment based on SIGTARP's budget 2010 - 2017

SIGTARP BY THE NUMBERS

INVESTIGATIONS

SIGTARP investigations have led to enforcement actions against

ELEVEN

institutions.

Goldman Sachs

Bank of America.

JPMorgan Chase & Co.

Morgan Stanley

SunTrust

ally

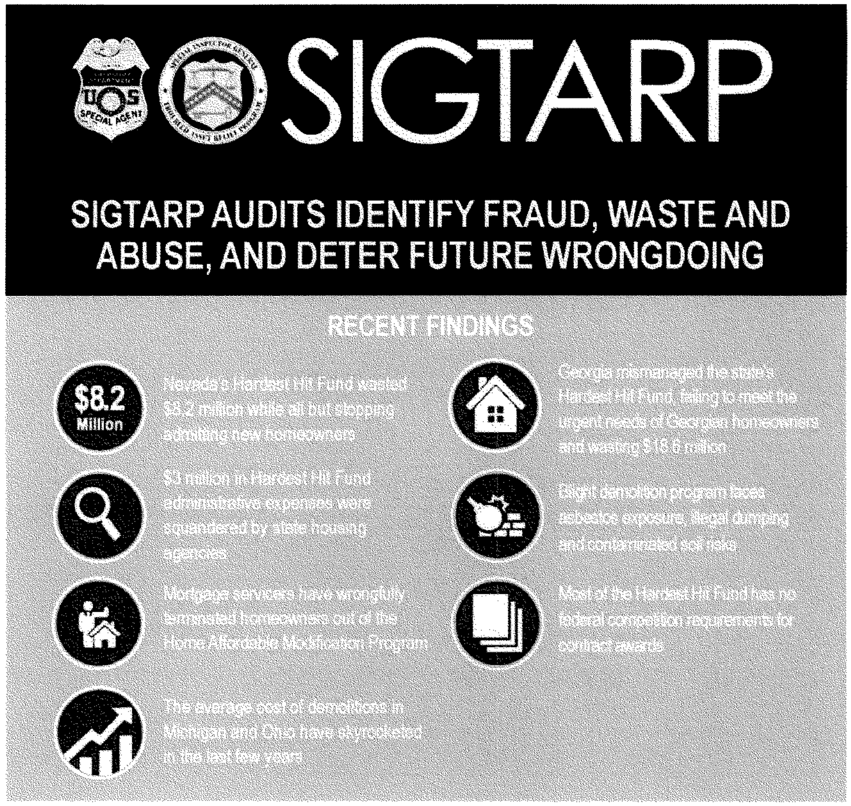
Jefferies

Fifth Third Bank

Wilmington Trust

RBS The Royal Bank of Scotland

GM



Recent Activity in TARP Housing Programs: *There has been much activity in TARP over the last year, triggering SIGTARP investigations and audits. SIGTARP conducts investigations and audits of TARP dollars that have been spent. With $11 billion still available to spend in TARP, we anticipate more oversight in upcoming years.*

HAMP and related programs ($27.8 billion program with $9 billion remaining obligated/committed through September 2023): Although Congress authorized TARP in 2008, and the largest banks exited TARP in the following two years, Treasury extended the largest TARP housing program known as HAMP again and again. Banks and other financial institutions administer the program that involves modifying (lowering) participating homeowners' mortgage payments. While the homeowner application period terminated in December 2016, Treasury's current contracts to distribute up to $9 billion through September 2023, to more than 90 financial institutions including some of the largest banks that received TARP dollars in the bank bailout (for example, Bank of America, Wells Fargo, JP Morgan Chase, and Citigroup), in addition to non-banks (like Ocwen and Nationstar), is in addition to the $18.1 billion already distributed. For example, Treasury has distributed to Ocwen $4.8 billion in HAMP and is committed/obligated to an additional $2.3 billion. Treasury has distributed to Wells Fargo $3 billion in HAMP, and is committed/obligated to an additional $1.4 billion. Treasury has distributed to JP Morgan Chase $3 billion in HAMP, and is committed/obligated to an additional $993 million. Treasury has distributed to Bank of America $2.1 billion in HAMP, and is committed/obligated to an additional $728 million.

Treasury continues to provide billions of TARP dollars to these financial institutions every year and there are nearly one million homeowners in the program today. In the last year (through March 2018), Treasury distributed $2 billion to these financial institutions. With $18.8 billion in TARP distributed to more than 100 financial institutions, including some subjects of Justice Department or state attorney general enforcement actions for wrongful conduct related to their customers, and $9 billion remaining to be spent as detailed in Appendix A, SIGTARP has identified unlawful conduct by banks and other financial institutions in HAMP as TARP's top management and performance challenge. SIGTARP is actively conducting investigations in this area.

Hardest Hit Fund ("HHF") ($9.6 billion program with $2.029 billion remaining as obligated/committed through December 2021):

The Hardest Hit Fund has provided foreclosure mitigation assistance to 306,100 homeowners in 19 states hard-hit by the crisis (43 percent of the 716,195 homeowners who applied). The program has also provided down payment assistance to 41,317 first-time homebuyers (86% of all homebuyers who applied – double the homeowner applicant admission rate). The Hardest Hit Fund blight demolition subprogram has demolished 23,727 abandoned, blighted houses, with about one-third of those demolitions taking place in 2017. The specific decision of how to use HHF dollars (i.e. principal reduction, unemployment assistance, down payments or blight demolition) is made locally by state agencies that administer the program, and is approved by Treasury.

SIGTARP's Early Oversight of HHF: For several years, SIGTARP has reported to Congress each quarter on the performance of the HHF program in each of the 19 states. In these reports, we show how many people have been helped by the program in each state. We also show which state agencies are performing above the national average, at the national average, and below the national average.

In SIGTARP's early audits of the Hardest Hit Fund, we made recommendations based on established best practices for Government programs. Last month, the House Committee on Oversight and Government Reform held a hearing where the Council of IGs reported on the top seven challenges facing the Government, based on common themes identified by each Inspector General. Four top common challenges across Government agencies and programs are:

(1) Performance management and accountability challenges, including the lack of performance-based metrics;

(2) Financial management challenges, including weak controls to ensure taxpayer funds are used efficiently and effectively;
(3) Procurement management challenges, including weaknesses in procurement planning and a lack of oversight over contractors' performance that can place taxpayer dollars at risk; and
(4) Grant management challenges, including deficiencies in monitoring and measuring the success of grants to ensure that grant investments achieve results, overseeing the use of grant funds to prevent misspent funds, and obtaining timely and accurate financial and performance information from grantees.

These four top challenges for Government identified by Inspectors General align with SIGTARP's findings in the Hardest Hit Fund from 2010 through 2016. In those reports, SIGTARP strived to give Treasury the best recommendations that we could so that Treasury could strengthen the Hardest Hit Fund against these common challenges, and prevent fraud, waste, and abuse. SIGTARP recommended that Treasury conduct risk assessments, and incorporate best practices to mitigate each of these challenges and all risks that Treasury assessed. Incorporating best practices into a program saves Government resources from later dealing with the costly consequences that can result from these common challenges. Although some recommendations were implemented by Treasury and/or state agencies, many of SIGTARP's recommendations were not implemented.

Recent Activity in HHF: With the Hardest Hit Fund scheduled to expire in fiscal year 2018, Congress extended the program's deadline in the 2016 omnibus spending bill and provided an additional $2 billion – dollars that remain available for spending until December 2021, as detailed in Appendix B. In calendar year 2017, Treasury disbursed nearly all remaining dollars to the state agencies and approved significant shifts in the program for how the remaining more than $2 billion will be spent. This led to significant activity in the program. Since January 1, 2017:

- 114,033 people applied to HHF in 2017. To put that in context, a total of 347,417 people have been admitted to the program since 2010
- 19 state housing finance agencies spent $1.3 billion
- $72 million came back into the program from actions like the sale or refinance of houses with an HHF lien
- Eight state agencies announced new programs
- 7,989 abandoned houses were demolished – about one-third all demolitions in the program
- 84 cities/counties only started demolishing blighted houses in 2017
- 1 state and 41 cities/counties have not yet reported starting demolitions

Recent Oversight by SIGTARP: SIGTARP has continued to report to Congress each quarter on the performance of the HHF program in each of the 19 states. SIGTARP's April 26, 2018 Quarterly Report to Congress contained 72 pages of state-specific performance data, including each state agency's homeowner admission rate, denial rate, and withdrawn application rate (as applications are often withdrawn by the state agency), which is compiled in summary as follows:

Hardest Hit Fund Homeowner Admission Rate by State

State	Homeowners Approved	Homeowners Who Applied	Admission Rate
Florida	30,669	138,373	22.2%
Arizona	5,061	21,505	23.5%
Alabama	6,300	26,744	23.6%
Georgia	10,395	32,597	31.9%
Nevada	5,676	16,877	33.6%
New Jersey	7,572	20,733	36.5%
California	73,856	175,700	42.0%
Oregon	13,435	31,176	43.1%
South Carolina	13,023	29,122	44.7%
Michigan	35,669	73,454	48.6%
Rhode Island	2,950	5,088	58.0%
Mississippi	4,457	6,684	66.7%
Illinois	17,992	26,943	66.8%
North Carolina	25,690	38,316	67.0%
Kentucky	9,395	13,455	69.8%
Ohio	25,970	37,015	70.2%
Dist Of Columbia	807	1,075	75.1%
Tennessee	7,356	9,684	76.0%
Indiana	9,827	11,654	84.3%
Total	**306,100**	**716,195**	**42.7% National Average**

Hardest Hit Fund Homeowner Denial Rate by State

State	Homeowners Denied	Homeowners who Applied	Denial Rate
Arizona	13,987	21,505	65.0%
New Jersey	11,983	20,733	57.8%
Georgia	13,216	32,597	40.5%
Rhode Island	1,707	5,088	33.5%
South Carolina	9,595	29,122	32.9%
Michigan	22,774	73,454	31.0%
California	49,339	175,700	28.1%
Nevada	4,350	16,877	25.8%
Florida	34,842	138,373	25.2%
Mississippi	1,585	6,684	23.7%
North Carolina	7,220	38,316	18.8%
Illinois	4,997	26,943	18.5%
Kentucky	2,297	13,455	17.1%
Dist Of Columbia	181	1,075	16.8%
Tennessee	1,542	9,684	15.9%
Ohio	5,149	37,015	13.9%
Alabama	2,456	26,744	9.2%
Oregon	2,735	31,176	8.8%
Indiana	710	11,654	6.1%
Total	**190,665**	**716,195**	**26.6% National Average**

Hardest Hit Fund Withdrawn Application Rate (Applications are often withdrawn by state agencies)

State	Withdrawals	Homeowners who Applied	Withdrawal Rate
Alabama	17,705	26,744	66.2%
Arizona	2,363	21,505	11.0%
California	49,213	175,700	28.0%
Florida	63,377	138,373	45.8%
Georgia	8,675	32,597	26.6%
Illinois	3,134	26,943	11.6%
Indiana	1,117	11,654	9.6%
Kentucky	1,624	13,455	12.1%
Michigan	14,652	73,454	19.9%
Mississippi	621	6,684	9.3%
Nevada	6,801	16,877	40.3%
New Jersey	526	20,733	2.5%
North Carolina	4,909	38,316	12.8%
Ohio	5,684	37,015	15.4%
Oregon	14,517	31,176	46.6%
Rhode Island	324	5,088	6.4%
South Carolina	6,103	29,122	21.0%
Tennessee	754	9,684	7.8%
Dist Of Columbia	37	1,075	3.4%
Total	**202,136**	**716,195**	**28.2% National Average**

Performance metrics like these can serve as a risk assessment and give SIGTARP analytical insight into where to spend limited resources on a deep-dive audit.

- SIGTARP's HHF Florida audit: In 2015, SIGTARP conducted an audit into the Hardest Hit Fund in Florida as the state agency only admitted 20% of all who applied, which was the lowest admission rate in all 19 states. SIGTARP identified obstacles to program effectiveness. For example, SIGTARP identified that senior citizens faced problems applying for assistance and providing the required documentation. As a result, 46 percent of all seniors who had applied saw their application withdrawn and received no assistance. For those seniors who did receive HHF assistance, it took 9 to 10 months to obtain HHF assistance. SIGTARP made 20 recommendations to remove obstacles to program effectiveness.

- SIGTARP's HHF Georgia audit: In 2017, SIGTARP conducted an audit into why the HHF homeowner admission rate for Georgia homeowners was consistently low compared to other states. SIGTARP found obstacles to program effectiveness including a confusing, online homeowner application system. We found unnecessary red tape such as the state agency requiring homeowners to obtain a tax transcript from the IRS when other state agencies in HHF accept copies of tax returns. The IRS's process to obtain a tax transcript takes more time than the state agency gave homeowners to complete their HHF application. This unnecessary red tape led to the state agency denying people for the program or withdrawing their application. It also resulted in unnecessary processing costs as applications were churned through the denial/withdrawal process because the package was not complete. SIGTARP found that the Georgia agency knew about many of the obstacles but did not remove them, which contributed to SIGTARP finding mismanagement. The Georgia agency reacted to our report positively, and has already begun removing some of these obstacles. The conclusion of this report is contained in Appendix C.

Performance metrics and data analytics in 2015 revealed that HHF in Nevada suffered a steep drop off in homeowners admitted to the program (a 96% drop in homeowner admissions). In the entire year of 2015, only 117 Nevada homeowners were admitted to HHF, despite continued economic factors that showed housing market distress and above average unemployment. Despite the fact that it had all but stopped homeowners from getting HHF assistance, the non-profit administering the program in Nevada known as NAHAC had increased their administrative (operating) expenses charged to the Hardest Hit Fund. This risk assessment led to SIGTARP conducting a deep dive audit into the non-profit's spending.

<u>SIGTARP's HHF Nevada audit:</u> SIGTARP's September 2016 report identified $8.2 million in waste, and a culture of waste and abuse, in HHF in Nevada that occurred under successive CEOs of NAHAC. The entire conclusion of this report is contained in Appendix C. In summary:

- *SIGTARP found a culture of NAHAC charging the Hardest Hit Fund for expenses that benefitted their employees, for example*: annual holiday parties at a casino and country club, monthly birthday celebrations, annual employee family picnics, employee gifts like Visa gift cards, a Massage Envy gift certificate, an Edible Arrangement fruit basket, and a baby blanket, a $500 car allowance for NAHAC's CEO to drive a Mercedes Benz, country club lunches, a manager's outing at a high-end cocktail bar, and more.
- *SIGTARP also found that NAHAC charged the Hardest Hit Fund to fix its problems, for example:* a $20,000 severance payment to the CEO who was forced to resign, $184,319 on legal fees and settlement payments of discrimination claims made by former employees and a Department of Labor investigation into violation of the labor laws, the costs to hire a private investigator related to a former employee, $26,396 for forensic auditors to reconcile its books due to errors, $10,812 for an independent auditor to reconcile non-HHF bank accounts, $100,385 to move to a luxury office building with double the rent, with NAHAC subsequently breaking the lease, incurring legal fees, and paying rent on two offices in Las Vegas for one month.
- *SIGTARP found that during six months of 2016, NAHAC kept for its own expenses $1 in Hardest Hit Funds for every $1 it provided to homeowners.*

Subsequently, Treasury only required repayment of 1% of the $8.2 million in waste identified by SIGTARP, approximately $82,000.

<u>SIGTARP's HHF Administrative Expense audits:</u> The Nevada HHF audit triggered additional current and future audits into the administrative expenses of the state agencies and non-profit companies administering HHF. Treasury has budgeted more than $1 billion for state agency administrative expenses, $810,312,810 of which has already been spent.

SIGTARP released an audit in August 2017 questioning $3 million in state agency expenses charged to HHF. The spending that we found by each state agency varied widely. SIGTARP questioned more than $100,000 charged to the Hardest Hit Fund for barbeques, parties, picnics, celebrations, outings, food and beverages. SIGTARP found no consistency in charges for food and beverages. State agencies in North Carolina, Illinois and Nevada regularly charged for employee food and beverages. For example, the state agency in North Carolina charged the Hardest Hit Fund for parties, catered barbeques with decorations for 50, 60 or 90 people, steak and seafood dinners, and regular meals. In June 2016, the Illinois state agency charged HHF $549 for a pizza party to "Celebrate HHF Funds officially given from U.S. Treasury and celebrating [employee's] upcoming wedding."

In comparison, the non-profit in California that has the most HHF dollars of any state and has admitted the most homeowners into the program, charged zero dollars for food or parties. The Arizona agency also charged zero dollars for food or parties.

SIGTARP audited these expenses applying the criteria established by Treasury and GAO standards for waste. In 2010, Treasury Secretary Timothy Geithner declined requests by members of Congress to use Hardest Hit Funds for legal aid expenses or broad housing counselor expenses after determining that Congress did not authorize these expenses in the TARP law known as the Emergency Economic Stabilization Act. Secretary Geithner cited to an appropriations law analysis by Treasury's then-General Counsel George Madison. General Counsel Madison determined that to use HHF dollars, appropriations law requires that the charge be "necessary" for a homeowner to receive HHF assistance. Treasury included this "necessary" requirement in its contracts with state agencies in HHF and applied the federal cost principles that apply to grants. The federal cost principles require first and foremost, that an expense be "necessary" for the specific purpose authorized by Congress, second, that the expense also be "reasonable," third, that the expense also be allocable to the Congressionally-authorized activity, and fourth, that the expense also not be specifically prohibited.

In order to determine whether an expense was "necessary" to: (1) comply with the first requirement of federal cost principles; and (2) adhere to Congressional intent in authorizing TARP spending, SIGTARP relied on Treasury General Counsel Madison's analysis applying appropriations law to Hardest Hit Fund expenses. SIGTARP did not question whether the expenses could be appropriately paid from other sources such as state funds. SIGTARP only analyzed whether they were appropriate to be charged to TARP dollars.

In order to determine whether legal aid services were "necessary" for the Congressionally-authorized purpose of HHF, Treasury General Counsel Madison articulated two criteria: (1) legal aid services frequently would result in outcomes other than loan modification, and accordingly, are not by definition necessary for HHF; and (2) borrowers can obtain loan modifications without legal aid services. These were the criteria SIGTARP applied. For example, the fact that homeowners in California and Arizona could obtain HHF assistance without the state agencies charging HHF for parties and food meant that the second criteria articulated by General Counsel Madison was not met, those expenses were not "necessary," and therefore violated the first requirement of the federal cost principles.

Throughout our audit, SIGTARP always kept in mind that Treasury did not authorize legal aid expenses or general housing counselor expenses to be paid from Hardest Hit Funds. Throughout our oversight of TARP, we have learned that often local legal aid offices are the only reason why some homeowners receive assistance. In the audit of Georgia HHF, the Atlanta Legal Aid reported to us in several instances how they assisted the state agency in reconsidering homeowners who had been wrongfully denied, or had faced one of many common obstacles to receiving HHF assistance. Housing counselors also often steer struggling homeowners to the HHF program. If those expenses were not necessary, than the zoo admissions for housing counselors were also not necessary under that reasoning.

Some of the agencies have started to repay the charges questioned by SIGTARP. SIGTARP has been working with Treasury to assist in their recoveries of these taxpayer dollars. SIGTARP is currently auditing travel and conference expenses, and recent spending in Nevada, and anticipates additional audit work. We hope that these audits and that this hearing deters future misuse of Hardest Hit Funds. Our audits have already led to some state agencies reviewing spending that SIGTARP has not audited, and repaying Treasury, showing the benefit of oversight. We encourage these self-reviews.

SIGTARP audits on competition requirements in HHF: In 2016 and again in 2018, SIGTARP reported on the lack of procurement standards that ensure full and open competition in HHF, including for state agency administrative expenses. Treasury's budget for each state agency contemplates contract awards, including: lawyers, accountants, auditors, consultants, communication professionals, marketing companies, information technology professionals, training professionals, website developers, counseling agencies, and more. However, there are no federal requirements for competition in HHF, unlike those that exists in federal grant programs, requirements that SIGTARP recommended that Treasury apply to HHF in 2016 and in 2018. State rules are inconsistent and may not apply. As reported in SIGTARP's audit, competition can save 20%, curb fraud, waste and abuse, improve contractor performance, deter favoritism, and promote accountability for results.

Although Treasury and state agencies operate HHF much like a grant program, it is not actually a grant program, and therefore the procurement standards that would automatically apply to grants do not apply. After SIGTARP's 2016 audit in which it recommended that Treasury apply the procurement standards that apply to grants, Treasury only added a one-sentence requirement that state agencies ensure full and open competition limited only to the HHF blight demolition subprogram.

Top Performance and Management Challenges in the Hardest Hit Fund

Given our audit findings, and the fact that more than $1 billion is budgeted for state agency administrative expenses, SIGTARP has identified the risk of waste in state agency administrative expenses as a top management challenge in the Hardest Hit Fund. SIGTARP has recommended simple fixes to mitigate this challenge, recommendations focused on accountability and controls.

Two of the other top performance or management challenges identified by SIGTARP for the Hardest Hit Fund relate to the blight elimination subprogram of the Hardest Hit Fund, a program that pays TARP dollars to hundreds of contractors in the demolition industry to demolish blighted houses in 269 cities or towns. We identified those top challenges as: (1) the risk of asbestos exposure, contaminated soil, and illegal dumping; and (2) the risk of corruption, anticompetitive acts (antitrust violations), and fraud.

SIGTARP reports to Congress quarterly on the progress of this subprogram, providing detail on the number of houses demolished by city or county, and the recipients of TARP dollars. About one-third of the demolitions took place in 2017. SIGTARP is also actively conducting criminal investigations and audits into the blight subprogram. Our ongoing investigations remain confidential and law enforcement sensitive. Since 2015, SIGTARP has issued a series of recommendations to counter the challenges in the blight subprogram. SIGTARP has contracted with the Army Corps of Engineers to provide technical assistance, and they have raised significant concerns related to the lack of industry safeguards in the program, which we issued in a recent report. SIGTARP reported in 2016 on the lack of federal requirements for competition that could save taxpayer dollars and protect against fraud. In April 2017, SIGTARP reported to Congress on the rising costs of TARP-funded demolition as the average per house demolition-related costs paid by TARP rose 90% in Michigan and 65% in Ohio. Implementation of these recommendations would serve to protect taxpayers and local residents.

In keeping with the Committee's hearing invitation that the Committee will examine SIGTARP's findings, I have included in Appendix C the full text of some of SIGTARP's recent (2016-2018) reports containing our findings related to the Hardest Hit Fund. I also include a very high-level summary of the 124 SIGTARP recommendations made in these reports, recommendations designed to identify and prevent fraud, waste, and abuse, save costs, recover TARP dollars that we identified, and increase the effectiveness of the program. Given the length of each report, I have only provided the conclusion containing our findings. For greater context, I invite you to review the full reports as well as SIGTARP's quarterly reports to Congress, which provide additional context. Each of these are on SIGTARP's website. I am also happy to provide them to you.

On behalf of SIGTARP, I thank the Committee for supporting SIGTARP and for conducting oversight over the Hardest Hit Fund through this hearing. Implementation of the reforms recommended by SIGTARP will protect taxpayers and TARP.

Appendix A

TREASURY CONTRACTS FOR $27.8 BILLION TO BE PAID TO HAMP MORTGAGE SERVICERS UNTIL 2023 AS OF 3/31/2018

SIGTARP Investigations and Audits		Future SIGTARP Investigations and Audits
$4.8 Billion *TARP dollars paid*	OCWEN	$2.3 Billion *TARP Obligated or Committed to be paid*
$3 Billion *TARP dollars paid*	WELLS FARGO	$1.4 Billion *TARP Obligated or Committed to be paid*
$3 Billion *TARP dollars paid*	JPMorganChase	$993 Million *TARP Obligated or Committed to be paid*
$2.1 Billion *TARP dollars paid*	Bank of America	$728 Million *TARP Obligated or Committed to be paid*
$1.3 Billion *TARP dollars paid*	Nationstar Mortgage	$899 Million *TARP Obligated or Committed to be paid*
$1.3 Billion *TARP dollars paid*	SPS Select Portfolio Servicing, Inc.	$878 Million *TARP Obligated or Committed to be paid*
$719 Million *TARP dollars paid*	citimortgage	$225 Million *TARP Obligated or Committed to be paid*
$429 Million *TARP dollars paid*	CIT Bank OneWest Bank	$108 Million *TARP Obligated or Committed to be paid*
$330 Million *TARP dollars paid*	BAYVIEW	$199 Million *TARP Obligated or Committed to be paid*
$274 Million *TARP dollars paid*	ditech HOME LOANS	$197 Million *TARP Obligated or Committed to be paid*
$1.4 Billion *TARP dollars paid*	Other Servicers (141 Institutions)*	$1.1 Billion *TARP Obligated or Committed to be paid*
$18.8 Billion *TARP dollars paid*	**TOTAL**	$9 Billion *TARP Obligated or Committed to be paid*

Sources: Treasury, Aggregate Cap Monitoring Report Mar 2018, SIGTARP analysis of Treasury MHA data.
*A total of 151 institutions have been paid or are eligible to be paid TARP funds through MHA, of which 130 can still receive TARP disbursements subsequent to 3/31/2018

Appendix B

STATUS OF $9.8 BILLION IN HHF FUNDS AVAILABLE TO STATE AGENCIES UNTIL 2021

Spent	State	Unspent
$73,378,415	Alabama	$90,316,214
$257,718,887	Arizona	$42,651,614
$2,103,024,525	California	$334,986,128
$19,724,440	District of Columbia	$10,031,004
$1,047,075,886	Florida	$105,316,080
$260,284,630	Georgia	$115,159,020
$531,920,117	Illinois	$210,467,620
$220,438,277	Indiana	$66,788,308
$170,524,349	Kentucky	$41,411,911
$533,923,455	Michigan	$237,201,507
$100,805,334	Mississippi	$44,352,334
$598,152,160	North Carolina	$130,338,577
$325,860,849	New Jersey	$96,607,448
$123,763,761	Nevada	$80,649,003
$594,619,440	Ohio	$175,164,211
$270,588,609	Oregon	$84,824,396
$90,892,505	Rhode Island	$26,903,377
$262,722,325	South Carolina	$58,526,768
$228,812,681	Tennessee	$77,324,518
$7,814,230,644	**Total**	**$2,029,020,037**

SIGTARP Investigations and Audits

Future SIGTARP Investigations and Audits

Note: Unspent figures include an additional $243 million in recycled TARP dollars.
Source: Treasury, response to SIGTARP data call 4/6/2018; SIGTARP analysis of HHF Quarterly Financial Reports.

This chart does not show all of the money to be spent over the next few years in the Hardest Hit Fund. Tens of millions of dollars are recycled back into the program each year from actions like the sale or refinance of a house with an HHF lien. Last year, $72 million recycled back into the program.

Appendix C

SIGTARP's Recent Findings on the Hardest Hit Fund

Waste and Abuse in the Hardest Hit Fund in Nevada

Conclusion of SIGTARP audit issued September 29, 2016

The Nevada Housing Division allowed abuse and waste of $8.2 million in Hardest Hit Fund dollars instead of helping homeowners at risk of foreclosure.[1] The Nevada Housing Division, the state housing finance agency, outsourced administration of the Hardest Hit Fund to one of its pre-existing components called the Nevada Affordable Housing Assistance Corporation ("NAHAC").[2] Its proposal to Treasury said, "Program leadership will come from the NAHAC Executive Committee....The Nevada state agency's Executive Director, Chief Financial Officer and Chief of Federal Programs constitute the Executive Committee...."[3] Given that the Nevada Housing Division served as the agency responsible under Treasury's HHF contract, SIGTARP will refer to both NHD and NAHAC as "the state agency" or "Nevada state agency."

Hardest Hit Fund programs are targeted to address these significant problems that place Nevada homeowners at risk of foreclosure, but the Hardest Hit Fund cannot be effective in tackling these problems if the TARP funds are kept for administrative expenses and do not get out to homeowners.

SIGTARP found that the state agency took homeowner rescue dollars for itself, at the same time it all but stopped helping homeowners.

- ***In 2015, the Nevada state agency kept one TARP dollar for every TARP dollar it gave to a homeowner.*** *It kept for itself more than $1.4 million of the $2.4 million in TARP dollars spent in administrative expenses in Nevada that year.*

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[1] For purposes of this calculation, SIGTARP reduced the $2,241,396 wasted administrative expenses in 2015 by the specific 2015 expenses identified in the report to avoid potential double counting. The specific 2015 expenses totaled $1,915,465.49.

[2] The state HFA is in contract with Treasury, and information on HHF appears on the state HFA's website. Treasury required that each state HFA use a financial institution to serve as an "eligible entity." NAHAC is the eligible entity. When it launched HHF in 2010, NHD officials comprised a majority of the Executive Committee of NAHAC's board. In 2013, NHD approved changes to the make-up of NAHAC's board that reduced its influence over NAHAC and spun off NAHAC as a component. This is rare in HHF, as most state housing agencies in the Hardest Hit Fund administer the program, either themselves or through a special-purpose eligible entity created specifically for HHF.

[3] By mid-2013, NAHAC's executive committee was no longer comprised of NHD executives. The proposal is published on Treasury's website at https://www.treasury.gov/initiatives/financial-stability/programs/housing-programs/hhf/Documents/NV.pdf.

- ***For half of 2015, it spent more on itself than it provided to homeowners.*** *The Nevada agency spent $1.2 million on itself, almost $250,000 more than it provided to homeowners.*

- ***In 2015, it only admitted 117 new Nevada homeowners into the Hardest Hit Fund, a 95% decrease from 2012 and 2013.*** *Although many homeowners in the nation have seen some recovery, many Nevada homeowners remain hard hit by unemployment and underwater mortgages—precisely the problems HHF was designed to address. Demand for the program continued, but in 2015, the state agency only admitted 14.5% of homeowners who applied.*

SIGTARP found that the Nevada state agency abused the Hardest Hit Fund with seemingly, a sense of entitlement and no appreciation for the fact that they were taking funds for themselves that were intended to help struggling Nevada homeowners stave off foreclosure.

- ***A car allowance of $500 per month for the CEO who drove a Mercedes was charged to the Hardest Hit Fund.*** *The Nevada state agency expensed $11,000 to the Hardest Hit Fund beginning in October 2014, an expense that was not necessary to the administration of HHF, particularly because it was not charged in the past and official travel by car can be reimbursed by mileage.*

- ***More than $10,000 charged to the Hardest Hit Fund for a manager outing at "the nation's best high volume cocktail bar" Herbs & Rye, a $105 country club lunch, a $900 company picnic, a $100 massage for an employee, a $124 Edible Arrangement for the accounting staff, a baby gift for an employee, regular staff breakfasts, lunches and perks and a $4,500 bonus for the CEO, all while the number of homeowners admitted to the program plummeted.*** *These expenses were not necessary for the Hardest Hit Fund as shown by the fact that the Nevada state agency provided HHF help to homeowners in past years without buying meals and drinks and gifts for employees. SIGTARP found the Nevada state agency increased spending on wining and dining and freebies for employees, at the same time it decreased the number of homeowners admitted to the Hardest Hit Fund. The Nevada state agency abused HHF by spending these rescue dollars on its own employees like a private company, but making HHF foot the bill.*

- ***December holiday parties for employees complete with holiday gift cards were charged to the Hardest Hit Fund.*** *While not a large sum of money ($5,811), it was money that could have helped some homeowners pay their mortgage. These parties started in December 2013 at a local restaurant, escalated to a casino in December 2014, and then a country club in December 2015, all while the agency's HHF help to homeowners plummeted. In the 4th quarter of 2015, while holding their holiday party at a country club, the state agency only admitted 24 new homeowners into the program—a meager 8% of the homeowners admitted two years prior.*

- ***In July 2014, the state agency moved offices to the gleaming $130 million City Hall building in North Las Vegas, built three years earlier, without concern that their rent would nearly double, because they charged the full***

rent to the Hardest Hit Fund. *At the same time, the state agency cut their staff, and severely cut homeowner admissions to the program. The New York Times ran a story on November 19, 2011, criticizing city officials from moving into this new building derided by residents still suffering from the economy as "a Taj Mahal," http://www.nytimes.com/2011/11/20/us/in-north-las-vegas-new-city-hall-is-a-reminder-of-flush-days.html?_r=0.*[4] *The New York Times described the North Las Vegas City Hall building as having a view that stretched for miles, marble floors, granite tabletops, a parking lot covered with solar panels to keep cars cool in the Vegas heat, a wellness center including fitness equipment, and an outdoor concert plaza. Given that one third of the homes in North Las Vegas were in foreclosure, and that houses that were occupied were worth less than half the value from two years prior, the New York Times reported one resident who lost his job as saying about the City Building, "It's just disrespectful – like they have no idea of what people are going through."*

In internal correspondence in 2014, the Nevada state agency discussed that City Hall was "much nicer space" and that it would help with employee morale, but showed no concern for the high rent. City Hall rent was $11,200 per month, "one of the highest lease rates around," as described by the former CEO, and nearly double the prior rent of approximately $6,000. After the board changed in 2015, a new CEO broke the lease, but the state agency never reimbursed the Hardest Hit Fund for the excessive rent, instead continuing to charge the Hardest Hit Fund for costs to move the agency to a smaller more affordable office, lawyers' fees related to moving, and rent at two offices during their office move in the month of June 2015, for a combined waste total of more than $100,000.

Violations of Federal labor laws, employee suits for discrimination, and careless accounting, all served to drive up costs, costs that the Nevada state agency expensed to Treasury.

Lawyers to settle a Federal investigation by the Department of Labor who found that the state agency violated Federal law, employee discrimination lawsuits (block-billed at $123,217), and for an ethics investigation (block-billed at $18,160), a forensic auditor to reconstruct the financial books (at $26,395), an independent auditor to reconcile bank accounts (at $10,812), and a lawyer and private investigator (at $12,845), all worked to clean up situations that never should have happened in the first place, and certainly should not have been charged to the Hardest Hit Fund.

This is not a case of mistake or negligence. SIGTARP found a deliberate attempt by the Nevada state agency to charge the Hardest Hit Fund for every expense it could.

1. Chosen to be the conduit of TARP rescue funds from Treasury to Nevada homeowners, the state agency used those same funds to run nearly its entire business. They ran all expenses (HHF and non-HHF) first through the Hardest Hit Fund bank account, and then determined whether to reimburse any items back to that account, often not reimbursing.

[4] Jennifer Medina, "In Nevada, a City Hall Is a Reminder of Flush Days," *The New York Times*, Nov. 19, 2011.

2. The Nevada state agency routinely paid their corporate credit card using a check drawn on the Hardest Hit Fund bank account and failed to reimburse the HHF account for non-HHF expenses.

3. Treasury told the state agency in 2014 that it had caught, on a sample basis, charges unrelated to HHF. The state agency reimbursed Treasury for some of those charges. The state agency did not show Treasury other charges that were also not related to HHF. And the state agency continued to charge new non-HHF expenses to the Hardest Hit Fund.

4. An external forensic auditor told the state agency in 2015 that non-HHF expenses were not allowed under Treasury's contract. The state agency continued to use HHF dollars for non-HHF expenses.

5. The internal auditor and the external forensic auditor told the state agency that payroll costs had to be allocated between the Hardest Hit Fund and non-HHF funding sources according to a cost-sharing methodology, which the state agency ignored.

6. The state agency had inappropriate travel and entertainment expenses and unsupported credit card charges caught by Treasury and the forensic auditor of $23,838. However, the state agency continued to charge entertainment expenses to HHF.

7. The state agency initially shared overhead costs such as rent and payroll between both the Hardest Hit Fund and non-HHF funding, but then stopped that practice, instead charging all to the Hardest Hit Fund. Small and inconsistent reimbursements to Treasury for rent in the Reno office in 2012 of a total of $2,739, which decreased to $1,943 in 2013, evidence that the state agency knew that the Hardest Hit Fund should not pay 100% of these costs. However, the state agency charged 100% of the Las Vegas office rent to the Hardest Hit Fund and, in 2014 and 2015, ceased reimbursements for the Reno rent. The state agency reimbursed Treasury nearly $100,000 for partial payroll in 2012, and about half that amount in 2013. It did not reimburse Treasury for any payroll in 2014, and in 2015 reimbursed a single payment of $706.

Warnings about inappropriate spending were met with a temporary fix to reverse those charges caught, while continuing the behavior. SIGTARP recently learned that although the state agency essentially terminated the latest CEO in May, who left on June 3, 2016, a two-month severance package of $20,875 in full pay and benefits (including a fixed expense and automobile allowance of more than $600 per month) is being paid out of the HHF bank account. This has no purpose in HHF. SIGTARP finds that all of the deliberate behavior constitutes waste and abuse.[5]

[5] According to GAO, waste is defined as the act of using or expending resources carelessly, extravagantly, or to no purpose. Abuse involves behavior that is deficient or improper when compared to behavior that a prudent person would consider reasonable and necessary. This includes the misuse of authority or position for personal gain or for the benefit of another.

The Hardest Hit Fund was not intended to be a cash cow for participating state agencies, and the state agency must pay these wasted expenses back. Treasury's HHF contract limits administrative expenses to only those "necessary to carry out the services." SIGTARP will report in the future on additional amounts this state agency must pay back. As President Obama has said in an Executive Order, the American people must be able to trust that the Government is doing everything in its power to stop wasteful practices and earn a high return on every dollar that is spent. The role of SIGTARP, like other Offices of Inspector General, includes reporting on wasteful spending and abuse so that Federal agencies can act to stop the waste and abuse, and seek repayment. SIGTARP is an independent watchdog protecting taxpayer dollars. Every dollar wasted translates to one less dollar to help the homeowners Congress intended TARP to assist. A failure to seek and obtain repayment of these wasted federal dollars would only harm those people who HHF intended to serve.

Sometime over the last three years, this state agency lost sight of the fact that they are only in this program to be the conduit through which Treasury provides TARP rescue funds to Nevada homeowners to help them stay in their homes. NAHAC stopped performing under Treasury's contract, and the Nevada Housing Division allowed that to continue. Both state agencies seemingly had no regard for the squandered opportunity to help Nevada homeowners this program intended to assist, at a time when those homeowners needed it most. As a result, Nevada homeowners have not had fair access to these Federal funds. They have been treated differently and unfairly than homeowners in other participating states, all because of a low-performing state agency that engaged in waste and abuse.

The Nevada Housing Division allowed the waste and abuse to occur unchecked. That arrangement is rare as typically state housing finance agencies themselves administer the Hardest Hit Fund in their state. The most recent termination of NAHAC's CEO and greater involvement now by the Nevada Housing Division over NAHAC is not enough to protect this program against continued waste and abuse. Management and the board have changed many times over—four CEOs in the span of three years—and this pattern of waste and abuse continued under the Nevada Housing Division's nose.

28 UNIMPLEMENTED PRIORITY RECOMMENDATIONS

Reflecting cost savings and recoveries of $62.2 million

Treasury should recover $8.1 million in waste from Nevada contractor.

Treasury should remove contractor NAHAC that wasted TARP dollars.

Unnecessary Expenses Charged to the Hardest Hit Fund

Conclusion of SIGTARP audit issued August 25, 2017

State agencies will spend $1.1 billion in administrative expenses to distribute $8.5 billion in TARP's Hardest Hit Fund. Every dollar spent on administrative expenses is one dollar less for homeowner assistance or one dollar saved for taxpayers. At the beginning of the program, then-Treasury Secretary Timothy Geithner determined that Treasury's authority under the Emergency Economic Stabilization Act did not allow TARP to pay for unnecessary state agency expenses, including legal aid or counseling programs. In Treasury's contracts with state agencies, TARP dollars spent on expenses must be "necessary" to modify homeowner loans through HHF, which is the authority in EESA for HHF. To give state agencies notice as to which expenses Treasury considered "necessary," Treasury included in each contract a list of "Permitted Expenses."

SIGTARP is conducting a series of audits on state agency expenses in HHF, initially prompted by poor performance and rising costs in HHF in Nevada, and, subsequently, by a request from Chairman Charles Grassley. In SIGTARP's first audit in this series released in September 2016, SIGTARP identified $8.2 million in wasted TARP dollars in HHF in Nevada on expenses like parties, gifts, excessive rent, and legal costs to defend against Federal investigations and lawsuits. The chief executive officer of the Nevada agency was given a monthly allowance of $500 to drive a Mercedes, and was paid $20,000 in severance after he was fired— all charged to TARP.

In this second report in the series, SIGTARP identifies nearly $3 million in state agency expenses that violate Treasury's contract, including TARP dollars spent on barbeques, parties and celebrations, food and beverages, employee bonuses and gifts, payments to former employees, employee gifts, employee gym memberships, and employee transportation perquisites. This also includes $258,333 for avoidable data storage costs, and a 2016 build-out of a state customer center that was charged 100% to TARP despite most people using the center for non-TARP programs. This is the second center TARP paid for in that state. SIGTARP found no consistency in charging TARP for expenses. Some state agencies were far more egregious than others. In addition to violating Treasury's contract, the most egregious wasted TARP dollars.

The North Carolina Housing Finance Agency was particularly egregious in charging TARP for unnecessary expenses, including:

- $10,000 for employee parties, celebrations, and outings, for example:
    - 4 barbeques with Treasury employees with 50, 60 or 90 people in attendance: $2,587
    - Steak and seafood dinner for 18 employees when HHF opened in 2010 (ribeye, prime rib, grilled tuna, salmon, shrimp and grits, and a gratuity): $734

  - Barbeque for employees working on Treasury audit: $660
  - Barbeque after reaching a milestone on the number of people helped: $290
  - Holiday lunches, holiday breakfasts, employee farewell ice cream party, birthday cake
  - Family picnic with piñatas and candy: $348
  - Valentine's Day celebration with red velvet cake, flowers, and a "V-day Mailbox":$277

- Employee gifts including:
  - Land's End shirts with the agency logo: $1,113
  - Visa gift cards, other gift cards, flowers, balloons, chocolates: $715

- Gym memberships for six employees at $30 per month each: $8,880

- $30,00 in food and beverages for employees, and sometimes as hospitality with others
  - Employees regularly charged TARP for restaurant meals, and to deliver food to (or carry food into) the office, for example:
    - Seafood lunches at restaurants were regularly charged as "working lunches"
    - One employee charged TARP for a "working breakfast" at IHOP and a "working lunch," ordering seared tuna and crab cakes on the same day
    - Two employees even charged $4.72 for Dunkin Donuts coffee as a "working breakfast"
    - Even a single water bottle bought at CVS for $1.81 was charged to TARP
  - In a $5,590 dinner to celebrate housing counselors, agency employees and counselors ate tilapia, chicken, and pork chops drank virgin cocktails at a cost of $400; finished it off with mini cupcakes at a cost of $200; and paid a $770 gratuity, all charged to TARP
    - $35,000 in costs for an annual housing counselor conference and other counselor events
    - $18,000 in employee cash bonuses

The North Carolina agency had a culture of treating TARP as a windfall. TARP dollars were 38 times the total grants the agency previously received. Calling TARP a "game changer," the agency regularly charged TARP for unnecessary expenses that other state agencies were not charging. Many of these charges also constitute waste.

Some of these charges by agencies in North Carolina and other states were low in dollar amount. However, every taxpayer dollar matters. Spending decisions on small purchases set the tone for spending decisions on larger ticket items. In addition to state agencies in Nevada and North Carolina, other state agencies charged TARP for parties (an employee retirement party in Illinois), picnics (a picnic with food trucks in Kentucky), and employee celebrations (employee appreciation day in Michigan). This is not what Congress intended in authorizing TARP or Treasury intended in its contracts. These charges constitute waste.

In 2016, after Congress approved an additional $2 billion for HHF, employees at two state agencies became the first recipients of these TARP dollars in celebrations. The North Carolina agency charged TARP for a $50 gift card for an employee in recognition of getting new HHF funding. The Illinois Housing Development Authority charged TARP $549 at a pizza restaurant to celebrate getting new HHF funds and an employee's upcoming wedding.

The Alabama agency also threw a barbeque for Treasury employees and state agency employees, charging hundreds to TARP for the barbeque and catered lunches with Treasury employees. The Kentucky and Oregon agencies also charged TARP for catered lunches with Treasury employees.

In conducting this review, SIGTARP applied Treasury's contracts and Treasury's public interpretation of what is "necessary," each of which state agencies have had notice of since 2010. Treasury's contract limited expenses to only those expenses "necessary to carry out the services." The "services" were the specific HHF programs defined in "service schedules" attached to the contract. Treasury even included a list of "Permitted Expenses" in the contract that could be necessary to carry out the services. State agencies also knew that, in 2010, then-Treasury Secretary Geithner turned down multiple state requests to spend TARP on legal aid or counseling programs because it was not authorized by EESA.[6] Treasury's contracts applied a strict test, as explained by Treasury's then-general counsel, that all expenses must be necessary to "facilitate loan modifications to prevent avoidable foreclosures," the EESA authority for HHF. Treasury applied two criteria: (1) that legal aid services frequently would result in outcomes other than loan modifications, and accordingly, they are not-by-definition necessary or essential to loan modifications in HHF; and (2) that if borrowers can obtain loan modifications without the legal services, they were not necessary expenses. Applying this test to each of the expenses that SIGTARP questions in this report leads to the conclusion that these are unnecessary expenses.

It is critically important to limit spending to what Congress intended when it authorized TARP. In 2010, Treasury's then-general counsel George Madison stated in a memorandum that became public:

> *Here, one could argue that a general statutory purpose of EESA is to prevent foreclosures and that any expenditure reasonably related to that purpose are permissible. We believe that such an interpretation sweeps too broadly. It would authorize an almost unlimited number*

[6] Secretary Geithner wrote public letters to 35 Members of Congress explaining Treasury's analysis of appropriations law and Treasury's interpretation of the authority provided to Treasury under EESA. Subsequently, some of these Members introduced bills in the House and Senate to allow this TARP spending. The bills did not receive the votes necessary to become law. In its contracts, Treasury limited TARP dollars for counseling to file intake, decision costs, successful file, and key business partners ongoing.

and variety of government expenditures – i.e. anything that is reasonably related to preventing foreclosures. It also would render meaningless the express provisions in EESA that together provide authority for the Hardest Hit Fund: Section 101 authorizes the Secretary to purchase "troubled assets from any financial institution," and 109(a) authorizes the Secretary to use "loan guarantees and credit enhancements to facilitate loan modifications to prevent avoidable foreclosures. Lastly, such an interpretation would be contrary to how Treasury implemented EESA.

SIGTARP identified a number of state agency expenses that may be reasonably related to foreclosure prevention, but violate Treasury's contract because they are not necessary to modify loans in HHF. Each of these expenses is not listed in Treasury's list of Permitted Expenses. Each of these expenses frequently could have successful outcomes other than in HHF, and for each there were state agencies that modified loans in HHF without charging TARP for the expense.

- *Food and beverages of more than $100,000 (including in North Carolina), sometimes for their own employees, other times as hospitality for others were charged to TARP. The California state agency, which is allocated the most TARP dollars in HHF, and the Arizona state agency, each modified loans in HHF without charging TARP for food and beverages.*

- *Unlike other state agencies, three state agencies charged TARP for employee transportation perquisites. These perks included $330,000 in "free parking" for Michigan state employees charged to TARP, $114,000 charged to TARP for Rhode Island agency employees to each receive an extra $105 each month in their paycheck to defray parking costs, and $113,000 to buy every Ohio agency employee a $90-110 monthly bus pass or parking.*

- *Unlike other state agencies, the South Carolina agency charged TARP for a senior official to have exclusive use of a state leased car for more than 4 years.*

- *Nearly $1 million in cash bonuses or employee gifts by eight state agencies, settlements or litigation with former employees who had wrongful termination or discrimination complaints by three state agencies, severance payments to resigning or former employees by three state agencies, and unemployment payments to former employees by five state agencies, were all charged to TARP. To the extent that these state agencies are either required or choose to pay these expenses, they should do so using state funds as they are not necessary to modify loans in HHF. Other state agencies modified loans in HHF without charging TARP for these payments.*

Particularly egregious was the Nevada state agency that paid more than $43,000 in bonuses (including severance) to the CEO who was fired by the board, despite the fact that homeowner admissions to HHF had dropped 94%. Also egregious was more than $100,000 in bonuses to Florida agency employees, including bonuses to senior Florida officials that doubled and tripled after SIGTARP issued an audit in December 2015 on the state agency's severe underperformance in HHF. The executive director of the Florida agency was asked to resign by the governor in December 2016 for state-funded bonuses and a lavish dinner, while Floridians were waiting for foreclosure prevention assistance. Bonuses at both agencies constitute waste.

SIGTARP also questioned two large state expenses. Lumped into the "Miscellaneous" category of Permitted Expenses, SIGTARP found that the Rhode Island agency had charged TARP $351,958 in 2016 to build out and start up a new customer center, including building a new kitchen and new furniture. TARP had already paid for the build-out of an office in 2010.[7] In 2016, when Treasury allocated new TARP dollars to the Rhode Island agency, Treasury did not provide for any further permitted expenses for "one-time/start-up" expenses such as "building," "equipment," and "technology." The agency charged 100% of build-out/start-up costs, and then $116,219 in operating expenses to TARP despite the center also being used for non-HHF services. From June 2016 to May 2017, the percentage of homeowners visiting the center for HHF programs was only 29% versus 71% for non-HHF programs. Additionally, even though the Rhode Island agency had not charged TARP for any space for files and staff in their own building for 3 years when the program was closed, in 2015 the agency back-dated a "rent" charge of $96,590.

Additionally, in 2015, the Washington, D.C. agency charged TARP $258,333 in avoidable storage costs. The Washington, D.C. agency paid this amount to Counselor Direct, an online application system contractor, for 5 years of data storage when the program was closed to homeowner applications. With many of the agencies contracting with Counselor Direct, taxpayers could end up paying $50,000 per month or more for each state agency for years of data storage. These costs should be mitigated, as TARP was not meant to be a windfall for one IT contractor.

Taxpayers have paid more than they needed to for state agency expenses in HHF and state agencies have spent TARP dollars not as Congress and Treasury intended. SIGTARP found an elevated risk of fraud, waste, abuse, and overpayment because state agencies are lumping unnecessary expenses into "Permitted Expense" categories, limiting transparency, and shielding these expenses from oversight.

Treasury did not hold state agencies accountable to the requirement in Treasury's contract that expenses must be necessary for the specific services in HHF. In 2012, GAO reported on rising administrative expenses in HHF, warning, "Treasury's rigorous oversight of spending decisions throughout the life of the program will be critical to helping ensure that funds are spent as intended."[8] Treasury regularly reviewed state agency expenses, but only on a small sample basis with minimum dollar thresholds. These reviews appear to be focused on compliance with Federal cost principles (OMB A-87). Cost principles do not authorize Federal spending, but instead, as Treasury's contract states, serve as an additional

[7] In its 2010 contract, Treasury included "permitted expenses" of $274,253 for one-time, start-up expenses, which Rhode Island Housing used to build out a new location. Rhode Island Housing used the location for only 2 years when HHF was open in the state.
[8] *See* GAO, "Further Actions Needed to Enhance Assessments and Transparency of Housing Programs," July 2012, http://www.gao.gov/assets/600/592707.pdf.

limitation.[9] For example, after SIGTARP's 2016 audit identified waste in HHF including a $20,000 severance payment to the fired CEO in Nevada, Treasury officials did not recover this payment, despite that it was not necessary to modify loans in HHF. Treasury officials appear to not even be applying Treasury's own test under the contracts—whether the expense was necessary to modify loans.

Responsible stewardship by state agencies and rigorous oversight are needed to protect taxpayers. With more than $1 billion in taxpayer dollars on the line, state agencies must limit their expenses to only those necessary to modify loans in HHF. That has always been what Treasury's contracts require. The expenses SIGTARP questions in this report are out of $733 million already spent, and SIGTARP will conduct future audits of spent TARP dollars. Treasury should recover every dollar in unnecessary charges to TARP identified by SIGTARP in this report.

This report should deter future unnecessary spending when state agencies can see that other state agencies modify loans in HHF without charging TARP for these same expenses. However, the responsibility to stop TARP spending on unnecessary expenses rests with Treasury. SIGTARP can only make recommendations to Treasury and cannot recover TARP dollars spent in violation of the contract or force Treasury to right the ship. To ensure that TARP dollars are used only as Congress and Treasury intended, and that taxpayers do not spend more than is necessary, Treasury should enforce the terms of its contracts for the $373 million that Treasury has allocated for future state expenses in HHF.

30 UNIMPLEMENTED PRIORITY RECOMMENDATIONS

Reflecting recoveries and cost savings of $4,378,914

Treasury should recover squandered TARP dollars from state agencies.

Treasury should perform more rigorous oversight of the state agency spending.

[9] Treasury's contract states, "...the administrative expenses necessary to carry out the services (the "Permitted Expenses.")...Additionally, all administrative expenses paid with HHF program funds shall be accounted for and are subject to OMB Circular A-87."

In summary:

North Carolina state agency: $107,821
$2,830 spent on four catered barbeques and other food with Treasury employees, one served 90 people, another 60 people, and two more served 50 people; $8,219 on parties, picnics, celebrations, and outings, including, for example, a Valentine's day party with décor and food, steak and seafood dinners, regular employee meals, and balloons, candles, cakes and cupcakes to celebrate the milestone of the number of homeowners helped; $18,091 on employee cash bonuses; $1,965 on VISA gift cards and other gifts including $1,113 on customized Lands' End shirts and a $50 CVS gift card to recognize new HHF Funding in 2016; $8,880 on gym memberships, $14,124 for employee breakfasts, lunches and dinner sometimes with external parties; and $53,712 for food and other costs at events with housing counselors, including a 'celebration' of counselors that included $400 in virgin cocktails, $200 in mini cupcakes and a $770 gratuity.

Rhode Island state agency: $1,238,228
$1,031,310 spent for the full cost -- despite the centers use for non-HHF programs -- to build out a new customer center with a new kitchen and furniture, backdated 'storage' costs in the agency's own building while HHF was closed; $114,596 on a monthly $105 payment to each employee to defray parking and transportation costs; $14,994 on severance to former employees; $75,703 on unemployment payments to former employees; and $1,625 on food and beverages, including at meetings with lenders and trainings with counselors.

Nevada Affordable Housing Assistance Corporation: $240,677
$194,294 spent on private investigators, settlement payments for discrimination, and severance payments to former employees; $43,497 spent on bonuses, of which nearly all went to the CEO who was later terminated; and $2,886 on two employee picnics and other celebrations and food.

Florida state agency: $107,864
$106,774 spent on bonuses approved by the now terminated executive director;
$636 on gift certificates to employees; and $454 for a barbecue, an all employee lunch, and a lunch with Bank of America.

District of Columbia's state agency: $259,017
$258,333 spent to prepay for five years of avoidable online storage access and data two years after the HHF program was closed to homeowner applications; $202 for a continental breakfast with Treasury employees; and $482 on breakfast and snacks during a training.

Illinois Housing state agency: $114,408
$14 spent on Treasury employee breakfast; $98,305 spent on employee cash awards; and $16,089 supplies, parties, celebrations, food and beverages, (including for a contractor to deliver coffee and water), lunch at a pizza restaurant to "to celebrate getting new HHF funds and an employee's upcoming wedding," and an employee retirement party.

Michigan state agency: $337,349
$77 spent on refreshments and meals for Treasury employees; $330,575 spent to provide free parking to employees; $6,642 in parties, celebrations or other food and beverages, including cupcakes, ice cream sandwiches, balloons, and pizza; and $55 on employee gifts from Bed, Bath & Beyond.

Alabama state agency: $705
$341 spent on meals and other food for Treasury employees, including a barbeque; $198 in other food, including meals with Bank of America staff; and $166 on Visa gift cards and fruit baskets.

Kentucky state agency: $49,150
$159 spent on catered lunches with Treasury employees; $46,811 spent on severance payments for three employees; $654 spent on gift certificates and cash bonuses, and $1,526 spent on food and beverages, including a picnic with food trucks, an employee gelato outing.

***Ohio state agency:* $204,522**
$127,932 spent on cars and a $90-110 monthly payment to employees for transportation; $63,432 on unemployment payments to former employees; and $13,158 on events with housing counselors, including paid admission at one zoo and breakfast and lunch at three other zoos.

***South Carolina state agency:* $49,402**
$20,627 spent on an executive's use of a car for more than three years; $12,735 for food and beverages at annual meetings with legislative staff and at training events; and $16,040 on employee bonuses.

***Oregon state agency:* $165,995**
$430 on restaurant lunches with Treasury employees, including coffee, pastries and desserts, and twice for lunch for their staff to celebrate after Treasury's audit; $84,256 spent to settle a former employee's wrongful termination litigation and the legal claims of two other terminated employees; $79,742 spent on unemployment payments to former employees and $1,567 on food and beverages, including lunch at Newport Seafood Grill with Bank of America staff.

***Tennessee state agency:* $5,985**
$5,558 spent on unemployment benefits; and $427 on food and beverages during a training.

***Georgia state agency:* $6,813**
$6,813 spent on a contractor to deliver breakroom beverages, including water, coffee, tea and hot cocoa.

***Indiana state agency:* $46,658**
$45,100 spent on employee bonuses; and $1,558 on water for employees.

***Mississippi state agency:* $8,111**
$369 spent on restaurant lunch for 30 people, including Treasury employees; $5,343 spent on unemployment benefits; and $2,399 on training lunches with counselors.

***California state agency:* $7,017**
$4,644 spent on contractor parking; and $2,373 to a contractor's laid-off employee to avoid the cost of litigation.

***Arizona state agency:* $2,244**
$2,244 spent on an employee bonus.

***New Jersey state agency:* $1,585**
$1,585 spent on food and beverages, including $472 at Land & Sea Restaurant and $1,113 at Italian Peoples Bakery.

The Hardest Hit Fund Lacks Standard Federal Requirements for Competition

Conclusion of SIGTARP interim audit issued March 8, 2018

Competition in the $9.6 billion Hardest Hit Fund is critical to protecting federal taxpayers, with 19 state housing finance agencies awarding and disbursing millions of dollars in contracts. The Office of Management and Budget said in 2007, "Competition is the cornerstone of our acquisition system. The benefits of competition are well established. Competition saves money for the taxpayer, improves contractor performance, curbs fraud, and promotes accountability for results." Competition also deters favoritism.

SIGTARP found that most of the $9.6 billion Hardest Hit Fund has no federal requirements for competition, despite millions of dollars in federal contracts being awarded and disbursed by state housing finance agencies.[10] Uniform federal procurement standards that require competition for grants (contained in 2 CFR 200, Subpart D) do not automatically apply because Treasury did not structure HHF as a grant.

Federal taxpayers that fund the Hardest Hit Fund should receive no less protection because Treasury engaged in a legal construct to fit the program within its authority under the TARP law (the Emergency Economic Stabilization Act), rather than call it a grant program. Federal uniform procurement standards prevent fraud, waste, and abuse, and ensure full and open competition that gives taxpayers the best value.

Despite not structuring the Hardest Hit Fund as a grant, Treasury operates the program much like a grant, but without all of the standard protections of grants for taxpayers. HHF has the benefits of grants in achieving solutions that are flexible and targeted to local problems, which is a worthwhile goal. However, federal agencies issuing grants partner that flexibility and desire for local solutions with protections for federal taxpayers through "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" contained in 2 CFR Part 200. Subpart D of the regulation includes requirements for competition in procurements.

Treasury should explicitly apply those federal procurement standards for competition contained in 2 CFR Part 200, Subpart D. Treasury has already explicitly applied the federal cost standards contained in Subpart E of the regulation. These cost principles, which do not discuss competition, are insufficient protection for taxpayers against anticompetitive actions.

[10] In June 2016, SIGTARP issued an audit on the then-$622 million Blight Elimination subprogram of HHF and recommended that Treasury explicitly apply the uniform procurement standards, but Treasury did not do so. Instead, in December 2016, Treasury added one-sentence guidance on competition, requiring state agencies to ensure full and open competition, limited to the blight subprogram, a program that has now increased to $800 million. This one sentence is progress, but is not sufficient to protect taxpayers. Treasury should implement SIGTARP's remaining recommendations in that audit to apply standard federal procurement standards that require competition.

Because Treasury and state agencies operate this program much like a grant, HHF dollars should have the same federal taxpayer protections of a grant. Flexibility from state stewardship is a worthwhile goal, as long as the program is protected with federal requirements that prevents fraud, waste, and abuse, deters favoritism, levels the playing field, and save taxpayer dollars. The Department of Commerce Office of Inspector General recently reported on government-wide studies that indicate that using competition rather than noncompetitive procedures may result in 20% in savings.[11]

With more than $2.354 billion in spending until December 2021, there is time to take action to prevent fraud, waste, and abuse and save taxpayer dollars. The uniform federal procurement standards requiring competition that already protect federal taxpayers in grant programs, prevent fraud, waste, and abuse, and promote good stewardship of federal taxpayer dollars, can have the same benefit for HHF.

The uniform federal procurement standards for competition are the strongest protection for taxpayers funding this program. Reliance of state laws, which may or may not apply, is not the strongest protection. In some instances state procurement laws do not apply, and policies requiring competition are not enforced. As an example, in Nevada HHF, the contractor running the program is not subject to state procurement rules. SIGTARP found that Nevada HHF awarded contracts in 2016 and 2017 without following its policy to conduct a request for proposal for contracts over $25,000. Some of the contracts were awarded to former colleagues of those running the HHF Nevada program. This example shows why federal standards provide taxpayers the strongest protection.

UNIMPLEMENTED PRIORITY RECOMMENDATIONS

In order to prevent fraud, waste, abuse, and ensure that taxpayers achieve the protection of full and open competition, including obtaining the best value and cost savings, Treasury should apply the uniform procurement standards (contained in 2 CFR 200, Subpart D) to the Hardest Hit Fund just as it has already applied Subpart E.

[11] *See* Commerce Office of Inspector General, "Awarding of U.S. Census Bureau Noncompetitive Contracts Did Not Consistently Follow Federal Acquisition Regulations and Commerce Acquisition Policies," September 25, 2017, citing to Healey, P.A. et al. Naval Postgraduate School, "The Value of Competitive Contracting," September 2014.

Treasury's HHF Blight Elimination Program Lacks Important Federal Protections Against Fraud, Waste, and Abuse

Conclusion of SIGTARP audit issued June 16, 2016

SIGTARP found that the Federal government funds two main programs for the demolition of blighted houses, but only the U.S. Department of Housing and Urban Development's ("HUD") program has Federal requirements to protect the Government against substantial risks inherent in contracting for demolition work—Treasury's Hardest Hit Fund does not. SIGTARP found that blight elimination under Treasury's Hardest Hit Fund lacks very basic Federal requirements that govern HUD's blight elimination program. While TARP-funded demolition of abandoned houses has great potential benefit to communities, the absence of Federal requirements specific to the risks inherent in blight elimination like those that exist in HUD's blight elimination program puts Treasury's program at great risk of fraud, waste, and abuse. At least one city mayor seeking funds under Treasury's program stated publicly that these funds come with no stipulations—a perception that will only change when Treasury creates Federal stipulations to mitigate substantial risk. Right now, the risks of HHF blight elimination continue unregulated and unchecked for more than half a billion Federal dollars.

Treasury followed HUD's lead in creating a Federally-funded blight elimination program, but made its program bigger (nearly $622 million compared to HUD's $300 million) and without blight-specific Federal requirements designed to protect against the risks inherent in this activity. While Treasury conducted a written analysis of the benefits of expanding HHF to include blight elimination, there is no Treasury written analysis of the risks. It should have been obvious to Treasury that demolition activities and the flow of Federal dollars through hundreds of individuals, companies, and other non-Federal entities carry far greater risk to the Federal Government than providing Federal funds to unemployed or at-risk homeowners, which had previously been HHF's sole activity. Treasury could have used HUD as a model for Federal requirements needed to mitigate risks inherent in blight elimination, but it did not—instead only amending its contract with participating state agencies with 2-3 pages of provisions in large type that are insufficient to protect against risks inherent to contracting for demolition and other activities.

Treasury's Hardest Hit Fund program is significantly vulnerable to the substantial risks of unfair competitive practices and overcharging, either of which could lead to fraud, waste, and abuse. The most glaring difference between the two Federal blight programs is that HUD requires: (1) full and open competition (and other competition requirements); and (2) that demolition and other costs must be necessary and reasonable. Treasury requires neither.

Treasury's program is at far greater risk than HUD's program given that Treasury has zero Federal requirements for competition. Unlike Treasury, HUD does not leave competition to chance. Without similar requirements to HUD, Treasury is not conducting any oversight over whether there is competition in the solicitation or awarding of Federal funds or whether costs are necessary and reasonable. This means that more than half a billion in Federal dollars contracted with nearly 280 local partners, each who may have contractors and subcontractors, is being expended with zero Federal requirements for competition, and no requirement that demolition costs be necessary and reasonable.

There is a substantial public interest in having Federal requirements for competition in this TARP program. Federal requirements for competition are designed to keep programs fair. The Administration has said that competition drives down costs, motivates better contractor performance, helps curb fraud and waste, and promotes innovation. Favoritism, undue influence, contract steering, bid-rigging, and other closed-door contracting processes, can result from a lack of Federal requirements for competition.

There is no harm in Treasury creating Federal requirements for full and open competition, and other competition requirements, similar to HUD's program. HUD's program allows for the same locally-tailored solutions and flexibility that Treasury seeks, only with accountability and oversight not present in HHF, and with less risk of fraud, waste, and abuse. HUD protects the Federal Government and the program through 6 pages in small font of Federal requirements for competition, requirements that flow down to state and local governments. By contrast, in the face of Treasury's silence, the state agencies administering Treasury's program have no requirements for full and open competition in this program, with one very small exception. One small agency in South Carolina, which is allocated 6% of total funding for TARP blight elimination, requires "open and free" competition, leaving 94% of this program (nearly $590 million in Treasury funding) with no requirement for full and open competition. Clearly, HHF South Carolina has determined that there is no harm in requiring full and open competition, just as there would be no harm to the remaining $590 million in funding through six other HHF state agencies. Beyond HHF South Carolina's single paragraph on competition, HHF Alabama (which is allocated 4% of TARP funding for blight elimination) has a single sentence in its guidelines on competition (requiring two bids), evidencing that there is no harm in competition.

Those running this program (Treasury and state agencies) are essentially allowing the recipients of Federal funds to determine whether to have competition and in what form. This has led to a patchwork of inconsistent or non-existent practices on competition. Treasury does not require that nearly $622 million in Federal funds will even be bid out at all. Treasury does not require that competition be full and open, prohibit a single quote from a sole source, or prohibit placing unreasonable requirements on firms to qualify. Two small HHF state agencies are the only ones in this program even attempting to set any requirements for competition, which is insufficient to protect nearly $622 million.

Unlike Treasury, HUD does not allow the recipient of Federal dollars to set the rules on competition, but instead layers on any state or local laws or rules that might apply on top of Federal requirements. Unlike HUD, Treasury's program relies exclusively on state/city laws or rules. Local rules may not even apply to the nearly 280 local partners in Treasury's program because most (87%) of them are not municipalities or public agencies, but instead include nearly 100 individuals, 8 for-profit companies, 105 non-profit entities, and 33 land banks. Any rules that may apply are varied, leaving the Federal Government substantially at risk compared to HUD's blight elimination program.

SIGTARP also found that HUD limits Federal dollars for blight elimination to only necessary and reasonable costs, but Treasury does not, leaving HHF at risk of overcharges, waste, and fraud. Treasury has a cap of $25,000 or $35,000 per property, which is not sufficient to protect the Federal Government from paying for costs that are not necessary and reasonable. Treasury's cap far exceeds the average cost of demolition, reflective of worst-case-scenarios. Treasury's Blight Elimination Program is leaving the analysis of what is necessary and reasonable to the recipients of Federal funds. HUD does not place such trust or hope in recipients to protect the Federal government.

At the very least, Treasury's program should have the same protection as the other Federally-funded blight elimination program. The requirements of a grant program (at HUD) should be the bare minimum for a TARP program. HHF does not have to be a grant for Treasury to protect it. That would be form over substance. Federal grant funds are not the only Federal funds that should be protected. TARP funds are bailout funds that Congress designed to be accompanied by accountability. TARP funds should have more accountability and oversight than grant programs. Treasury should make its own requirements to protect the program.

The Hardest Hit Fund is a homeowner bailout program fought for by Congress, which rejected TARP at first. It is not a bailout of cities, no matter how good the intentions, or developers, construction companies, non-profits, for-profits, land banks, or individuals who are not at-risk homeowners. This program has a lot of self-interests involved and with that come risks and vulnerabilities that need strong protection—protection that exists in HUD's program, but not in Treasury's program.

TARP funds for demolitions of abandoned properties were taken from programs that directly gave TARP money to homeowners, primarily in the form of unemployment and underemployment assistance. Every dollar that pays a demolition contractor for costs that are not necessary or reasonable is a dollar taken away from a homeowner. Every dollar that pays a demolition contractor for costs that are not necessary or reasonable is a dollar taken away from demolishing an abandoned house that causes safety concerns for a neighborhood. That is why it is so important that Treasury create Federal rules to protect this program and these bailout funds, and why it is so important that everyone with oversight of TARP keeps this new use of TARP for razing homes tightly focused and protected.

18 UNIMPLEMENTED PRIORITY RECOMMENDATIONS

Reflecting Cost Savings of $161 million

Treasury should require state agencies to implement standard Federal contract requirements that ensure full & open competition for blight demolition beyond the one sentence Treasury added on competition.

State agencies should establish an independent determination of demolition costs that are necessary and reasonable for each city (using independent experts, third party fair market value quotes and current/historical costs).

State agencies should benchmark claims against the state agencies' independent determination of which costs are necessary and reasonable.[6]

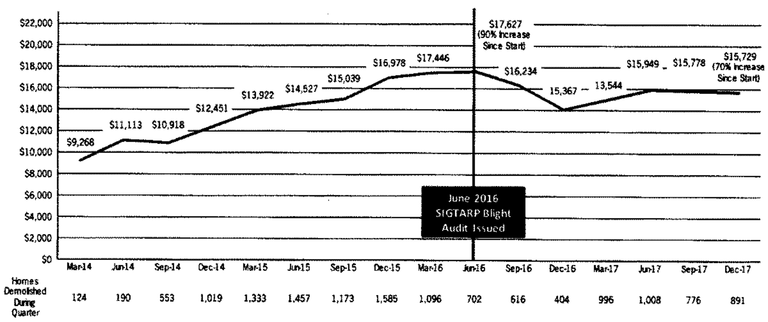
Implementing SIGTARP's Recommendations is Critical Given That Demolition Costs Continue to Rise

Quarterly Report to Congress April 2017, updated April 26, 2018

In April 2017, SIGTARP found that demolition-related costs funded by TARP dollars rose significantly in Michigan and Ohio, which account for nearly half of all TARP-funded demolitions. The costs decreased after news reports on SIGTARP's June 2016 audit or after SIGTARP's April 2017 report warning about rising costs.

The average per house demolition-related costs funded by TARP in Michigan rose by 90%, then dropped after SIGTARP reports.

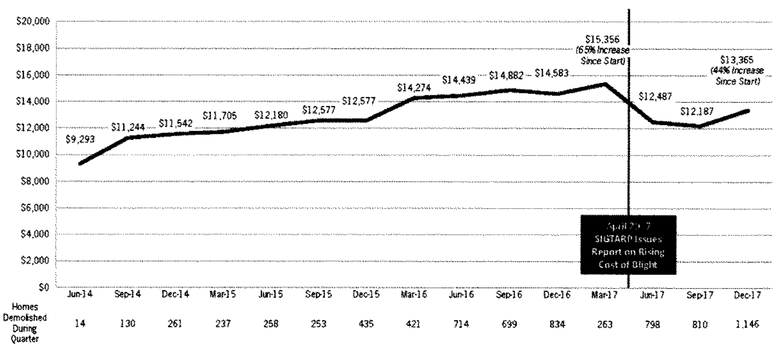
MICHIGAN AVERAGE HHF DEMOLITION-RELATED COSTS



Source: SIGTARP analysis of data from Michigan Housing Finance Agency

In Ohio, the average per house demolition-related costs funded by TARP rose 65%, then declined after SIGTARP's April 2017 report on rising costs in Ohio.

OHIO AVERAGE HHF DEMOLITION-RELATED COSTS



These rising cost chart highlight the need for implementation of SIGTARP's recommendations on HHF's blight subprogram.

Risk of Asbestos Exposure, Illegal Dumping, and Contaminated Soil From Demolitions in Flint, Michigan and Other Cities

Conclusion of SIGTARP evaluation issued November 21, 2017

The Hardest Hit Fund's blight elimination subprogram has the potential to fulfill its mission to stabilize neighborhoods suffering from "eyesore" abandoned houses, but only if the demolitions do no harm to Americans living in these towns. The U.S. Army Corps of Engineers conducted July 2017 field inspections of multiple properties in various stages of demolition and a document review of one completed demolition in Flint, Michigan. The Corps identified for SIGTARP three high-risk areas for demolitions: 1) proper removal and storage of asbestos and other hazardous material; 2) proper dumping of all debris and waste in appropriate landfills or recycling facilities; and 3) filling in the demolition hole with only clean soil. These high-risk areas not only threaten the goal of neighborhood stabilization, but also carry a high risk of fraud, waste, and abuse.

The people of Flint, Michigan, require more than trust that these demolitions will not harm them—particularly after their contaminated water. The Corps identified that Treasury does not require the Michigan state agency to have any oversight to ensure these high-risk areas are handled properly through safeguards and quality assurance. This would likely be the same with all eight state agencies in the program, including agencies in Ohio, Illinois, Indiana, Tennessee, South Carolina, Alabama, and Mississippi. In the absence of Federal requirements, the Corps identified that the Michigan state housing agency's requirements do not adequately cover these high-risk areas. Absent state agency requirements, the Corps found that the local partner in Flint, Michigan—the Genesee County Land Bank Authority—is not doing enough to mitigate these high-risk areas, and failing to ensure that contractors meet all safety and environmental laws and standards.

The Corps found that the Land Bank and its contractors may have allowed undue risks to keep the total project costs under the $25,000 cap, and that all agreements and documentation in the program were lacking in quality assurance. In the one completed demolition the Corps reviewed, asbestos was mismanaged, there was no proof of inspection to determine if debris was removed from the hole, and there was no proof of inspection to determine that the material placed in the hole was clean and from an approved source. There was no confirmation that the debris removed from the site went to an appropriate waste facility.

The Corps' findings identify risks that could extend to any demolition site in the 248 participating cities and/or counties. Given the seriousness of these risks, SIGTARP is making recommendations for Treasury and state agencies to mitigate them, and to prevent harm, fraud, waste, and abuse. Now is the time for Treasury and state agencies to mitigate the risks of asbestos exposure, illegal dumping, or demolition debris or other unclear material buried in the ground. Failure to implement SIGTARP's recommendations—which are industry standards—could result in violations of environmental and safety laws and regulations; lead to fraud, waste, and abuse; and inflict long-lasting harm on these already hard-hit neighborhoods.

Treasury's desire for state flexibility in the Hardest Hit Fund cannot eliminate the need for appropriate constraints. Treasury should place on state agencies the responsibility to ensure that asbestos removal, dumping, removal of debris, and filling in the holes is conducted properly, without harm to neighborhood stabilization—the goal of the program. Treasury must require state agencies to: 1) set technical requirements for all involved; and 2) confirm that all technical requirements have been met before any payment of TARP dollars.[12] Treasury should require state agencies to hold local partners and contractors accountable to ensuring that all parts of the demolition process proceed safely, appropriately, and in compliance with all applicable environmental and safety requirements and standards, and without fraud, waste and abuse. Taxpayers and people living in hard-hit neighborhoods deserve nothing less.

United States Army Corp of Engineers' Executive Summary

This review encompassed the Blight Elimination Program agreements from the Department of Treasury (Treasury) with the State of Michigan (State), from the State to the Genesee County Land Bank Authority (Land Bank), and from the Land Bank to various contractors involved with the demolition process. Documents reviewed were for demolition of one home at 2725 Kellar Avenue in Flint, Michigan which was awarded in 2014. A USACE led field inspection of multiple properties in various stages of demolition by the Land Bank in Flint, Michigan was also conducted.

Significant findings include:

- Asbestos removal appears to have been mismanaged by the Land Bank, Global Environmental Engineering, DMC Consultants, and LA Construction.
- It's unclear whether the material placed in the hole was clean and provided in accordance with the State and contract requirements.
- On properties with significant quantities of hazardous materials, Partners and Contractors may have allowed undue risks in order to keep total project costs under the $25,000 cap.
- All of the agreements and execution documentation were lacking in quality assurance.
- The State, City, and Land Bank performed redundant inspections of winter grade and final grade, and no other physical inspections were documented.

[12] If a local partner and/or contractor does not follow the state agency requirements that the Corps and SIGTARP recommend, they should not be paid, and they should remediate the problem at their own cost. If the state agency suspects that a contractor is not in compliance with laws and regulations, it should refer the matter to SIGTARP for investigation.

UNIMPLEMENTED PRIORITY RECOMMENDATIONS

Treasury and state agencies should preclude from participation all contractors charged/fined for violations of environmental or safety requirements.

Treasury should require state agencies to install industry-standard, common sense safeguards that protect against risk of asbestos exposure, illegal dumping of debris, and contaminated material filling the demolition hole.

Treasury should require state agencies to conduct oversight over asbestos removal including not paying TARP dollars until after confirming that inspection documentation and other documents show appropriate removal of asbestos and other hazardous materials.

Treasury should require state agencies to determine approved sources of fill dirt, and not pay TARP dollars until after confirming that an inspection of the open hole showed that all debris was removed, and that the hole is only filled with clean material from an approved source.

Treasury should require state agencies to determine a list of approved waste facilities, and not pay TARP dollars until after confirming that all debris was disposed of at an appropriate waste or recycling facilities, as documented by landfill receipts, waste manifests, and truck weight tickets.

Improving TARP's Investment in American Workers

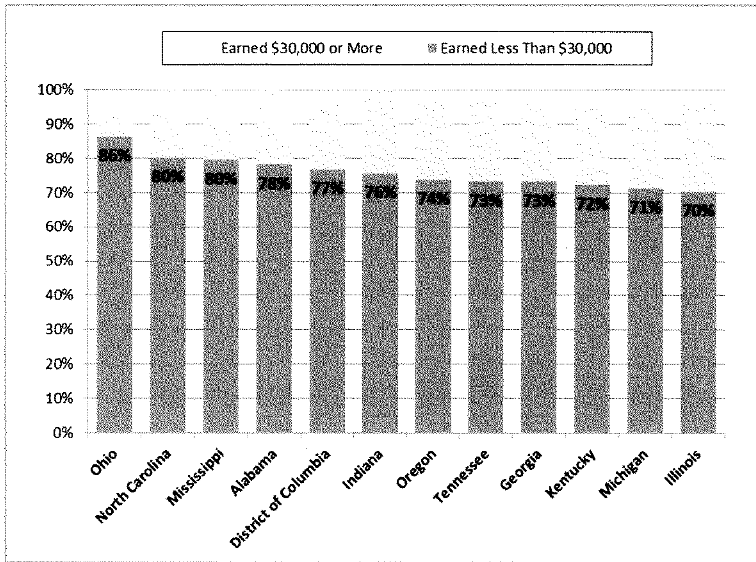
Conclusion of SIGTARP evaluation issued January 11, 2017

As an investment in American workers, TARP's Hardest Hit Fund provides a temporary safety net to save the homes of now-unemployed or underemployed workers in the rust belt, south, and other hard-hit areas of the country. The program has helped more than a quarter of a million people, but there has been no reporting on the people denied entry into the program. SIGTARP has found that most of the homeowners who were denied Hardest Hit funds earned less than $30,000, calling into question whether the program is effective in reaching those hardest hit. In six states (including Ohio, North Carolina, and Indiana) three out of four people denied entry into the Hardest Hit Fund made less than $30,000. Nearly three out of every four people in six other states (including Michigan, Georgia, Illinois, Kentucky, and Tennessee) who were denied entry into the Hardest Hit Fund made less than $30,000.

TARP was a bail out for companies like General Motors in areas like Detroit, Cleveland, and Flint, but Congress also required that TARP funds go to homeowners, including American workers who continue to feel the effects of the financial crisis and the recession that followed. In many states, the money has been slow to flow. The need for the program is so great that a bipartisan effort by Congress added an additional $2 billion in December 2015. Treasury extended the program three years until December 2020. More can be done to make sure those American workers who are hardest hit get this help.

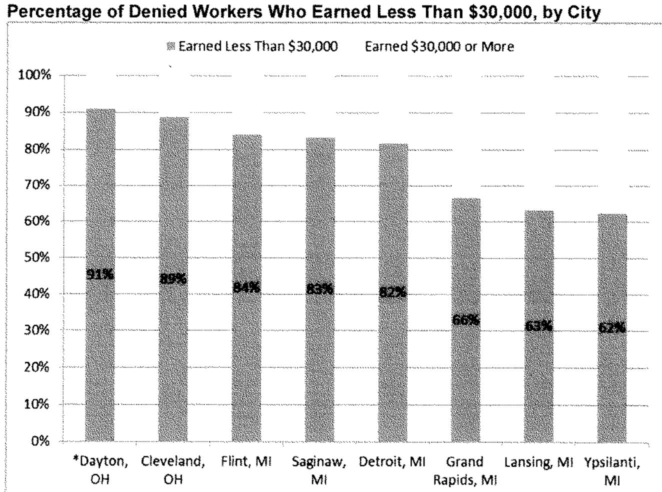
SIGTARP found that 84,965 out of 160,015 people denied for Hardest Hit Fund dollars earned less than $30,000 a year, including 64,979 people who made less than $20,000 a year. In 12 states, mostly in the rust belt and south, 70 percent or more of the people turned down for the Hardest Hit Fund made less than $30,000. At the same time, nearly 20,000 people who made more than $70,000, including 6,000 people making more than $90,000, received Hardest Hit Fund dollars.

Percentage of Denied Homeowners Who Earned Less Than $30,000, by State



Out of 19 states, with the exception of highly-populated California and Florida, Treasury set aside the most dollars for Ohio and Michigan. While the program has helped many in Ohio and Michigan, those are two states where high percentages of people turned down made under $30,000—86 percent in Ohio and 71 percent in Michigan.

Percentage of Denied Workers Who Earned Less Than $30,000, by City



SIGTARP found high percentages of people turned down for the Hardest Hit Fund who earned less than $30,000 in cities where General Motors—which received $50 billion in TARP funds—or its suppliers closed plants or laid off workers:

- 82% of the people in the Detroit area turned down made less than $30,000—that amounts to 4,829 people
- 89% of the people in the Cleveland area turned down made less than $30,000 (619 people)
- 84% of the people in the Flint area turned down made less than $30,000 (407 people)
- 83% of the people in the Saginaw area turned down made less than $30,000 (266 people)
- 91% of the people in the Dayton area turned down made less than $30,000 (238 people)

The expectation for a program that targets unemployed and underemployed workers should be that many struggling to save their homes will have lower incomes. The fact that so many turned down had lower incomes requires a deeper look into why they were turned down.

State agencies' records provided to SIGTARP were non-existent, missing or incomplete about why the state agencies turned down these people making less than $30,000. There may be valid reasons why some of these people were denied, but it is impossible to know when state agencies managing this program do not keep records that detail specifically why each person was denied. That oversight is unjustifiable and should be remedied so appropriate action can be taken to get this money to the working class still feeling the impact of the crisis and recession.

This program has a lot more potential to provide a safety net in certain communities until full-time jobs return, but that potential needs to be unlocked now. Despite GM returning to profitability, GM and others have closed plants in the past year, and more than 2,000 GM workers will be laid off at plants in Michigan and Ohio.

The best way to unlock the full potential of the program is to remove too-stringent criteria that: (1) do not reflect the reality of the working class in that state; or (2) do not apply to homeowners in other states to get these funds. For example, a Michigan worker should not be turned down for the Hardest Hit Fund just because they received unemployment benefits (or saw their paycheck cut) more than 12 months ago, when a California homeowner does not have that same restriction for entry into the Hardest Hit Fund. There should be a level playing field for homeowners seeking help through this program. This 12-month timing restriction is also inconsistent with the new normal of unemployment—that it lasts a long time—and it does not reward a responsible Michigan homeowner who made ends meet for more than a year after receiving unemployment benefits, but has now run out of options.

SIGTARP found other criteria in certain states for this program that are more restrictive than others. For example, a requirement in Michigan and some other states to show a 20%

pay cut in order to qualify as "underemployed" is either lower or non-existent in other states for this same program. SIGTARP also found criteria in certain states for this program that do not match the reality of unemployed workers. For example, a requirement that the person make sufficient income to afford their mortgage in the future may not be realistic now. The reality is that this is temporary help while the person looks for a full-time job, at which point the hope is that they will make enough income to afford their mortgage. Program criteria like these and others may have been well-intentioned, designed to ensure there was enough money to spread around. Nearly seven years later, with billions of dollars left, and the money slow to flow, state agencies should determine whether each program criteria is really necessary.

Even good programs can be better. The Hardest Hit Fund can be more effective and efficient so that the state agencies can help more of America's working class save their home. That is a goal worth striving for, but it takes change, including unlocking the full potential of this program by deleting unnecessary restrictions.

PRIORITY RECOMMENDATIONS

Eliminate unnecessary criteria that may preclude lower-income workers from HHF Unemployment Bridge

Maintain detailed records of why each person was denied HHF Unemployment Bridge

Allow workers facing upcoming layoffs to be eligible for HHF before becoming past-due on their mortgage

Eviction and Uprooting of Evansville, Indiana Residents to Qualify as Vacant Houses for TARP-Funded Demolition to Move a Ford Dealership to the Location

Finding in Alert Letter Issued December 14, 2015

Despite Treasury's contract with Indiana's HFA limiting the TARP program [the HHF Blight Elimination program] to the demolition of vacant, abandoned, and blighted properties, Indiana's HFA approved lived-in residences to be included in the TARP program. SIGTARP found that Indiana's housing finance agency selected and approved lived-in homes on the desired relocation site of a car dealership in Evansville, Indiana, under the TARP program and used TARP funds to reimburse their demolition despite the presence of other abandoned properties in the city. Indiana's HFA allowed TARP's Hardest Hit Fund to be used as part of a plan that selected and approved live-in homes for demolition under HHF, which would require evicting or otherwise uprooting people from their homes. This was not the intent of HHF. Indiana's HFA may be following a strategy that might be permissible under HUD's NSP program, but unlike TARP, HUD's program imposes substantial legal requirements and protections on the acquisition of occupied properties. This puts TARP at great risk of abuse.

PRIORITY RECOMMENDATIONS

IMPLEMENTED

Treasury should immediately direct state housing finance agencies that they should not allow the Hardest Hit Fund to be used strategically to select lived-in residences for demolition, and should instead be used solely to select zombie properties for demolition.

UNIMPLEMENTED

Treasury should claw back all Hardest Hit Fund monies used for lived-in residences that were selected for the blight elimination program, including TARP payments of $246,490 for 18 lived-in residences in the neighborhood of Area 55, in Evansville, Indiana, and recycle those funds to demolish abandoned zombie properties.

Mismanagement of the Hardest Hit Fund in Georgia

Conclusion of SIGTARP audit issued October 13, 2017

There are two TARP housing programs that operate in Georgia. The Making Home Affordable Program, a national program administered by Treasury, has provided TARP dollars to 80,026 Georgians. The Hardest Hit Fund administered by the Georgia Department of Community Affairs (the Georgia agency) has provided TARP dollars to only 9,061 homeowners over more than 6 years, while $164 million, which is more than half of the available HHF dollars, remains unspent. Upon a request by Congressman John Lewis, SIGTARP audited the Hardest Hit Fund in Georgia to determine whether it had adequately served counties in his district, and to identify improvements. SIGTARP found that TARP's Hardest Hit Fund program has not adequately served those most in need in Georgia counties in Congressman Lewis' district in Atlanta and surrounding areas.

The mission of the Hardest Hit Fund is to preserve homeownership, something that hard-hit homeowners in Atlanta and surrounding areas greatly need. This mission is accomplished by state agencies providing Hardest Hit Fund aid to families through local programs tailored to the urgent needs of the communities. If the state agency does not provide the aid, it cannot effectively address local needs.

Homeowners in DeKalb, Clayton, and Fulton counties fit the definition of hard hit. So many in these three counties are hard hit not because of anything that is their fault, but instead because of where they live. These are Georgians caught in a pocket of slow recovery compared to other cities. Neighborhoods like Forest Park, Lakewood Heights, and Lithonia have been the subject of nationwide and local reporting on pervasive poverty and an uneven housing market. Many in these counties owe more than their house is worth. There are not enough jobs.[13] The jobs that do exist often do not pay enough to cover the mortgage and other bills. There has been, and continues to be, a need for the Hardest Hit Fund.

The need for the Hardest Hit Fund has always been urgent in DeKalb, Clayton, and Fulton counties. Nearly one quarter of all Georgia homeowners who lost their home to foreclosure since 2008 lived in DeKalb, Clayton, or Fulton County. Foreclosures in Georgia can be very fast because banks do not have to go to court to foreclose on a Georgia homeowner. Treasury's promises that the Hardest Hit Fund would provide "urgent," "immediate," help "as soon as possible" meant that the program had an opportunity to prevent these fast foreclosures. Along with need, there was interest in the program, and many hard-hit Georgians applied. There were 29,750 Georgians who applied for the program, 9,516 from DeKalb, Clayton, and Fulton counties.

SIGTARP found that the Hardest Hit Fund did not meet the urgent local needs affecting the housing recovery of Georgia homeowners living in DeKalb, Clayton, and Fulton counties.

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[13] All three counties have above-average unemployment. Clayton County has a 5.9 percent unemployment rate compared to the national 4.5 unemployment rate. DeKalb County and Fulton County also have above average unemployment rates at 4.9 percent each.

The Georgia agency turned away two-thirds of Georgians living in these counties for the Hardest Hit Fund—6,200 people—while more than one hundred million dollars sat idle.[14]

The Georgia agency turned away thousands who could not afford to be turned away. In Fulton County, 75% of all applicants that the Georgia agency turned away earned less than $30,000 per year. In DeKalb County, 77% of all applicants that the Georgia agency turned away earned less than $30,000 per year and, in Clayton County, 81% of all applicants that the Georgia agency turned away earned less than $30,000 per year. Most turned away in these counties earned less than $20,000.

The problems that SIGTARP found with the Hardest Hit Fund extended beyond these three Georgia counties to the entire state. Year after year, the Georgia agency ranked among the least effective state agencies in disbursing Hardest Hit Funds to homeowners to preserve homeownership—the goal of the program. SIGTARP reported on the severe underperformance of the Georgia agency 25 times in 5 years. Twice, U.S. Congressmen from Georgia wrote to then-President Obama to change or redirect the program.

- Rather than respond to the most pressing problems of their communities, the Georgia agency turned away two of every three (20,051 of 29,750) Georgians who applied for Hardest Hit Funds, one of the worst rates nationwide.

- Three out of every four turned away earned less than $30,000, most earned less than $20,000, while millions of TARP dollars sat idle.

- In 2010, the Georgia agency told Treasury that it planned to distribute Hardest Hit Funds to 18,625 homeowners (9,000 homeowners in the first year, and 9,500 homeowners in the second year). However, it has taken more than 6 years for the Georgia agency to provided Hardest Hit Funds to 9,061 Georgia homeowners.[15]

- The Georgia agency has provided less than half of the available dollars ($173.8 million out of $370.1 million) to homeowners.

- Despite Georgia experiencing one of the highest levels of underwater homeowners in the nation, which is a contributing factor to Georgia's slow recovery from the crisis, the Georgia agency failed to provide underwater home HHF assistance for 6 years.

- Despite Georgia having one of the largest populations in the United States of military and veterans, the Georgia agency turned away 2,310 veterans—71% of all veterans who applied for the Hardest Hit Fund.

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[14] The Georgia agency turned away 2,476 DeKalb County residents, 2,342 Fulton County residents, and 1,382 Clayton County residents who applied. There were 95,232 homeowners in these counties losing their home to foreclosure since September 2008.

[15] As of March 31, 2017, the latest data available as of the drafting of the report.

Finding statewide ineffectiveness and inefficiency of HHF in Georgia, SIGTARP shifted the audit to determine the source of the problem, and how to fix it.

SIGTARP found mismanagement by the Georgia agency paid by Treasury to provide this urgent aid to Georgia homeowners, and by Treasury in not holding the Georgia agency accountable.[16] The Government Accountability Office (GAO) defines mismanagement as "creating substantial risk to an agency's ability to accomplish its mission." The mission of HHF is to preserve homeownership. The mission is accomplished by state housing finance agencies like the Georgia agency, providing aid to families through local programs tailored to the urgent needs of the communities. Conversely, the mission is not accomplished, given that the Georgia agency withheld aid.

The Georgia agency's mismanagement of HHF included that it:

- ***Failed to act with urgency in distributing this Federal aid, and withheld it from Georgians.*** While some families received the aid, the Georgia agency did not provide this aid with any urgency, and did not provide it to enough families. The Georgia agency did not meet its own target of providing assistance to 18,500 Georgians in the first 2 years (by September 2012). Instead, after 2 years (as of September 30, 2012), the Georgia agency provided this aid to less than 10% of that target—assisting only 1,708 homeowners. The Georgia agency withheld this aid to Georgians over the years, meeting less than 50% of its own target as of March 31, 2017 (the latest data available during the drafting of this report). By withholding this aid, and slow walking the aid it did distribute, the Georgia agency cut off Georgians' access to these funds, leaving thousands at risk of foreclosure without help available to homeowners in other states with similar situations.

- ***Designed overly strict and unnecessary criteria for the HHF unemployment program that made it harder for a Georgia homeowner to receive this assistance than homeowners in other states.*** In this audit, SIGTARP provides 10 examples of overly strict criteria. For example, when in 2012, the Georgia agency required that a homeowner be no more than 6 months delinquent on their mortgage to qualify, people all but stopped applying. For the HHF unemployment/underemployment program, the Georgia agency did not recognize common hardships like illness, disability, divorce, and military orders that can lead to unemployment or underemployment. These hardships are recognized in the other TARP housing program (Making Home Affordable), and for HHF by other state agencies. A Georgia worker has to show they lost their job in the last 3 years (later expanded to 4 years), when homeowners in other states do not have this limitation. The Georgia agency disqualifies a homeowner who resigned from their job from getting HHF assistance, even if it was due to illness,

[16] Treasury did not hold the Georgia agency accountable to the targets set by the Georgia agency of 9,000 homeowners assisted the first year, and an additional 9,500 homeowners assisted the second year. Treasury also did not hold the Georgia agency accountable to targets Treasury set in April 2012 of 250 new homeowners funded each month.

disability, or age. The Georgia agency accepts only severe underemployment of a 25% pay cut when other state agencies accept 10%. These and other criteria are not required by Treasury and far stricter than some other state agencies require in HHF.

- ***Failed to eliminate overly strict criteria despite repeated warnings and recommendations.*** The Georgia agency's mismanagement disadvantaged Georgia homeowners, making it harder for a Georgia homeowner to gain access to this Federal aid than homeowners in other states. The Georgia agency was repeatedly warned, and there were many recommendations to eliminate overly strict criteria. These recommendations came from Congressman Lewis, Congressman Henry "Hank" Johnson, SIGTARP, Treasury, and local non-profit groups.

- ***Required significant red tape, had a confusing online application, provided very little in-person help to apply, and had burdensome document requirements.*** The online application was confusing, and there was little personal assistance available. More than 8,000 Georgians started the application but did not finish it and produce requested documents within 30 days, an artificial and unnecessary cutoff, so the Georgia agency withdrew their HHF application. This may have been due to the Georgia agency's burdensome document requests, for example, 4 years of tax transcripts stamped by the IRS, 2 years of payment history generated by their mortgage servicer, and a separation letter from the prior employer showing that the homeowner lost their job through no fault of their own.

The question SIGTARP was left with was, "what are they waiting for?" The mismanagement of the Georgia agency appears to be rooted in its desire to provide aid to only its overly restrictive view of what is a "Responsible Homeowner." The Obama Administration defined an irresponsible homeowner as someone who took out more of a loan than they could afford, and Treasury capped the mortgage for a homeowner receiving this Federal aid to the GSE conforming limit—around $424,100 for a single-family house in Georgia. Of the Georgians turned away, 99% had a mortgage below this cap. The Georgia agency added far more limitations and red tape than Treasury required or that existed for homeowners in other states for these same funds, putting Georgians at a disadvantage.

The Georgia agency set a very high bar for Georgians to receive Hardest Hit Funds, and a very low bar for itself to receive these funds. The Georgia agency ran this program "guarding" the dollars and adding "precautions." This made the Federal funds last, which is contrary to the urgent nature of this program, but continues to keep the Georgia agency funded while other state agencies wound down operations. The Georgia agency has kept $32 million for itself to pay its salaries and other expenses. SIGTARP has serious concerns given that the Georgia agency has distributed only less than half of the funds earmarked for homeowners, but kept 70% of the fund earmarked for its own expenses. If held to its own "responsible" standard, the Georgia agency should not have been paid when it did not meet its targets or Treasury's targets for the number of homeowners assisted. The Georgia agency's track record is so poor that while other states took advantage of an additional $2 billion that Congress approved starting in 2016 for HHF, Treasury turned down Georgia for

$33.5 million, out of concern that the Georgia agency would not spend the HHF dollars already set aside for Georgians.

The Georgia agency's mismanagement is a significant lost opportunity for Georgians, but a window of opportunity still exists with $164 million remaining available in the program. This opportunity should not be lost. It will take wholesale changes in the Georgia agency, and in Treasury's oversight, to stop the mismanagement and change course. SIGTARP makes 30 recommendations for improvement, and implores the state agency and Treasury to adopt these recommendations fully and immediately.

If the Georgia agency reacts defensively to this report and sticks with the status quo, Georgians will continue losing a crucial aid that can speed their recovery from the housing crisis—aid that homeowners in other states have had access to for years. If mismanagement continues, Federal taxpayers will continue paying for underperformance and mismanagement, and Georgia homeowners will be on their own, without effective access to this Federal foreclosure prevention aid. Georgians have been disadvantaged by the Georgia agency for far too long.

PRIORITY RECOMMENDATIONS

Mismanagment Cost Taxpayers $18.6 million

Georgia agency should remove impediments to Georgia homeowners receiving Hardest Hit Funds such as overly strict criteria and unnecessary red tape.

Georgia agency should fix a broken and confusing online application system.

Georgia agency should conduct outreach to assist homeowners in applying counties.

Mr. PALMER. The chair now recognizes Ms. Campbell for her testimony for 5 minutes.

STATEMENT OF VERISE CAMPBELL

Ms. CAMPBELL. Thank you, Mr. Chairman.

Chairman Palmer, Chairman Meadows, and members of the committee, thank you for the opportunity to participate in today's hearing and appear before you regarding implementation and oversight of the Hardest Hit Fund.

For the record, my name is Verise Campbell. And since June of 2016, I have been the chief executive officer for the Nevada Affordable Assistance Corporation, also known as NAHAC.

I was selected by the State of Nevada to restructure NAHAC after the organization experienced a series of operational issues and a decrease in production. No State was hit harder than Nevada during the Great Recession and subsequent housing crisis, and the Nevada Hardest Hit Fund has been instrumental in helping people save their homes and get back on their feet.

These are actual quotes from some of our homeowners:

"This program saved my life; it saved my children's life."

"I feel like the weight of the world has been lifted off of my shoulders."

"We were under so much pressure, we didn't know what to do. We thought we were going to lose our home until we spoke to the Hardest Hit."

Providing benefits to Nevada homeowners has not been without challenges. NAHAC acknowledges that there have been issues with its performance.

Specifically, the most critical report was a SIGTARP report that actually indicated that there was fraud, waste, and abuse in Nevada in the amount of $8.2 million. However, subsequent Treasury audits for the same period found a significantly reduced amount of unallowable expenses, $136,000, not $8.2 million.

NAHAC immediately reimbursed the $136,000 to Treasury. Nevertheless, it was without a doubt changes had to be made if NAHAC was going to effectively serve Nevada homeowners.

Major changes were, in fact, made to NAHAC's organizational structure, systems, and programs. In fact, our newest program is a downpayment assistance program entitled Hope Brings You Home, which was launched on May 1, 2018. $36 million was allocated to this program to assist 1,800 homeowners. To date, the downpayment assistance program has over 200 reservations, with over $3.8 million committed in its short time.

The Nevada Affordable Housing Assistance Corporation has helped over 5,000, almost 6,000 Nevada households to date, and that number continues to grow. Programs have been instituted to solve Nevada's housing crisis with the assistance of Treasury, Nevada's business and industry, and the Nevada Housing Division.

There were issues with the operations of NAHAC initially, but NAHAC has improved its organizational structure and its operations, resulting in better oversight, transparency, and controls, and increased capacity to help more Nevada families.

New management is committed to efficiently and effectively utilize the remaining allocation of government funds to help more citizens of one of the hardest hit States stay in their homes and stabilize Nevada's housing market.

Thank you.

[Prepared statement of Ms. Campbell follows:]

TESTIMONY OF VERISE V. CAMPBELL

Good afternoon Mr. Chairman and members of the committee. Thank you for the opportunity to participate in today's hearing and appear before you regarding implementation and oversight of the Hardest Hit Fund.

For the record, my name is Verise Campbell. Since June of 2016 I have been the Chief Executive Officer for the Nevada Affordable Housing Assistance Corporation, also known as "NAHAC." NAHAC is the designated administrative Eligible Entity for the Nevada Hardest Hit Fund (NVHHF). The Nevada Housing Division (Housing Division), which is a Division of the Nevada Department of Business and Industry (Business and Industry), was designated by the United States Department of the Treasury ("Treasury") as the State Housing Finance Agency or "HFA." I was selected by the State of Nevada to restructure NAHAC after the organization experienced a series of operational issues and a decrease in production that will be discussed below in more detail.

OVERVIEW

No state was hit harder than Nevada during the Great Recession and subsequent housing crisis, and the NVHHF has been instrumental in helping people save their homes and get back on their feet. In fact, countless homeowners have provided unsolicited thanks and poignant insight into how profoundly vital this assistance has been for them and their families.

> *"This program saved my life; it saved my children's lives."*
>
> *"I feel like the weight of the world has been lifted off of my shoulders!"*
>
> *"We were under so much pressure; we didn't know what to do. We thought we were going to lose our home until we spoke to the Hardest Hit Fund."*

These are actual quotes from Nevada homeowners who would have had nowhere else to turn had this program not been available to them. Through the assistance provided by NAHAC and the Hardest Hit Fund dollars provided by the federal government, the lives of Nevada homeowners continue to be transformed for the better by enabling people to stay in their homes, and the Nevada housing market has been stabilized as a result.

Providing benefits to Nevada homeowners has not been without challenges. NAHAC acknowledges that there have been issues with its performance. The Special Inspector General for Troubled Asset Relief Program (SIGTARP) and Treasury released reports critical of NAHAC's operations and productivity. The most critical report was released in September 2016 by SIGTARP. The SIGTARP report alleged mismanagement, fraud, waste and abuse by NAHAC in the amount of $8.2 million. However, subsequent Treasury audits for the same period found a significantly reduced amount of "unallowable" expenses; $136,000 (not $8.2 million). NAHAC immediately reimbursed the $136,000 to Treasury. Nevertheless, changes had to be made if NAHAC was going to effectively serve Nevada homeowners.

NEW MANAGEMENT AND NEW FOCUS

NAHAC made major changes to its organizational structure and operational guidelines, which have resulted in more transparency for the organization, better internal controls and more efficient systems. These changes contributed to better production and more households being served. NAHAC also received constructive input from Treasury, Nevada's Congressional delegation and Business and Industry and continues to solicit input from its community partners to make the assistance program available to more Nevadans and to more effectively assist them with their housing needs.

NAHAC had experienced high staff turnover. As a result, in 2014 there was a sharp decline in production, which continued through 2015. During this period, Business and Industry and the Housing Division expressed concerns to Treasury regarding NAHAC's operations and the lack of cooperation from NAHAC's Board of Directors. Subsequently, Treasury issued a critical Performance Memorandum to NAHAC, which prompted resignations of the majority of NAHAC's Board of Directors. Thus, began the re-organization of NAHAC. New management set about to remedy the problems identified internally and by Treasury and SIGTARP. Since June 2016, the change in direction from previous years has been significant. NAHAC has followed the recommendations of Treasury and the Housing Division to correct mistakes and make the program stronger, more efficient, more transparent and more effective in helping Nevada families keep their homes. The following is an overview of the steps NAHAC has taken to more effectively manage the aid to Nevada families.

Organizational Changes - In April 2016, NAHAC's bylaws were amended to operate NAHAC under Nevada's Open Meeting Laws, and to allow the State of Nevada and the Housing Division to provide direct oversight of Nevada's Hardest Hit Fund programs and operations as intended in the tri-party participation agreement between Treasury, NAHAC and the Housing Division. The Board of Directors now consists of two members from the Nevada Housing Division, one member from Business and Industry, and two independent members who have experience with real estate, housing, mortgage lending or other expertise related to mortgage assistance programs or sustainable housing.

NAHAC also terminated its Chief Executive Officer and I was appointed to take over that position. From my initial assessment of the organization, it was apparent NAHAC had ample opportunity to improve its ability to efficiently and effectively carry out its mission. There were challenges in the following key areas: staffing, management, systems and programs; all of which hampered the ability to readily identify qualified candidates for assistance and timely distribute funds to homeowners in need.

Staffing and Internal Controls - Under new management, NAHAC and the new Board of Directors acted decisively to realign operations and control administrative expenses. The organization currently operates with a significantly scaled-down workforce of ten (10) full-time employees, one (1) part-time employee, and six (6) temporary employees, compared to 19 full-time employees and no temporary staff in June 2016. In addition, staff was cross-trained to enable the organization to shift human capital resources based on need and demand. This has allowed for maximum cost efficiency without hiring and training additional staff as file volume fluctuates. Such cost control actions have brought the administrative budget in-line with Treasury's permitted administrative expenses, and NAHAC estimates that with the addition of the newly launched Down Payment Assistance Program, the administrative budget is likely to fall between 9 percent and 12 percent.

NAHAC also hired a local CPA firm, experienced with government compliance issues, to provide accounting and financial reporting services and to assist with compliance matters, including responding to inquiries and audits from Treasury and SIGTARP. As a result of NAHAC's past issues, NAHAC has been under constant audit by Treasury and the subject of multiple investigations by SIGTARP. NAHAC has done its best to be responsive given available staff and the deadlines imposed, while at the same time focusing on its obligations to assist Nevada homeowners.

Systems - Since June 2016, NAHAC began to operate as a leaner and more efficient, transparent, and homeowner-focused organization without compromising service. One of the first issues current management addressed was the homeowner application process and the system behind it. The original system could not adequately and accurately handle the volume of applicants necessary to achieve NAHAC's funding goals. After careful research into other systems adopted by successful HHF states, NAHAC implemented a new comprehensive document and case management portal system, the Nevada Mortgage Assistance System (NMAS). This system, modeled after California's highly successful portal system, was rolled out on July 3, 2017. One key benefit of NMAS is the system's capability to identify eligible homeowners much earlier in the application process. This saves valuable time and greatly reduces the possibility of human error. NMAS yielded immediate results and has been a key component in reducing the time for a homeowner to receive a decision from 60 to 90 days to the current timetable of 30 to 45 days once an application is submitted.

NAHAC also analyzed its front-end processes to identify cost savings and improvements in customer service, and launched its in-house call center on December 1, 2017. This has resulted in an immediate reduction in front-end related expenses, while at the same time increasing efficiency by streamlining and improving the first contact, intake, and application processes, and providing better customer service and direct management of these functions.

Programs - Ensuring that programs are relevant and current to address the evolving housing market is key to successfully meeting the needs of Nevada's struggling homeowners. Since June 2016, NAHAC has submitted program enhancements and received approval from Treasury on four separate occasions. These program enhancements have allowed NAHAC to assist more Nevada homeowners and distribute more HHF dollars where they are most needed. For example, NAHAC realized homeowners on a fixed income were having difficulty qualifying for current HHF programs. After reviewing other programs around the country and discussion with Treasury, NAHAC developed an affordability component to the Principal Reduction Program. This one change allowed NAHAC to further assist Nevada's aging and disabled homeowners.

The following four programs are available to aid existing homeowners who owe more than their home is worth, may be past due on their mortgage payments, and/or have experienced a job loss, underemployment, or other financial hardships.

1. Principal Reduction
2. Second Mortgage Reduction/Elimination
3. Unemployment Mortgage Assistance
4. Mortgage Reinstatement

A new Down Payment Assistance (DPA) Program – "*Hope Brings You Home*" was launched on May 1, 2018, allocating $36 million to assist approximately 1,800 homebuyers in targeted distressed areas. The purpose of the DPA program is to prevent future foreclosures by assisting with the stabilization of housing prices in targeted areas. As a requirement implemented by Treasury, NAHAC evaluated five housing market distress indicators across the State of Nevada and identified 27 ZIP Codes that exceeded the statewide rate in at least four (4) out of the five (5) distressed housing market indicators. The five indicators are:

1. Delinquency
2. Real Estate Owned (REO) Sales
3. Short Sales
4. Negative Equity
5. Foreclosures

Please see NAHAC's current list and description of all programs **(Attachment A).**

Partnerships and Outreach - Since June 2016, NAHAC has significantly increased its efforts to partner with lending institutions to achieve positive outcomes for Nevada homeowners. NAHAC regularly hosts and participates in roundtables and webinars, outreach events, and co-branded mailings with lending partners and Housing Counseling Agencies (HCAs).

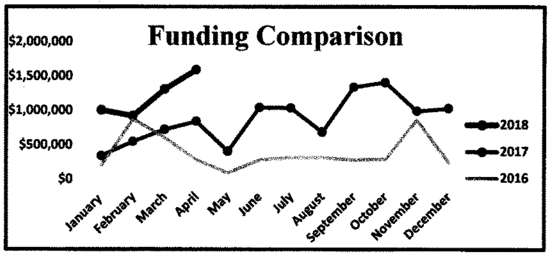
In March 2017 NAHAC's Board of Directors approved the formation of the NAHAC HCA Council to provide outreach events and training on an ongoing basis year-round. Nevada's top six HUD approved counseling agencies are members of the council, including:

1. Chicanos Por La Causa
2. Community Services of Nevada
3. Money Management International Inc. (Doing Business as "Financial Guidance Center")
4. Navicore Solutions
5. Neighborhood Housing Services of Southern Nevada
6. Nevada Partners

NAHAC has been involved in numerous cases where homeowners were able to achieve assistance after NAHAC collaborated with a lender. These efforts have enabled NAHAC to build strong, mutually beneficial relationships with lending partners such as Wells Fargo Bank, Bank of America and Mr. Cooper (formerly NationStar Mortgage) that have furthered NAHAC's mission to assist homeowners. NAHAC continues to foster these relationships and has future community outreach events scheduled. Overall top participating lenders of the NVHHF programs are: Bank of America, Wells Fargo, Mr. Cooper and JP Morgan Chase.

Improved Performance - Since June 2016, NAHAC has made significant strides to improve production, resulting in a year over year increase in assistance to Nevada homeowners, reduction of administrative expenses, and improvement in programs, outreach, and state-wide visibility and reporting.

In 2016, NAHAC distributed $4,646,325 in assistance and helped approximately 100 households. In 2017, NAHAC provided assistance to approximately 232 households, resulting in $10,381,931 in assistance, which is a 123 percent increase in funding and 132 percent increase in households (2016 versus 2017).



Since inception through April 2018, NAHAC has assisted approximately 5,823 households and disbursed $108,284,483. Please see **"Total Funds Disbursed 2011-2018" (Attachment B).** NAHAC continues to trend upward in 2018. From January 2018 through April 2018, approximately $4,824,784 in assistance has already been provided to 147 households.

The new DPA program has yielded over 100 reservations with over $2 million committed in the first 10 days of operation. At its current production rate, all currently allocated DPA funds could be committed within the next 9 to 12 months. Due to the performance of the DPA program, monthly funding is expected to increase in excess of $5 million a month once the DPA program is in full effect.

With approximately $62 million remaining in program dollars, NAHAC must expend $1.9 million monthly to ensure all dollars are expended by the program term date of December 31, 2020. A particular area of concern raised was the potential return of additional HHF dollars to Treasury at the end of 2018 due to not meeting subsequent utilization thresholds.[1] At the current rate of production, NAHAC estimates that no additional funds will be reverted. As it stands today, total monthly funding could increase to over $5 million and the number of households served monthly to more than 230. The latest projections indicate all of NAHAC's program dollars will be distributed to Nevadans in need prior to the December 2020 program end date.

CONCLUSION

NVHHF has helped 5,823 Nevada households and that number continues to grow every day. Programs have been instituted to solve Nevada's housing crisis with the assistance of Treasury, Business and Industry and the Housing Division. Systems are in place to make the assistance process better and faster to help struggling homeowners and stabilize neighborhoods. NAHAC has strong partnerships with housing counseling agencies and lending institutions to get the word out to help even more people. There were issues with the operation of NAHAC initially, but NAHAC has improved its organizational structure and its operations, resulting in better oversight, transparency and controls, and increased capacity to help more Nevada families. All of the expenses found to be unallowable by Treasury ($136,000 not $8.2 million) have been reimbursed, and new management is committed to efficiently and effectively utilize the remaining allocation of government funds to help more citizens of one of the hardest hit states stay in their homes and stabilize Nevada's housing markets.

[1] In January 2018 NAHAC's HHF allocation was reduced by $6.66 million in Fifth Round Funding dollars (allocated in early 2016) due to failure to meet Treasury's 2017 utilization threshold.

Mr. PALMER. The chair now recognizes Ms. James for her testimony, 5 minutes.

STATEMENT OF CATHY JAMES

Ms. JAMES. Good morning.

Chairman Palmer, Chairman Meadows, and members of the subcommittees, thank you for the invitation to discuss with you Alabama's Hardest Hit program. My name is Cathy James. I'm the business development manager for the Alabama Housing Finance Authority. I also serve as the manager of the Hardest Hit Fund program in Alabama, which we call the Hardest Hit Alabama program.

Alabama's introduction to the Hardest Hit Fund began with a notification in 2010. Hardest Hit funds had already undergone two rounds of funding when HFA was invited to participate in round three. We quickly began creating our program and program guidelines. We began by reviewing term sheet templates that were furnished to us by the Department of Treasury which had been adopted by other States in rounds one and two.

During the development of our process, close attention was paid to the respective allocations of program funds and administrative expenses. In total, Alabama's allocation is $162.5 million, and 16.75 percent is allocated to administrative expenses.

During the 7 years of Hardest Hit assistance, the Department of Treasury has approved 12 term sheet changes for the State of Alabama. Our current portfolio of programs includes a mortgage payment assistance program, a loan modification program, a short sale program, and a blight elimination pilot program.

More than 6,500 homeowners have been approved and received more than $63.8 million in program dollars. We have an average of $9,828 per household for assistance. Eighty-five percent of the households who received assistance in our mortgage payment assistance program had an annual income of $50,000 or less. Forty-five percent of the homeowners who received assistance were 90-plus days delinquent on their first mortgage at the time of application. And the Hardest Hit funds have been disbursed in all 67 counties in the State of Alabama.

HFA undertakes the administration of the Hardest Hit funds program with great seriousness. To ensure regulatory and program compliance, Alabama's Hardest Hit program is reviewed on a monthly basis by our internal audit team, an annual basis by an independent audit firm. And since the program's inception, Alabama has completed five compliance reviews with the Department of Treasury.

The 2017 SIGTARP report asserted that $705 of expenses charged by HFA to the Hardest Hit Fund was unreasonable and therefore unallowable. All noted expenses were related to Hardest Hit activities, such as in-house lunches for working conferences, in one instance lunch with a servicer participating in the Hardest Hit funds program, and promotional items to two homeowners who volunteered for radio and television ads.

Alabama contested the allegations and defended the charges. Even so, per the March 2018 compliance review, HFA agreed to reimburse Treasury $397. The balance of expenses were found to be reasonable.

Since notification of Alabama's allocation of Hardest Hit funds, we have worked to ensure that the program is programmatically sound and funds were not spent unnecessarily. HFA's commitment to the proper use of Hardest Hit funds is unchanged. We will continue to provide Hardest Hit assistance to homeowners across the State of Alabama in compliance with the agreed-upon terms in the term sheets and in compliance with Federal guidelines.

Thank you.

[Prepared statement of Ms. James follows:]

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

Re: Ten Years of Tarp: Examining the Hardest Hit Fund, Hearing May 22, 2018

Written Statement of Proposed Testimony of Cathy James,

Alabama Housing Finance Authority

Chairman Palmer and Chairman Meadows and members of the Subcommittee on Government Operations and the members of the Subcommittee on Intergovernmental Affairs, thank you for the invitation to discuss with you Alabama's Hardest Hit Fund program. My name is Cathy James. I am the Business Development Manager for Alabama Housing Finance Authority. I also serve as the manager of the program in Alabama for the Hardest Hit Fund, which we call Hardest Hit Alabama. I have had this position throughout the program's existence. Today, I will provide an overview of Alabama's Hardest Hit Fund Programs, and SIGTARP's December 2017 report concerning all state programs and certain expenses which it challenged to be unnecessary. For Alabama, that involved $705 spent on meals for in-house working lunches and promotional items.

Alabama Housing Finance Authority (AHFA) was established in 1980 as a public corporation dedicated to the housing needs of low-moderate income homebuyers in the State of Alabama. It operates several programs including the Multifamily programs for Housing Credits, HOME, Housing Trust Funds, and private activity bonds; the single-family programs for down payment assistance for home loans, and the Mortgage Credit Certificate Program for home loan assistance, and the Hardest Hit Alabama Program.

HHF Allocation Notification

AHFA's introduction to the HHF began with its first notification for Hardest Hit funding in July 2010, with the Round 3 funding allocation of $62 million. Within days AHFA was informed that an additional $100 million had been allocated to the State of Alabama. AHFA quickly undertook the development of Term Sheets and program guidelines for an Unemployment program under Hardest Hit. We began by reviewing Term Sheet templates adopted by states which previously received funding in Rounds 1 and 2. AHFA's goal has always been to develop a program which would help meet the needs, specifically, of the citizens of Alabama. During the development process, close attention was paid to the programmatic use of funds and funds allocated for the program administrative needs. In total Alabama has been allocated $162.5 million in HHF, 16.75% of which is allocated to administrative expenses.

AHFA closed on the HHF Participation Agreement with Treasury on September 23, 2010. By December 15, 2010, the pilot program was in operation. The statewide release of the program began in February 2011.

Application Process

Applicants interested in applying for Hardest Hit Alabama assistance, apply via an online application, a method which was determined to afford the greatest access to potential applicants. Preliminary to submitting an application, the homeowner creates an online profile. Once the profile is completed, the homeowner responds to a list of pre-qualification questions to determine if they meet the basic program qualifications. Homeowners who meet the basic program guidelines advance to the online application. Homeowners who do not meet the basic program guidelines are encouraged to contact a counselor if they feel they should qualify for assistance.

The application process proceeds through six phases: Intake, Counseling, Underwriting, Closing, Disbursement, and Monitoring. Each phase of the process receives the attention of a different HHA employee assigned to that phase. The employees work directly with the applicant through each phase. AHFA verifies the homeowner's eligibility for HHF assistance based of the following criteria: clear title/ownership, past due payment amount, unemployment/underemployment status, unpaid principal balance, and total household income. Homeowners are required to provide upfront verification of several forms of documentation, including tax returns, income documentation, mortgage servicer information, and more. Once all required documentation has been received, the application is reviewed by HHA to determine eligibility. Applicants who meet program guidelines, are contacted by a closing agent to execute the note and mortgage. Disbursements to loan servicers begin once the document signing company provides verification that the note and mortgage have been executed.

Homeowners who fail to complete the online application or who fail to provide the required documentation within 30-days of starting the process, have their application "withdrawn", not denied. To reactivate the application, applicants are instructed to contact their counselor and request reactivation.

Hardest Hit Alabama Programs

Throughout the seven years of HHF Assistance, the Department of Treasury has approved twelve Term Sheet changes for the AHFA. Each change request included a request for additional program components and/or changes to existing programs. Alabama's current portfolio of HHF programs include the following programs:

1. The **Mortgage Payment Assistance program** is available to eligible homeowners who have experienced an involuntary job loss and are receiving unemployment compensation benefits or have experienced a substantial reduction in household income. HHA will provide a limited amount of monthly mortgage payments including principal, interest and escrow expenses. Eligible homeowners may avail themselves of this program only once.

For unemployed homeowners
Homeowners who have received unemployment benefits on or after January 2013 may be eligible for assistance. Funds will be disbursed to mortgage servicers for up to 12 months, not to exceed $30,000.
For underemployed homeowners
To be eligible as an underemployed homeowner, your household must demonstrate a financial hardship resulting in a 15% or greater reduction in total household income within the past 24 months. Funds will be disbursed to mortgage servicers for up to 12 months, not to exceed $30,000.

To help delinquent borrowers, HHA will pay the mortgage servicer to bring the mortgage current, not to exceed $12,500. Homeowners cannot have a past due balance that exceeds $12,500. The maximum assistance per household is $30,000.

For underemployed homeowners more than $12,500 past due
To be eligible as an underemployed homeowner, the household must

demonstrate a financial hardship resulting in a 15% or greater reduction in total household income within the past 24 months. A one-time disbursement of up to $30,000 will be made to fully reinstate the mortgage loan. The reinstatement must result in a mortgage payment (including principal, interest, taxes, and insurance) of no more than 38% of the homeowner's income.

2. **The Loan Modification Assistance Program** will provide funds to assist eligible financially distressed borrowers in achieving modification of their home loans or payoff of their mortgage liens.

Loan Modification/Recast

HHA will provide the assistance as a one-time distribution of funds to fill a financial gap that limits a homeowner's eligibility to qualify for a loan modification. Funds may be used to reduce the outstanding principal balance, pay delinquent escrow or past due payments, or recast the loan. To use the program, the mortgage servicer must approve the homeowner for the loan modification. The loan modification must result in a mortgage payment (including principal, interest, taxes, and insurance) of no more than 31% of the homeowner's income. The program is designed to work with both HAMP and non-HAMP modifications. The maximum assistance per household is $30,000.

Lien Extinguishment

Homeowners on a fixed income may receive up to $30,000 to pay off mortgage lien(s) on their home (excludes HELOC and reverse mortgages).

3. **The Short Sale Assistance Program** assists eligible financially distressed homeowners with the sale of their primary residence. The program is for homeowners who can no longer sustain their monthly mortgage obligation due to a hardship such as unemployment, underemployment, divorce, death or disability. The mortgage servicer must approve the homeowner for a short sale. The homeowner must provide information documenting income, short sale approval, executed sales contract, the value of the property, and payoff statement(s). Participating servicers must agree to accept a minimum loss of $1,000 on the first mortgage loan.

4. **The Blight Elimination Pilot Program** assists municipalities with up to $30,000 per house to demolish dilapidated properties meeting program guidelines.

By the numbers: Selected Program Outcomes

- More than 6,500 homeowners in Alabama have received assistance of more than $63.8 million in program dollars.
- 93% of program dollars have been disbursed on behalf of homeowners who qualified for the Mortgage Payment Assistance ("MPA") program.
- 7% of funds have been disbursed on behalf of qualified homeowners for the Loan Modification Program.
- The average amount of assistance per homeowner has been $9,828.
- 85% of homeowners who received MPA have an annual income of $50,000 or less.
- 45% of assisted homeowners were more than 90 days delinquent on their principal mortgage at the time of application.
- HHF have been disbursed in all 67 counties in the State of Alabama.
- 12-month growth in cumulative program funds disbursed increased by 33.6%

- 12-month growth in cumulative homeowners assisted increased by 19.3%
- Jefferson County residents account for approximately 20% of all homeowners assisted. Madison and Mobile counites rank second and third, respectively, with 13% and 12%. Three properties have been demolished using funds Allocated to the Blight Elimination Program. The Greater Birmingham Habitat for Humanity offers worked closely with AHFA on the demolition of the three properties.
- Recovered $1.1 million in HHF
- No funds have been disbursed in respect to the Short Sale Program.
- As of Q4 2017, Alabama has received notification of post assistance foreclosure proceedings for approximately 2% of approved homeowners. Homeownership retention is tracked after the assistance ends.

Program Oversight

As with all its programs, AHFA undertakes with great seriousness the administration of the HHF program. To insure regulatory and program compliance, Alabama's Hardest Hit Program is reviewed monthly by internal auditors and semi-annually by an independent audit firm. Since program inception, Alabama has also completed five Compliance Reviews with the Department of Treasury. The reviews noted only minor findings which were easily addressed.

The December 2017 SIGTARP Report asserted that $705 of expenses charged by AHFA to HHF were unreasonable and, therefore, unallowable. All the noted expenses were related to HHF activities: in-house lunches during working conferences with Treasury personnel or, in one instance, a lender, and promotional items to two homeowners who volunteered for radio and television ads. Alabama contested the allegations and defended the charges. Even so, per the March 2018 Treasury Compliance Review

Report, AHFA agreed to reimburse Treasury $397, the balance of expenses being found proper. Alabama has submitted the required funds back to the HHF account and responded to Treasury's Compliance Review Report.

Conclusion

Since the notification of Alabama's allocation of HHF, we have worked to insure the program was programmatically sound and funds were not spent unnecessary. AHFA's commitment to the proper use of HHF is unchanged. AHFA will continue provide HHF assistance to homeowners across the State of Alabama in compliance with the agreed upon terms outline in the Term Sheets and in compliance with OMB Circular A-87.

END

Mr. PALMER. The chair now recognizes Mr. Farmer for his questions for 5 minutes.

STATEMENT OF SCOTT FARMER

Mr. FARMER. Chairman Meadows, Chairman Palmer, and honorable members the committee, my name is Scott Farmer, and I'm the executive director of the North Carolina Housing Finance agency.

Since January of 2017, it has been my honor to serve as executive director, and I'm proud to be with you today representing our board of directors and more than 160 dedicated staff.

Thank you for the opportunity to share information about one of our most effective programs, the NC Foreclosure Prevention Fund, and its accomplishments on behalf of citizens in danger of losing their homes in the face of a significant economic downturn.

The NC Foreclosure Prevention Foreclosure Fund helps responsible North Carolina homeowners struggling with mortgage payments while they search for work or retrain for a new career. Eligible homeowners include those facing foreclosure due to a no-fault job loss, reduction of income, or temporary financial hardship, such as illness, death of a spouse, or a natural disaster.

The fund also provides housing counseling and assistance to veterans who are transitioning to civilian life. Veterans who have given so much in service to our Nation should never face the prospect of losing their home. This initiative has already saved more than 400 veteran families from losing their homes.

The fund was launched in 2010 in the wake of the Great Recession when our State was identified by Treasury as hardest hit due to high unemployment and a high number of foreclosure filings. Since then, the fund has helped more than 26,000 homeowners keep their homes during difficult times. Approximately $706 million was allocated to our agency under the Hardest Hit Fund.

To develop this program, we had to significantly expand our agency capacity. This included hiring more staff, leasing additional office space, building a complex application portal and website, and training hundreds of partners statewide.

We were notified by Treasury that we were to receive Hardest Hit funds in April of 2010. The initial program was approved by Treasury in August of 2010, and we built, marketed, and implemented the program by October, in only 6 months.

Standing up a program of this scale and complexity in that timeframe required long hours for staff, many of whom already had existing full-time workloads within our agency. The work is specialized, involved, and stressful when assisting homeowners who are understandably upset at potentially losing their homes.

Among the thousands of hardworking families assisted by the fund is a small business owner in Alleghany County who has owned a thriving business since 1998. That changed when the recession hit, and by 2011 he and his wife were about to lose their home. Our assistance enabled them to hold onto their home. And I am pleased to report their business emerged from the recession stronger and recently celebrated its 20th anniversary.

The fund also helped a Lee County veteran who struggled to find employment after his discharge from the U.S. Army. The assistance kept his family in their home while he used the GI bill to acquire skills he needed for a civilian job. He is now employed by a local government.

A worker in Buncombe County who was laid off from her job was able to keep her home with assistance from the fund while she sought new employment. She still lives in her home and now works for a healthcare nonprofit that focuses on providing medical care for underserved rural communities.

The fund has also had a noteworthy impact on State and local economies. It has preserved an estimated $4.5 billion in property values, sustaining wealth not only for the homeowners we assisted but for their neighbors as well.

On average, lenders and investors can expect to lose almost half of their investment in a foreclosed mortgage. Foreclosures prevented by our work have saved an estimated $1.5 billion in our State. This work also offsets the costs associated with broader social impacts of foreclosure, such as familial stress, neighborhood destabilization, crime, and degraded health outcomes.

As noted, we have helped more than 26,000 North Carolinians in the nearly 8 years since the program was launched using a significant portion of the allocated Hardest Hit funds. We are currently winding down the program and expect to have committed all of our program funds by the second quarter of 2019.

We are proud of what has been accomplished for North Carolina and its citizens through the NC Foreclosure Prevention Fund, and we would continue to ensure that eligible homeowners have the opportunity to benefit from this program.

Thank you for the opportunity to share our story today, and I will be happy to answer any questions.

[Prepared statement of Mr. Farmer follows:]

Testimony of
Scott Farmer, Executive Director,
North Carolina Housing Finance Agency
before the
Subcommittee on Intergovernmental Affairs
and
Subcommittee on Government Operations
House Committee on Oversight and Government Reform
2154 Rayburn House Office Building
May 22, 2018

Chairman Meadows, Chairman Palmer, and Honorable Members of the committees, my name is Scott Farmer and I am executive director of the North Carolina Housing Finance Agency, a self-supporting public agency with the mission to create affordable housing opportunities for North Carolinians whose needs are not met by the market. We are guided by sound business principles, focusing on maximizing investments in housing and minimizing operating costs.

Since January 2017, it has been my honor to serve as executive director of the North Carolina Housing Finance Agency and I am proud to be with you today representing our Board of Directors and more than 160 dedicated staff. Our Agency has a long and successful record of stewardship of state and federal funds, financing nearly 270,000 homes and apartments worth $21.2 billion since its creation in 1973.

Thank you for the opportunity to share information about one of our most effective programs—the NC Foreclosure Prevention Fund—and its accomplishments on behalf of citizens in danger of losing their homes in the face of a significant economic downturn.

Using financing from the Hardest Hit Fund, the NC Foreclosure Prevention Fund (The Fund) helps responsible North Carolina homeowners struggling with mortgage payments while they search for work or retrain for a new career. Eligible homeowners include those facing foreclosure due to a no-fault job loss, reduction of income, or temporary financial hardship such as illness, death of a spouse or a natural disaster.

The Fund also provides housing counseling and assistance to veterans who are transitioning to civilian life. Veterans who have given so much in service to our nation should never face the prospect of losing their home.

Recognizing the challenges that returning to civilian life can pose, our state was among the first in the country to create a Veterans Initiative through the NC Foreclosure Prevention Fund. This initiative has already saved more than 400 veteran families from losing their homes.

The Fund was launched in 2010 in the wake of the Great Recession when our state was identified by Treasury as "Hardest Hit" due to high unemployment and a high number of foreclosure filings. Since then, the Fund has helped more than 26,000 homeowners keep their homes during difficult times.

Approximately $706 million was allocated to our Agency under the Hardest Hit Fund. To develop this program, we had to significantly expand our Agency's capacity. This included hiring more staff, leasing additional office space, building a complex application portal and website, and training hundreds of partners statewide.

We were notified by Treasury that we were to receive Hardest Hit Funds in April 2010. The initial program was approved by Treasury in August 2010, and we built, marketed, and implemented the Fund by October 2010, in only six months. Standing a program up of this scale and complexity in that timeframe required long hours for staff, many of whom already had existing full-time workloads within our Agency. The work is specialized, involved, and stressful when assisting homeowners who are understandably upset at potentially losing their homes.

We held many outreach events to work with our numerous business partners on program design, implementation, training, and marketing. These events were important tools in developing and maintaining a strong delivery network. Outreach events were also held across the state to reach impacted homeowners and laid-off workers.

Among the thousands of hard-working families assisted by the Fund is a small business owner in Alleghany County who has owned a thriving business since 1998. That changed when the recession hit, and by 2011 he and his wife were about to lose their home. Our assistance enabled them to hold on to their home and keep operating their business. I am pleased to report their business emerged from the recession stronger, and recently celebrated its 20th anniversary.

The Fund also helped a Lee County veteran who struggled to find employment after his discharge from the US Army. The assistance kept his family in their home while he used the GI Bill to acquire the skills he needed for a civilian career. He is now employed by a local government.

A worker in Buncombe County who was laid off from her job was able to keep her home with assistance from the Fund while she sought new employment. She still lives in her home, and now works for a healthcare nonprofit that focuses on providing medical care for underserved rural communities.

In addition to making a difference in the lives of thousands of families facing the financial and emotional trauma of losing their homes, the Fund has also had a noteworthy impact on state and local economies. It has preserved an estimated $4.5 billion in property value, sustaining wealth for not only the homeowners we assisted, but for their neighbors as well.[1]

On average, lenders and investors can expect to lose almost half of their investment in a foreclosed mortgage. Foreclosures prevented by our work have saved an estimated $1.5 billion in our state.[2,3]

This work also offsets the costs associated with the broader social impacts of foreclosure such as familial stress, neighborhood destabilization, crime, and degraded health outcomes.[4,5]

As noted, we have helped more than 26,000 North Carolinians in the nearly eight years since the program was launched, using a significant portion of the allocated Hardest Hit Funds. We are currently winding down the program and expect to have committed all of our program funds by the second quarter of 2019.

We are proud of what has been accomplished for North Carolina and its citizens through the NC Foreclosure Prevention Fund and we will continue to ensure that eligible homeowners have the opportunity to benefit from this program. Thank you for the opportunity to share our story.

[1] Harding, J., Rosenblatt, E., & Yao, V. (2009). The contagion effect of foreclosed properties. *Journal of Urban Economics, 66*(3):164-178.
[2] S&P Global. (2016). U.S. Residential mortgage performance snapshot, second-quarter 2016.
[3] Fitch Ratings. (2018, April). U.S. RMBS loan loss model criteria.
[4] Kingsley, G.T., Smith, R., & Price, D. (2009, May). The impacts of foreclosures on families and communities.
[5] Isaacs, J. (2012. April). The ongoing impact of foreclosures on children.

Mr. PALMER. I thank the witnesses for their testimony.

The chair now recognizes the gentleman from Tennessee, Mr. Duncan, for 5 minutes for his questions.

Mr. DUNCAN. Well, thank you very much, Mr. Chairman. And thank you for calling this very important hearing.

Ms. Goldsmith Romero, you listed a very impressive record for your office, but you also said that Nevada, for instance, had committed $8.2 million—or lost $8.2 million in waste, fraud, or abuse. And then Ms. Campbell just turned right beside you and said: Oh, it was only $136,000.

What is the discrepancy there? Or what do you think about her statement that none of it really was waste, fraud, and abuse, or very little?

Ms. GOLDSMITH ROMERO. So it wasn't—we didn't label it as fraud. We would label it as waste and abuse. I want to make that distinction clear, because it was our auditors.

But it doesn't make sense. I mean, to be honest, what NAHAC paid back was what Treasury requested, which also didn't make sense.

So, for example, the CEO that was driving a Mercedes-Benz was forced to resign and got a $20,000 severance package, and that's been paid. That's not necessary for a homeowner to get assistance in the Hardest Hit Fund.

So what I found was that Treasury officials were applying the wrong standards. They were not applying the necessary standard, which is not only what's baked into their contract but is the first requirement of the Federal cost principles, nor is it reasonable.

That's just one example. But there are many, many examples, like moving into a luxury building to improve employee morale, then deciding it's more cost than you need because you doubled the rent. Breaking the lease, $20,000 in legal fees to break the lease, then move and pay rent.

None of that was paid back. And this was all at a time when they really weren't helping homeowners, getting this money out to homeowners.

Mr. DUNCAN. All right. Thank you very much.

The report says that as of December 2017, 347,000 people had been helped by this HHF program.

Can somebody tell me how this works exactly? How many homes is that? In other words, most homes are in the name of the husband and wife both, or maybe more than one person. So how many homes are we talking about, does anybody know, of the 347,000?

Ms. CAMPBELL. Mr. Committee Member, Verise Campbell from Nevada.

We count households, so those numbers represent the household.

Mr. DUNCAN. So those are 347,000 homes then.

Ms. CAMPBELL. Households.

Mr. DUNCAN. All right. And how long can somebody stay on this program? Ms. Goldsmith Romero mentioned it's 8 years old. Have there been people that have been on this program from day one and they're still on the program? Can anybody tell me?

Ms. CAMPBELL. This is Cathy with Alabama Housing Finance Authority.

I think that each State is a little bit different. But for the State of Alabama, for the mortgage payment assistance program, our homeowners have up to 12 months, not to exceed $30,000.

Mr. DUNCAN. And is that pretty typical of—you say each State is different, Ms. Campbell?

Ms. CAMPBELL. Mr. Committee Member, our homeowners—it depends on the program. We have an unemployment program where a homeowner can stay on the program up to 18 months. And we have a limit for all of our programs combined, no more than $100,000 per household.

Mr. DUNCAN. All right. Is that typical, Ms. Goldsmith Romero?

Ms. GOLDSMITH ROMERO. Again, it varies, 2 years, 3 years, 1 year. It just depends on the State.

Mr. DUNCAN. All right.

And now, Mr. Kranbuhl, it says there's $2 billion unspent, is that correct, in one of these reports?

Mr. KRANBUHL. It's actually around $800 million. The $2 billion was the new authorization and around 5 from the 2015 vote, starting in 2016, could be spent through 2021. So there's about $800,000 left, or about 8 percent of the Hardest Hit funds remain available.

Mr. DUNCAN. Is there a goal or a plan to—since unemployment is now so low and the economy is so strong—is there a plan to end this program or phase it out?

Mr. KRANBUHL. Yes, sir. This program, the applications are available for those who have dollars, that $2 million that—sorry—$2 billion was allocated across the 19 States.

So of the remaining funds, that applications may be accepted through December 31 of 2020, and dollars can be put out through December 31, 2020, if there are any remaining dollars. Certain States have already wound those down, so there are no longer dollars available.

Mr. DUNCAN. So how many of the 19 States have wound down the program?

Mr. KRANBUHL. California and Florida are already wound down or the final stages of winding down. Many of the others are initiating that wind-down now.

Mr. DUNCAN. Thank you very much.

Thank you Mr. Chairman.

Mr. WALKER. [Presiding.] Thank you.

The chair now recognizes the gentleman from Maryland for 5 minutes.

Mr. RASKIN. Mr. Chairman, with your permission, I'll yield to Mr. Connolly and switch places with him, if that's okay.

Mr. WALKER. So moved.

Mr. CONNOLLY. I thank the chair, and I thank my good friend from Maryland. I have a hearing and markup in Foreign Affairs, so I appreciate his consideration and gracefulness.

I'm concerned about the apparent mismanagement of the Hardest Hit Fund program by some of our partner States. According to the Special Inspector General's report, States spent over $600,000 on cars for executives, free parking for staff, and monthly parking bus passes. States also spent $50,000 on events with housing counselors, $14,000 for employee meals, and $8,000 on gym memberships. In 2017, the SIGTARP found nearly $3 million in such wasteful spending.

Mr. Kranbuhl, where in the world did the States get the idea that this was permissible spending?

Mr. KRANBUHL. Well, again, Mr. Ranking Member, I appreciate your question. I can't speak for why the States make decisions they make, but they are required to follow Federal cost principles in all of their administrative expenses. And that is the standard that they're required to follow.

Mr. CONNOLLY. Well, I mean, okay, but some of them decided, based on those standards, that it was permissible to spend up to $8,000 in gym memberships using Federal funds that were intended for housing relief.

How could that happen? Was there any oversight by the Department of Treasury with respect to the use of these funds?

Mr. KRANBUHL. We have conducted more than 100 in-person reviews——

Mr. CONNOLLY. I'm sorry?

Mr. KRANBUHL. The Treasury Department has conducted more than 100 in-person reviews with the States to review their administrative expenses. We work with them up front to make sure that there are standards followed, that there are—cost principles and compliance platforms are very clear. And we review those with them on the phone frequently if there is any——

Mr. CONNOLLY. Well, let me ask it differently. I mean, I get all that. We'll stipulate all that. But the fact is somebody spent money on gym memberships.

Does that meet with your approval? Did that meet with your standards?

Mr. KRANBUHL. There are a range of expenses that are eligible and ineligible under Federal cost principles.

Mr. CONNOLLY. Is gym membership ineligible or eligible?

Mr. KRANBUHL. Sir, if you'd like to go through each line item, I'd be happy to meet with you and your staff.

Mr. CONNOLLY. No, sir, I have a simple question in a public hearing. Is a gym membership payment a permissible use of these funds, from your point of view?

Mr. KRANBUHL. Well, sir, again, all I can tell you is that the Federal cost principles are followed. And under certain circumstances there are wellness programs that are eligible.

Mr. CONNOLLY. Oh, for God's sake.

Ms. Goldsmith Romero, is it permissible or not? Since, apparently, Mr. Kranbuhl doesn't want to answer a reasonable question put to him that's pretty simple.

Ms. GOLDSMITH ROMERO. No. I mean, no.

Mr. CONNOLLY. Thank you so much, Ms. Goldsmith Romero. That's called declarative English, useful thing when we're trying to get to the problem of problems.

Can you elaborate, since Mr. Kranbuhl wants to gives us—read us, you know, strictures from a manual somewhere?

Ms. GOLDSMITH ROMERO. Treasury sent me a letter and in April saying that they did think that gym memberships were allowed in the Federal cost principles.

Number one of Federal the cost principles: Got to be necessary to what Congress authorized.

Mr. CONNOLLY. So unless the only way I can reach an agreement with a homeowner is at the gym, it wouldn't be a permissible expense?

Ms. GOLDSMITH ROMERO. No. And I think that raises a real danger of what could be allowed.

Mr. CONNOLLY. Right. Well, in listening to Mr. Kranbuhl's convoluted answer, right here, right now, I've got more concerns than I had going into this hearing, because apparently we're not clear. And no wonder States are, you know, approving expenditures that clearly, to any commonsense witness, would not be allowable because of this kind of fuzzy guidance.

The Treasury Department, Ms. Goldsmith Romero—since Mr. Kranbuhl is not going to be cooperative in answering, I'll ask you—the Treasury Department only sought to recuperate 29 percent of the money that was misspent or wasted.

Is that acceptable, from your point of view? And why only 29 percent?

Ms. GOLDSMITH ROMERO. No, it's not acceptable. You know, we worked hard to look at this. We didn't put—we didn't substitute our own judgment. We applied the Federal cost principles. You know, there's a long history of applying the Federal cost principles. They apply to every grant. This is just standard IG work. So, no, it's not acceptable.

And I also want to say, when he said this program's in wind-down or that there's not $2 billion, there is $2 billion remaining to be spent. The numbers that he's talking about is what's gone out of Treasury's door, but it's not been spent. So when he says California is closing down, California has $334 million to be spent.

Mr. CONNOLLY. Very helpful. Thank you. And thanks for declarative answers.

I yield back.

Mr. WALKER. Thank you, Mr. Connolly.

I will take a few minutes to follow up with some questions and then yield some time to Mr. Raskin.

What actions, if any, did your agency, Mr. Farmer, take to address the concerns raised in the Special Inspector General for TARP's report?

Mr. FARMER. Yes. Thank you, sir.

Immediately following the release of the report, our agency made the decision to repay a portion of those costs related to meals, primarily because there were a number of charges in there that we could have spent an inordinate amount of time debating back and forth whether or not it was allowed or not allowed. So we decided to repay the meals immediately.

In addition to that, we hired a third party audit firm. We brought them into our office, had them look at the expenses, look at the categories and how we were categorizing expenses to give us advice to help us address any questions related to those expenses highlighted in the report. In addition to that, we also revised our travel and expense policies based on that guidance.

In addition to that, we also provided all of the same records to Treasury. They did a similar review. While we did not agree with everything that was included in the initial report and the categorization of some of the categories, we respect the role and responsibilities of SIGTARP in reviewing it.

And so we tried to get back to the place where we knew the expenses, so we had better guidance moving forward so we would not make expenses or charge things that may not be allowed under the Federal principles. Treasury did their additional review, and we have since repaid all the dollars that have been requested of us to repay.

Mr. WALKER. Why did your agency decide to return those funds to the Treasury?

Mr. FARMER. Excuse me?

Mr. WALKER. Why did your agency make the decision to return those funds to the Treasury?

Mr. FARMER. For the initial amount, we actually had made the decision prior to the release of the report for some of the expenses. We had reviewed it and recognized some of those were questionable, and we were better off to repay than to, again, debate each and every fee.

The other fees we repaid in March following the exit interview with Treasury. We paid an additional $5,100 at that point in time.

Mr. WALKER. Have you received any guidance or training to your agency, received from the Treasury on the use of administration funds? Have you had any kind of correspondence or any kind of guidance from the Treasury?

Mr. FARMER. We have received guidance over time from Treasury at different points. They were in our office, I think it was five times over a 7-year period, with on-site reviews. The administrative expenses were not an issue at any of those reviews. They have since provided some additional guidance regarding the Federal principles. And, again, those have been what we reviewed and instituted across the board for this program.

Mr. WALKER. So their primary communication means is just visiting on-site? Is there any other way that they communicate with you?

Mr. FARMER. No, it's regularly with staff, with the staff that are administering the program, regularly communicate through emails, through phone calls, conference calls. As issues come up, they would bring that to the attention. There's regular calls with the Hardest Hit Fund States as well where information is communicated out to the group.

Mr. WALKER. Thank you very much.

Ms. James, summary of questions and topics there. Would you like just to take maybe 30 seconds and kind of—instead of me going back to those same questions, give a summary of what I was asking of Mr. Farmer?

Ms. JAMES. So, yes, sir.

The SIGTARP report disclosed that there was $705 in misuse of funds. And we, of course, did not agree with that. But we did, after the Treasury report, reimburse $397.

The funds were used concerning Hardest Hit activity, lunches, promotional items for some homeowners. So we did not consider the funds to be a misuse or unnecessary.

Mr. WALKER. What were some of the Hardest Hit Fund implementation challenges, Mr. Farmer?

Mr. FARMER. Some of the difficulties were it was a relatively new program. We had a small-scale program in the State. But receiving the dollar amounts, it required us to basically start from scratch.

As I mentioned in my remarks, we had to hire staff. Most of those were contractors, temporary contractors. We knew this was a time-limited program, so we tried to go out and hire. At our peak, I think we had 50 contractors that were working on the program. We continue to maintain that same staff.

It was a Statewide program. And we've got a really large State with 100 different counties. We had to work with partners across the State. We held events as we were rolling out the program. We had to educate all the partners on what the program was going to be and then figure out a delivery vehicle to get that out to the homeowners.

It required—we built, in-house, we built a database system for the portal, as we refer to it, for intake of the application, that not only our partners but also homeowners had the access. So that whether they were computer savvy, they had that ability. If they needed to go a counseling agency, we made sure they knew there was a counseling agency available.

So it was really just the size and scale of the program initially and knowing that there was—there was a great need, and it was not an area that our agency had a lot of expertise in. We're used to providing the affordable housing as opposed to saving the affordable housing.

But it was a challenge that we took on. It was something the State needed at the time. And so we were glad to step into that role. And it certainly has been a learning experience for us.

Mr. WALKER. Thank you, Mr. Farmer.

The chair now recognizes the gentleman from Maryland, Mr. Raskin.

Mr. RASKIN. Mr. Chair, thank you very kindly.

Ms. Goldsmith Romero, we've got some information indicating that your office, the Office of the Special Inspector General, found information that led to criminal charges against 415 people and 349 criminal convictions, with 247 people sentenced to prison. So that's not just taking the office out for lunch.

But what kinds of activities were taking place there? And is this just in the Hardest Hit Fund, or is that in TARP overall?

Ms. GOLDSMITH ROMERO. Thank you for that question.

TARP overall. So 100 of those are bankers. A good number of them are their banker's co-conspirators, so we're talking about bank fraud. There's about 88 people who have gone to prison for scamming homeowners in TARP housing programs. So there's a number of things related to the crimes that we're looking for.

Mr. RASKIN. Do the kinds of waste, fraud, and abuse that you identified in the Hardest Hit program afflict the other programs under TARP as well?

Ms. GOLDSMITH ROMERO. Well, I think in terms of the TARP housing programs, we've found people who have tried to scam homeowners. The other ones are sort of program related, like bank fraud related to TARP banks.

Mr. RASKIN. Okay.

So, Mr. Kranbuhl, let me come back to you. There's some suggestion that Treasury, if not washing its hands of what goes on at the State level, is somewhat indifferent or lackadaisical about it. Is that right? I mean, do you basically just trust the State authorities to implement this in an efficient way with integrity?

Mr. KRANBUHL. Thank you for your question, Mr. Ranking Member. We work with the States and have conducted more than 100 in-person reviews. We can't speak to what SIGTARP's methodologies that they use are. However, our reviews are incredibly detailed. We look at each expenditure to make sure that they're complying——

Mr. RASKIN. Have you followed through on all the recommendations that were made by the Special Investigator General that came out as part of her report?

Mr. KRANBUHL. There are two reports that are outstanding and we're still reviewing. But every—other than those two, we've replied to each line item recommendation that the Special Inspector General has provided in writing, and that is available to the public.

Mr. RASKIN. When you say you replied to them——

Mr. KRANBUHL. We have written a response letter with each line item.

Mr. RASKIN. Right. But, I mean, of course, what we're interested in is terminating the underlying practices that are wasting public resources that should be going to people who are in need, right?

Mr. KRANBUHL. We certainly are appreciative of that and are very focused on making sure no waste, fraud, or abuse occurs. We follow Federal cost principles along with every other Federal program. It's a standard.

Mr. RASKIN. Yeah. I mean, I guess, you know, you detected some frustration in Mr. Connolly's response to you. But I also detect a certain kind of passivity about the enterprise: that we follow the principles and we stand by the law and so on.

I mean, one expense that I think would make some sense is to bring all these people in from the 50 States to have a big meeting and say, "Here are the principles, and here's what's getting to get you sent to jail. And we're very serious about enforcing this, because it's the public's money and it's people who need it."

And I'm just curious about what kind of high octane intensity you're bringing to the task of enforcing integrity within the system.

Mr. KRANBUHL. Sure. We have had several annual meetings to share best practices and certainly review compliance procedures. Any time there's an instance called into question, we work with the States to augment those and to strengthen their internal controls.

With respect to Ranking Member Connolly's question, the Federal cost principles allow for healthcare platforms for employees and health and wellness programs, and gym memberships do fall under that.

Mr. RASKIN. Okay.

Ms. Goldsmith Romero, do you feel confident that Treasury has responded positively to your recommendations and is implementing them in order to crack down on the waste, fraud, and abuse and get the money to the people who need it?

Ms. GOLDSMITH ROMERO. Let me say I do appreciate that there's been some movement.

But, no, this is an absolute misread of the Federal cost principles, which start with, one, necessary, as to what Congress intended;two, reasonable; three, allocable to the program.

So when it comes down to accountability, if you really want to stop what's going on, let's just first start with repayment, because there's no better way to deter future misuse of funds than repayment, and then let's put some controls in here.

But just because there Federal cost principles have a line in there about health and welfare does not mean that gym memberships or health and welfare things are actually necessary and what Congress intended, and that is being lost.

Mr. RASKIN. Yeah. I mean, I would just like to say, the expenditures that are reported here are kind of eye-popping. And I think any government agency would be amazed to think that they can spend money on lavish Christmas parties, taking people on trips, even just purchasing lunch for the office on a daily or weekly basis, that kind of thing that we saw. I mean, it doesn't make any sense.

Well, look, the program arose because there was a terrible crisis that threw millions of people out of work and millions of people lost their homes, and the focus is on that. The big banks got essentially this huge subsidy, but we still have a lot of people around the country who are hurting and are in crisis.

And so I guess the last point I'd want to ask back to you, Mr. Kranbuhl, are you convinced that you've got the controls in place right now to make sure that the money that's still within the pipeline is going to be spent in the right way? And do you have the controls within Treasury to make sure that you guys are on top of it?

Mr. KRANBUHL. I appreciate your question.

We are very dedicated to working with this committee and SIGTARP to make sure, in each state, each program, to make sure that they're following the proper Federal cost principles, that waste, fraud, and abuse are minimized, if not eliminated outright, that the intended use of the dollars that Congress has set forth will be followed, and that the real driver of this whole platform is to help homeowners in need. And we are committed to doing that, sir.

Mr. RASKIN. Thank you, Mr. Chairman. I yield back.

Mr. PALMER. I thank the gentleman.

I now recognize myself for a few questions.

Mr. Kranbuhl, you testified that you've expended $8.8 billion of the $9.6 billion. Is that correct?

Mr. KRANBUHL. That is correct, sir.

Mr. PALMER. So you only have $800 million left in the fund?

Mr. KRANBUHL. That's a large number but, yes, sir $800 million.

Mr. PALMER. Yeah, that is a large number. But it also indicates that the program is virtually shut down.

Mr. KRANBUHL. It is in wind-down. We have less than 1 percent of all dollars from TARP, a $475 billion program, left to deploy, yes, sir.

Mr. PALMER. Ms. Goldsmith Romero, is that number consistent with what the IG has found?

Ms. GOLDSMITH ROMERO. Well, that's what has left the U.S. Treasury, but the money has not been spent. So if you think about it this way, when we investigate fraud and when we audit waste, those are only of spent money. The money is protected. There's $2 billion that's left unspent in the program.

Mr. PALMER. So there's still $2 billion out, but there's $800 million left in Treasury? I just want to get that straight.

Ms. GOLDSMITH ROMERO. Yeah. For my purposes, whatever is sitting in Treasury is nice and safe and secure. Whatever is out there and going to be out there in the future, which is $2 billion, that's what I've got to watch out for.

Mr. PALMER. What responsibility, Mr. Kranbuhl, do you think the Department of Treasury has for ensuring that, over these last few years, that this money was spent to achieve the stated purposes to help the families who were homeowners keep their homes?

Mr. KRANBUHL. Well, there are several measures taken to make sure that the dollars are spent——

Mr. PALMER. No, I'm asking you.

Mr. KRANBUHL. —not on the cost principles.

Mr. PALMER. This is not a filibuster time.

Mr. KRANBUHL. I agree.

Mr. PALMER. This is I want to know what responsibility does the Department of Treasury have when you're overseeing a program like this to make sure that, in this case administrative costs, don't get out of hand? I mean, you do have an oversight responsibility.

Mr. KRANBUHL. Certainly.

From an administrative cost perspective, we work with them to—each State—to look at their internal controls. But more importantly, we're working with them to make sure that dollars are being deployed.

If they're having a challenge, we're working with each State HFA to make sure that their platforms are accessible to those who need it.

Mr. PALMER. Where was Treasury when you had people driving Mercedes or renting office space in the Taj Mahal?

I mean, I really appreciate the work of the inspector general, but generally if the inspector general is coming to call, the report is not always a good report. And that's unfortunate, but it's indicative that there's a problem with oversight.

And Treasury has a responsibility here. And I don't like the idea of us having to have hearings like this and then coming back and trying to fix a problem that should never have occurred to start with.

So I just want to know, does the Treasury take seriously its oversight responsibility to make sure that the people at the State level who are handling Federal dollars, taxpayer dollars, are not abusing those dollars?

Mr. KRANBUHL. Certainly. We actually are identifying many of the items that SIGTARP has identified ourselves through our work, and then we refer it to SIGTARP for their review. But we're very focused on that, Mr. Chairman.

Mr. PALMER. Well, tell me what actions have been taken. Has anybody been fired? Has anybody been referred for investigation for criminal issues?

Mr. KRANBUHL. There are many cases where we have required the States to replace their management teams to make sure that—

in the case of Nevada, for instance, we worked with their HFA to ensure that proper accountability was occurring and that the——

Mr. PALMER. He was forced to resign and paid $20,000 in severance. I mean, for crying out loud, is there anything that he could have done that would have gotten him fired?

Mr. KRANBUHL. Sir, as we reviewed each situation, we offered our recommendations.

Mr. PALMER. Let me ask this question of the folks who administer the programs from the State level.

Did Treasury provide any guidance or training to you or your agency on the use of administrative funds? Did you attend any kind of training online, in person, face time? I mean, did you get any training?

Ms. CAMPBELL. I know—this is Verise in Nevada—because of the way I was brought on, I was in constant contact with Treasury. Prior to me coming on, I did read correspondence where Treasury and SIGTARP both, as well as the Housing Division, had expressed some concern.

Nevada's situation——

Mr. PALMER. So you didn't get training? You did not attend a training session? I mean——

Ms. CAMPBELL. No, actually I came in the door with training because I was walking hand-in-hand with Treasury because I came in after the problem was discovered.

Mr. PALMER. All right.

How about you, Ms. James?

Ms. JAMES. I wouldn't say that we received training. We did receive guidance via the agreement that we signed. But in terms of face time, it was always discussed at our summits. But training, per se, I cannot say that.

Mr. PALMER. How about you, Mr. Farmer?

Mr. FARMER. I would agree with Ms. James. That's the same——

Mr. PALMER. Ms. Goldsmith Romero, is that a problem, if you're charged with handling hundreds of millions of dollars? Is that adequate training?

Ms. GOLDSMITH ROMERO. No.

Mr. PALMER. Let me ask you this.

Ms. James, you guys had $35 million for demolition, and you repurposed $34 million of that. You spent a million of it and only demolished three houses since 2014.

I hope you didn't spend a million dollars on it, because I think for a million dollars I could have gone in there with a sledgehammer and a wheelbarrow. And in a 4-year period, Mr. Raskin and I probably could have done that, and would have gladly done it for a million dollars.

What do you think, Mr. Raskin?

Mr. RASKIN. No doubt.

Mr. PALMER. That drives me crazy. Prior to this job, I ran a think tank and also worked in the private sector and a couple engineering companies. And I had my staff do a little research for the Birmingham area, and the average cost to completely demolish a house, it ranged from $5,000 for a smaller home to $15,000.

At $15,000, that's 67 houses that should have been demolished for a million dollars. Now, if you want to look at the median, $10,000, that's 100 houses.

If you demolish three houses, let's say that's $45,000. Let's say they were the toughest ones to take down and haul off. What happened to that other $955,000?

Ms. JAMES. The State is Alabama does have allocated a million dollars to the Blight Elimination Program. We've actually only disbursed $38,000 for those three properties that were demolished.

Mr. PALMER. So you've got $962,000 in balance?

Ms. JAMES. Correct. Thatis correct.

Mr. PALMER. All right. On that, I'm not going to get into what the local responsibilities are for those houses, but I would point out that if these are homes that were previously owned and the mortgage is defaulted on and there are tax liens on them—which is typically the case. I know in Birmingham there are at least 16,000 abandoned buildings. There's 25,000 or so in Jefferson County that have tax liens on them.

Is there any responsibility that the local municipalities have or any opportunity for the municipalities to take ownership of these homes and dispose of them?

Ms. JAMES. We have worked very closely with the city of Birmingham as well as their land bank in terms of trying to get them up and running on our pilot program for the blight elimination product that we were offering.

We reached out for the pilot program to two cities that we knew were in great need of assistance. We reached out to the city of Mobile as well as to the city of Birmingham.

The city of Birmingham did submit an application, although the application was never completed. We have not heard from them. Our last conversation with the city of Birmingham was January 29. We had a conversation with a part of their new executive committee.

They do have a new mayor in the city of Birmingham, and Mr. Roberts did reach out to us. And we had a conversation with him in January, but we have not had a response from his office.

Mr. PALMER. One of the problems, potential problems that I see in some of these programs, particularly demolition, is that the State agencies ensure that there's an open bid process for that type of work so that you don't have a single source contractor, no bid rigging, no brother-in-law contract sort of thing.

Ms. Campbell, I'll start with you, and we'll just go in order. Do you have those insurances in place? Would you be actively involved in monitoring the disbursement of any money to make sure that there was a fair and open bidding process?

Ms. CAMPBELL. Thank you, Mr. Chair.

Actually, SIGTARP released an interim report where they identified a weakness with our policy and procedures. When I came on, it was like restarting the organization all over again. And although we got multiple bids, we did not follow a specific RFP process. And that was one of the takeaways that we took back after SIGTARP recognized that, is that we are taking a look at all of the policies and procedures and seeing how we can tighten them up.

Mr. PALMER. Ms. James, considering only three houses have been demolished in 3 years, I don't think that's an issue yet. But when you do start expending that money, I highly encourage that.

Mr. Farmer, do you have an oversight program in place to make sure that contracts are fairly bid?

Mr. FARMER. We are not actually operating a blight program. That's not one of the ones that we run in our State.

Mr. PALMER. Will you?

Mr. FARMER. No, we do not have an intention to run a blight program at this point.

Mr. PALMER. Okay.

Ms. Goldsmith Romero, in your investigation of how funds have been handled you've been looking at administrative costs. Have you also had an opportunity to look at not just the blight programs, but other areas where contracts have been let? And do you have any insight into whether or not these are getting adequate oversight?

Ms. GOLDSMITH ROMERO. So in my opening statement I identified one of the top threats as anticompetitive conduct. And we're actively conducting audits and investigations.

And I would just say this. Our investigations are criminal investigations run by special agents at SIGTARP. They are confidential. So I'm not at liberty to discuss those. But I will say it's a real issue, it's a real issue in this program.

Mr. PALMER. I want to go back to you, Mr. Kranbuhl. And I'm being a little generous to myself in the time, but I think this is very serious. I think we all take this seriously.

The thing that disturbs me more than anything else, and this is particularly true in Alabama, Ms. James, that there were people out who lost their homes who were eligible for this program, but only 24 percent of Alabamians were able to get help from this fund. That's the third lowest in the country.

And it looks like new homeowners were given preference over existing homeowners. And from my perspective, the whole point of the program was to help people who owned their homes to be able to stay in their homes.

Ms. JAMES. We don't make a distinction in Alabama new versus existing homeowners. Our program is open to applicants who have suffered a hardship prior to their application of the program. We do have a significantly high withdrawal rate of applications, but——

Mr. PALMER. But that's because the process is so impossibly complex and cumbersome. I mean, some of the same things that Ms. Goldsmith Romero has already testified about in Georgia and other places.

What's the national average? Wasn't it like 80 something percent of the new homeowners got approved?

Ms. GOLDSMITH ROMERO. Yeah, you're talking about the Down Payment Assistance program.

Mr. PALMER. Yeah.

Ms. GOLDSMITH ROMERO. That's like 88 percent.

Mr. PALMER. Eighty-eight percent.

Ms. GOLDSMITH ROMERO. Eighty-eight percent compared to like national average in the 40s for homeowners.

Mr. PALMER. We're in the wind-down stage of this program, but from my perspective, particularly in Alabama, it was a failure. When two-thirds of the people who needed help couldn't get help, for whatever reason, that's a failure.

Mr. Kranbuhl, I want to go back to you. How does Treasury go about monitoring these programs? I want to get back to the oversight.

Mr. KRANBUHL. Well, I want to make it clear that every identified case of waste, fraud, or abuse, we've reclaimed every dollar that was——

Mr. PALMER. But you only reclaimed $400-and-something thousand dollars out of $3 million.

Mr. KRANBUHL. Sir, I can't speak to the standards that others have reviewed. However, at Treasury, in our program at HHF, we have reviewed each one and we've reclaimed each case that did not meet Federal cost principles.

We can't just decide, although things might sound improper, we have to have a standard, and that standard is the Federal cost principles that we follow, sir. And every time those have been violated, the dollars have been fully reclaimed.

Mr. PALMER. So none of these things—well, I won't say none of them. But it took SIGTARP bringing this before you to identify this. My guess is, is you didn't provide this to SIGTARP, SIGTARP provided it to you.

Mr. KRANBUHL. I can't speak to each case there. There are, I suspect, cases that were provided to SIGTARP. However, we undertake a sample-based program that is risk adjusted in terms of how we pursue our review. So we do a sample study. I will tell you that less than 0.01 of 1 percent of all administrative dollars have been deemed improper per the Federal cost standards.

Mr. PALMER. How would you respond to that assertion, Ms. Goldsmith Romero?

Ms. GOLDSMITH ROMERO. So there's like more than

$800 million spent. I haven't audited all of it. And nothing has been provided to us from Treasury.

But, again, it is like not seeing the forest through the trees. I keep hearing Federal cost principles. And it starts with necessary. And why necessary? Because under appropriations law, you've got to get back to what Congress intended with TARP.

So, yes, there might be some statement about rent as being allowed, but that doesn't—you've still got to look at the program, is it necessary for the program. So if in Nevada they're really not letting people into the program, moving to a luxury building, it is not the same, I mean.

And so that seems to be lost, the context of something seems to be lost, getting back to what Congress intended.

And I want to say this. When we apply the Federal cost principles, this is not like an IG shop going out on an island. There is years and years and years of GAO and other IG reports. This is just bread-and-butter work for an IG shop. This is not doing something that's somehow remarkably different than anyone else. This is just really, really basic, get back to what Congress intended for spending.

Mr. PALMER. Well, I'm about to gavel myself. But I just want to say this. One of the reasons this really, really bothers me is that we sent out $140 billion in improper payments last year. And it will be more than that this year.

This is possibly not in that realm, but it all adds up. And every dollar that is improperly expended, every dollar that's wasted, every dollar that's misused is a dollar that we've had to borrow and that adds to our interest burden.

So I guess my concluding remark on this is, is that you've got to do better. And we're going to insist that you do better and that the State agencies receiving Federal money do better.

With that, I recognize Mr. Grothman, the gentleman from Wisconsin, for 5 minutes for his questions.

Mr. GROTHMAN. Right. You guys have about $2 billion left in the TARP overall in your program. Is that right? Is that what you have here?

Ms. GOLDSMITH ROMERO. Those are the unspent funds.

Mr. GROTHMAN. Correct.

What year was this program originally established, 2010?

Mr. KRANBUHL. 2010, yes, sir.

Mr. GROTHMAN. 2010. What do you plan on having happen with that $2 billion.

Mr. KRANBUHL. So to be clear, the $2 billion, the amount that was appropriated, is an extension of the program. Congress extended the program through an additional $2 billion in 2015 with dollars made available in 2016. They go out to the States to be spent at the State level deciding how they should help homeowners most.

Mr. GROTHMAN. Given that, I can't remember whether I heard this on the news this morning or whatever, the housing market is booming, right, nationwide, I mean, in general housing costs are up everywhere, do you think it would be appropriate to take these funds back now and kind of what the chairman said, vice chairman said, give them back to the Treasury? Is it necessary that we help anybody else in this program?

Mr. KRANBUHL. Mr. Vice Chairman, we at Treasury are administering a program put forth that Congress deemed necessary. And if the States are unable to use those dollars at the end of 2021, they will be returned to Treasury.

Mr. GROTHMAN. What would happen if we grabbed the money now?

Mr. KRANBUHL. My understanding is there would have to be a change to the——

Mr. GROTHMAN. Right, right, right. If we would change the law, we would change the law and say we're not going to send any more money to the States, what bad thing would happen?

Mr. KRANBUHL. Mr. Vice Chairman, States are utilizing dollars they believe are needed. If they cannot use them, they will return them.

Mr. GROTHMAN. But we're broke, kind of getting back to what the chairman said, we're broke out of our mind, okay?

Now, I know if you send money to States, they will always find a way to spend it ultimately. But, I mean, the question I have is, given that the housing market in this country right now is booming like never before, I am told, do you feel it is necessary to send any more of these dollars to the States?

What would happen if we didn't? What would happen if we'd say we're taking them back and we're giving them back to the Treasury or whatever?

Mr. KRANBUHL. Mr. Vice Chairman, I think that question might be best for the States. We are solely allowed to administer the program you set forth——

Mr. GROTHMAN. You can't make any observations on the program you're administering? So your mind is a blank.

Mr. KRANBUHL. To your point, sir, the States have found plenty of uses for the dollars.

Mr. GROTHMAN. Just out of curiosity here, there's a general lack of urgency in this whole building upon spending Federal dollars.

Does anybody on the panel know what percent of the Federal budget we're borrowing this year? Just out of curiosity. We have five informed people here. You want to guess?

Ms. Campbell, how much of the budget do you think we're borrowing this year? We'll call on you.

Ms. CAMPBELL. Mr. Vice Chair, I do not care to guess. Thank you.

Mr. GROTHMAN. Nobody is going to? Twenty-two percent. That's kind of high, isn't it, 22 percent?

Okay. Well, we'll give you some questions here that I prepared.

Which State housing finance authorities perform better than others and to what do you attribute their success?

Mr. KRANBUHL. Well, Mr. Vice Chairman, I would say that the States that have utilized the dollars most quickly have performed the best, States like California, Florida. However, their performance is really probably best gauged over time and history will decide that, sir, after the program is completed.

Mr. GROTHMAN. Define success in these programs.

Mr. KRANBUHL. We've helped more than 350,000 homeowners and demolitioned and greened 24,000 blighted properties.

Mr. GROTHMAN. I have a question to either one of you that has got a housing finance authority. How would you describe the goals of the Hardest Hit Fund in your State?

Mr. FARMER. I think the goal for North Carolina was to try and help as many as folks as we could during the economic crisis and recognizing that there was a real challenge with the high foreclosure rates that were not anything we had ever seen before and trying to help as many families as we could.

Mr. GROTHMAN. Help them how?

Mr. FARMER. Help them out. In our case, there were a number of different programs we operated. The primary one was the mortgage payment, where we would make their payment while they were out of work or had reduced work and while they were being retrained for their jobs. So it was basically getting them back on a good footing, bringing the mortgage payment current, getting them back to where they can remain in their homes.

Mr. GROTHMAN. Okay. I'll ask you because you're from North Carolina. Do you have any money out there? You're still operating, obviously. What would happen if we took back all the money that hasn't been spent right now to the Federal Government, our poor, broke, destitute Federal Government?

Mr. FARMER. If you took back the money, we would basically have to shut down the programs sooner than anticipated.

Right now, we anticipate closing out the second quarter of next year. So we would have to close it out at whatever point that the State recovered the dollars.

So what it would amount to would be fewer households that would benefit from the foreclosure prevention.

Mr. GROTHMAN. How are housing prices in North Carolina right now?

Mr. FARMER. They're doing really well. We are a growing State now, so obviously the economy has turned around.

Mr. GROTHMAN. If housing prices were booming like they are in North Carolina in 2010, would they ever in a million years have thought up this program?

Mr. FARMER. No, sir, I do not believe they would.

Mr. GROTHMAN. Right, right, right.

We'll say the same thing, Ms. James from Alabama. If I gave you the same questions, what would you say?

Ms. JAMES. We definitely enjoy the use of the Hardest Hit funds in the State of Alabama. We have helped several homeowners actually maintain home ownership.

If, for some reason, these funds were withdrawn from our State, I do believe that there would be some people that would actually go into foreclosure. There has been a turnaround in our State. But removing the funds would cause some families to actually go into foreclosure.

Mr. GROTHMAN. How are housing prices in Alabama?

Ms. JAMES. Housing prices are doing well in Alabama as well.

Mr. GROTHMAN. If housing prices were booming like they are now in Alabama like they were in 2010, do you think ever in a million years Congress would have begun such a program?

Ms. JAMES. I would have to agree with North Carolina. I don't think so.

Mr. GROTHMAN. I have used more than enough time, so I thank the chairman for giving me an extra 20 seconds.

Mr. PALMER. My pleasure. I thank the gentleman for his questions.

I'll now recognize the ranking member, Mr. Raskin, for followup.

Mr. RASKIN. Mr. Chairman, thank you very much.

Mr. Kranbuhl, I wanted to come back to something I started off with that is still bugging me, which is, why is Maryland not part of this program? What about the States that have been left out?

Does Hardest Hit refer to the States or does it refer to the people who were the victims of the downturn?

Mr. KRANBUHL. Mr. Ranking Member, the decisions on what States were eligible to participate in the Hardest Hit Fund were made under a set of criteria developed by a prior administration.

If would you like, my team and I would be happy to come in and sit down with you and run through those criteria and talk about the other programs that Treasury has for helping the State of Maryland.

Mr. RASKIN. Well, are you actively reconsidering those criteria? I mean, it seems like there's a lot of money that's being wasted in other States, and maybe it is not necessary there. But we've got parts of Maryland that were just devastated and demolished by the crisis. So, I mean, is that something that's under active consideration with you?

Mr. KRANBUHL. We do not have authority to change the criteria at this point, sir. The changes to which States are eligible——

Mr. RASKIN. Well, why not?

Mr. KRANBUHL. The criteria were set forth. The program is closed to——

Mr. RASKIN. But it's a matter of administrative discretion, right? It was not built into TARP itself.

Mr. KRANBUHL. Sir, I can't answer that specifically. I would be happy to work with my team and sit down and we can go through that.

Mr. RASKIN. Well, do you know of a Supreme Court case called Shelby County v. Holder?

Mr. KRANBUHL. I do not.

Mr. RASKIN. But in that case the Supreme Court said—it basically cut the heart out of the Voting Rights Act because different States were being treated differently.

And here's a program that has been set up by the Department of Treasury where some States get the benefit of it and other States are completely excluded from it. And if there's billions of dollars that are sitting around that still haven't been programmed, I would like you to reconsider why all these other States, including my own, were roped off from it.

Mr. KRANBUHL. Vice Chairman Raskin, my understanding is that the legislation required that the funds had to be committed by October 2010 for the eligibility. Again, that was a prior administration. We can go through that with your office and my staff, if you'd like, sir.

Mr. RASKIN. I would love it if Treasury would present us a legal memorandum analyzing whether you've got the authority to include the large parts of America that were excluded from the program. So, yes, I would very much appreciate that.

Let me just ask you one other question, Mr. Kranbuhl, and I want to go to Nevada for a second. Whose job is it to coordinate and oversee the Hardest Hit Fund within Treasury?

Mr. KRANBUHL. We have our 0ffice of Financial Stability, which administers all of the TARP programs, including the Hardest Hit Fund.

And as far as oversight goes, they report to me as the deputy assistant secretary for small business community development and affordable housing policy and I report to the assistant secretary for financial institutions.

Mr. RASKIN. The name of the office again is the Office of——

Mr. KRANBUHL. Financial Institutions.

Mr. RASKIN. Financial Institutions. Okay. So is there a director of the Office of Financial Institutions?

Mr. KRANBUHL. Assistant secretary.

Mr. RASKIN. Assistant secretary. And who is that person?

Mr. KRANBUHL. Assistant Secretary Christopher Campbell.

Mr. RASKIN. Christopher Campbell. So is he the person who is really in charge of it on a day-to-day basis.

Mr. KRANBUHL. Sir, the program is administered by the Office of Financial Stability and their chief financial officer is day-to-day working with the—overseeing the team.

Mr. RASKIN. What I'm trying to get the sense of is, is this somebody's job at Treasury where they're focused on this massive program with billions of dollars to distribute? Or is it just part of somebody's portfolio of 10 or 15 different things they do?

Mr. KRANBUHL. We have a team that is specifically focused on this program, as well as other—the Hardest Hit Fund program specifically. And then there's also a team overseeing the overall TARP programs. We have roughly 30 folks who oversee the platform.

Mr. RASKIN. Okay. So——

Mr. KRANBUHL. Administer the platform, too.

Mr. RASKIN. Okay. So the buck stops where ultimately? If something goes wrong in the program, who within Treasury is the person who says, "We really need to make big changes in Nevada," or, "We need to revolutionize what's going on in Alabama because the money is not getting to the people"? Whose job is that?

Mr. KRANBUHL. That specific job would fall to our Hardest Hit Fund team and the program director for that. And then that would be elevated to say, we want to make you aware of this, we're going to recommend a change. For instance, in the State of Nevada, a new program was just put into place in April of this year to make sure that those dollars are spent properly.

Mr. RASKIN. Okay. So, let me come to Nevada, Ms. Campbell.

Now, I understand you're part of the new regime. You're not part of the people under whom there was a lot of waste and fraud and abuse. But to what do you attribute the problem that plagued the problem before you got there?

Ms. CAMPBELL. Thank you for the opportunity to answer that question.

I think there were multiple issues that I identified right off. The first thing was that there was really no systems in place that would create a strong foundation to administer such a program. I mean, the program was massive.

The second thing was staffing. There were people, they had a great resume, however, they came from the banking industry. And I think that's where some of the misunderstanding of how to interpret certain guidelines came in, they were coming from private sector.

And then also I think——

Mr. RASKIN. Would you just elaborate that point? You mean they were accustomed—you're talking about like the gym memberships and the——

Ms. CAMPBELL. Yes.

Mr. RASKIN. —and the freewheeling spending and so on?

Ms. CAMPBELL. Yes. For example, I'll take lunches. And I think for one of ours, there was a staff member who was pregnant and they bought a baby gift. Well, that might be appropriate if you're in private practice, but it is not appropriate under——

Mr. RASKIN. In government everybody kicks in their $10 or whatever, right? That's how we do it.

Ms. CAMPBELL. Right, right.

Mr. RASKIN. But you're saying they were just writing checks——

Ms. CAMPBELL. Right. I think there was just a complete misunderstanding.

And then also, as is demonstrated here today, there's certainly, I guess, a difference of interpretation between SIGTARP and Treasury. It would be most helpful to the States if we had some uniformity there.

So, I mean, even coming on, it was difficult. We hired a CPA firm as well. And we get this large super-circular and it is left to interpret. So——

Mr. RASKIN. Okay. I yield back. Thank you very much.

Mr. PALMER. I thank the ranking member.

Ms. Goldsmith Romero, I'm going give you the last word on this. And I would just like to hear from you about what you think we need to do from this point on.

Ms. GOLDSMITH ROMERO. I think there needs to be greater accountability and greater controls. I mean, I went up and, just so you know, I met with Secretary Mnuchin. He said, "You've got to recover all this money.

And I said, "Look, we don't recover it. That's up for you." And then I met with Treasury's general counsel.

I think people in Treasury need to sit down, they need to reread the Federal cost principles. And they need to look at first page, which says "necessary."

And it goes beyond. We can talk about Federal cost principles all you want, but it comes down to appropriations law. In the Federal Government, you cannot spend money unless Congress authorized it. That's what it all comes down for.

And so that's why the "necessary" provision can't be left out. They need to go back and read this memorandum by their own general counsel. They need go back and take a look at all of this.

Because what I've not seen in Treasury's work papers is that determination about what's necessary, that idea that if in California hundreds and thousands of people can get this help without this kind of expenses, without lunch every week, it's not necessary.

And so if you go back and look, Secretary Geithner said, much to the chagrin of a number of Congressmen, you can't use this money for legal aid, you can't use it for broad housing counselors. But we know a lot of people get into this program through legal aid or through general housing counselors, but you can't charge it.

So if you can't charge that kind of reasonably related because it's not necessary under appropriations law, then how can you take those same housing counselors to the zoo?

So really I understand that Treasury is saying, well, there's a provision in these cost principles that say this. But you got to read page 1. You got to read page 1, which says "necessary."

Federal cost principles cannot override appropriations law. That's what it comes down to.

So what I think everyone should do here, all the State agencies and everyone in Treasury involved, let's get back to what did Congress intend in the TARP law and what is this program for. And it doesn't matter whether something is related or reasonably related. That's not the standard. Do you have to spend the money?

And what I also suggest they do is they talk to each other and say, California, you're not spending anything on this. Arizona, you're not spending anything on this. Other State agencies, you're not spending anything. And they talk to each other and say, are you using this money for bonuses?

You know, I think that's where accountability comes in, is really—all it is about is getting back to what Congress authorized. And if they do that, and if they talk to each other and they work something out, then I think it will be back on track. But there's got to be controls in there. It shouldn't be just left up to each State.

Mr. PALMER. Well, my concluding remarks on that is that, first of all, you have to take seriously what Congress intends. That's true of every Federal agency. And if Treasury doesn't take it seriously, then the State agencies may or may not take it seriously, but very likely they won't even know what those criteria are.

And that's my whole point about the lack of training. I think when the Treasury or any Federal agency is overseeing money that is sent down to the States, there has to be a clear understanding of the parameters within which that money can be spent.

Now, some of the money, as Mr. Raskin pointed out and that others have pointed out, was spent on things that anyone with any common sense would have known that if it wasn't just plainly wrong it was definitely in the gray area. And I think Treasury has a responsibility to monitor that. That's an oversight responsibility that you have.

And what I'd like for you to do, Mr. Kranbuhl, is when you get back to Treasury, I would like for you to submit some suggested changes for the guidelines. I think on our end, as Members of Congress, we've got to be more diligent in making sure that our instructions are clear, that when we're hemorrhaging funds like we are with deficit spending we can't afford to waste another dollar.

So with that, I just would say there seems to, in my opinion, there seems to be a lack of seriousness and commitment to help the hardest hit homeowners keep their homes and to prevent those abandoned homes from becoming blight on cities. And I don't know what we can do to go back and fix what's already been done, but I guarantee you, we're going to pay attention to what happens going forward.

And I think, Mr. Kranbuhl, that Treasury needs to inform everybody of that. I think the inspector general, SIGTARP, has done a good job on that, and I think they'll be happy to let you know when those things are getting outside the lines.

With that, I thank our witnesses again for appearing before us today. The hearing record will remain open for 2 weeks for any member to submit a written opening statement or questions for the record.

If there's no further business, without objection, the subcommittees stand adjourned.

[Whereupon, at 11:38 a.m., the subcommittees were adjourned.]

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