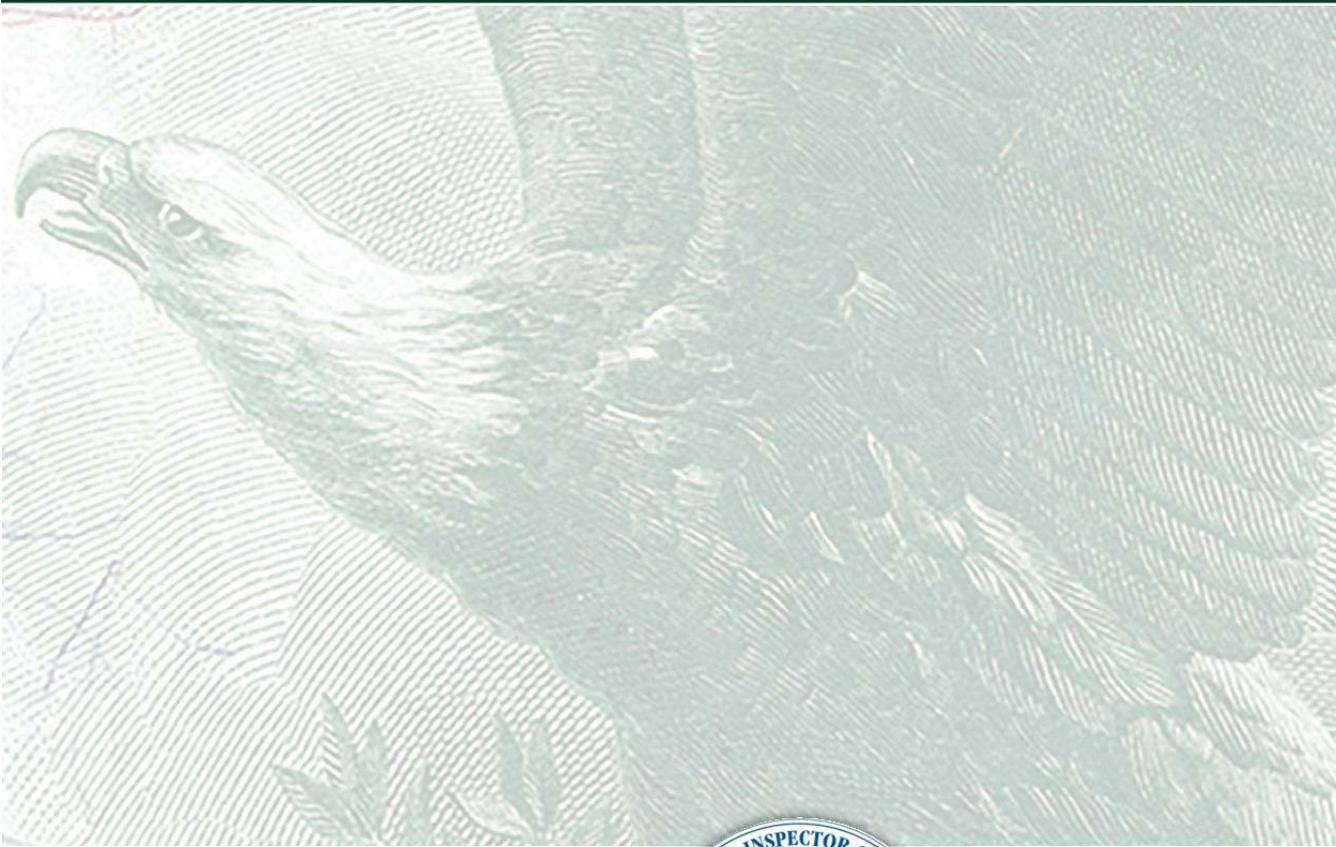




Evaluation Report

Improving TARP's Investment in American Workers



SIGTARP



OFFICE OF THE SPECIAL
INSPECTOR GENERAL FOR
THE TROUBLED ASSET
RELIEF PROGRAM



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OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM
1801 L STREET, NW, 4TH FLOOR
WASHINGTON, D.C. 20220

January 11, 2017

MEMORANDUM FOR: The Honorable Jacob J. Lew – Secretary of the Treasury

/Signed/

FROM: Honorable Christy Goldsmith Romero – Special Inspector General
for the Troubled Asset Relief Program

SUBJECT: Improving TARP’s Investment in American Workers
(SIGTARP 17-001)

We are providing this report for your information and use. It discusses homeowners who were denied TARP unemployment assistance.

The Office of the Special Inspector General for the Troubled Asset Relief Program conducted this evaluation (engagement code 009) under the authority of the Emergency Economic Stabilization Act of 2008 and Public Law 110-343, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended.

We considered comments from the Department of the Treasury when preparing the report. Treasury’s comments are addressed in the report, where applicable, and a copy of Treasury’s response is included in its entirety.

We appreciate the courtesies extended to our staff. For additional information on this report, please contact Ms. Jenniffer F. Wilson, Deputy Special Inspector General for Audit and Evaluation (Jenniffer.Wilson@treasury.gov /202-622-4633); or Mr. Chris Bosland, Assistant Deputy Special Inspector General for Audit and Evaluation (Christopher.Bosland@treasury.gov /202-927-9321).

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Summary

TARP's Hardest Hit Fund is an investment in American workers, providing a temporary safety net to help save the homes of unemployed and underemployed working class Americans in Rust Belt states (such as Ohio, Michigan, Indiana and Illinois), Southern states (such as North Carolina, South Carolina, Alabama, Tennessee, and Georgia), and 10 other states.

HHF has helped more than a quarter of a million homeowners, but even good programs can be better. The program is meeting a real need, one that continues. The need for this unemployment bridge—and other Hardest Hit Fund programs, like blight demolition—remains so critical that, in December 2015, Members of Congress from Ohio and Michigan worked across the aisle to convince Congress to add \$2 billion to the program.

Hardest Hit Fund dollars have been slow to flow in many states, and more than 160,000 people were denied HHF assistance. SIGTARP analyzed data provided by state agencies on each person who was turned down for this program.

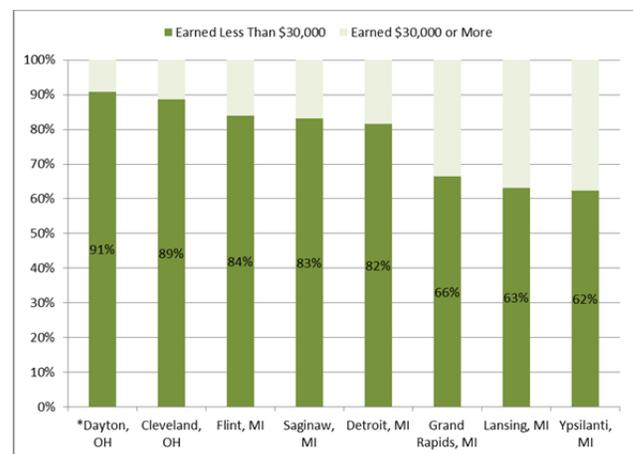
What SIGTARP Found

SIGTARP found that most of the people who were denied Hardest Hit funds earned less than \$30,000, calling into question whether the program is effective in reaching those hardest hit. State agencies that distribute Hardest Hit Fund unemployment assistance turned down 84,965 people who earned less than \$30,000, including 64,979 people who made less than \$20,000. SIGTARP found that, in 12 of the 19 states—mostly in the rust belt and south—nearly three out of four people turned down for these Federal funds earned less than \$30,000.

Congress required that these TARP funds be used to bail out American workers, not just to bail out companies like General Motors.

Hardest Hit funds could help autoworkers laid off when General Motors shut down their plants, as well as workers caught in the ripple effect of a shutdown, like workers at auto parts suppliers or at neighboring retail shops.

Michigan and Ohio are among the states that have the most TARP dollars set aside, but also have some of the highest 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, denial rates are even higher for those who made less than \$30,000.



* Includes Dayton and nearby cities of Moraine and Vandalia.

Despite returning to profitability, GM and other auto companies closed plants and laid off workers, even in the last year. GM announced that 2,000 additional workers in Michigan and Ohio face layoffs early in the coming year.

The findings uncovered by this evaluation indicate that there may be eligibility criteria that are too stringent. There may be valid reasons why these people were turned down, but it is impossible to know because SIGTARP found that state agencies' records were non-existent, missing, or incomplete regarding why the agencies turned down people making less than \$30,000.

State agencies should unlock the full potential of the program by eliminating unnecessary



criteria that do not exist in other states or that do not reflect the reality of the working class in that state. For example, some states require that the person show enough income to pay their mortgage in the future, which is not realistic for some people seeking temporary help with their mortgage until they can get a full time job.

This program has a lot more potential to provide a safety net in certain communities until jobs return to these towns, but that potential needs to be unlocked.

What SIGTARP Recommends

Treasury and state agencies should: (1) eliminate unnecessary program criteria; (2) open up eligibility to workers facing layoffs so that they do not have to first fall behind on their mortgage; and (3) state agencies should keep detailed records on why the state denied each person.

In response to a draft of this report, Treasury provided a letter and some technical comments, which SIGTARP addressed where applicable. In its response, Treasury did not address SIGTARP's findings, but said it "...appreciates SIGTARP's analysis and is closely examining [SIGTARP's] recommendations."



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Introduction

TARP's Hardest Hit Fund is an investment in American workers. The Government bailed out companies such as General Motors ("GM"), but Congress required that bailout funds also go to Americans (like autoworkers) to save their homes. TARP's Hardest Hit Fund provides a temporary safety net to save the homes of unemployed or underemployed working class Americans in Rust Belt states (such as Ohio, Michigan, Indiana and Illinois), Southern states (such as North Carolina, South Carolina, Alabama, Tennessee, and Georgia), and 10 other states. TARP funds pay part of the mortgage of American workers who lost their jobs through no fault of their own (or saw their paychecks cut), generally for a year or two at most, while they look for a full-time job.

Out of 19 states, with the exception of the highly populated California and Florida, Treasury set aside the most dollars to Ohio (\$762 million) and Michigan (\$761 million).¹ In Ohio and Michigan, TARP funds could help autoworkers laid off when GM shut down their plant, or those caught in the ripple effect of a shutdown, like workers at auto parts suppliers or at neighboring retail shops. Near-empty plants and abandoned houses serve as eyesores to neighbors desperate to keep their property values up. The Hardest Hit Fund also commits more than \$811 million to demolish blighted abandoned houses in Ohio, Michigan, Indiana, Illinois, Alabama, South Carolina, Tennessee, and Mississippi.

Dollars have been slow to flow in many states, but the need for this unemployment bridge and blight demolition is so critical that in December 2015, Members of Congress from Ohio and Michigan worked across the aisle to convince Congress to add \$2 billion to the program.² In Ohio and Michigan, the program has done a better job than many other states of distributing these funds to homeowners, with Ohio homeowners exhausting all of the funds before the additional money from Congress.

¹ Treasury also committed \$715 million in these TARP funds to Illinois. North Carolina can receive \$706 million. Treasury has obligated \$9.6 billion in TARP funds for the Hardest Hit Fund.

² Unemployment is still above average in cities such as Detroit, Michigan, and Cleveland, Ohio, and underemployment remains a struggle in these and other areas.



Despite GM returning to profitability, GM and others closed plants and laid off workers, even in the last year.³ The additional TARP funds, which were allocated in 2016, allowed Ohio to increase funding of blight demolition in 18 counties and to reopen its unemployment program for laid off workers in September 2016. Autoworkers in Ohio and Michigan will suffer more layoffs.⁴ GM announced that, in January 2017, it will lay off more than 2,000 workers at 2 plants in Ohio and Michigan.⁵

This program has a lot more potential to provide a safety net in certain communities until jobs return to these towns, but that potential needs to be unlocked. It has helped 263,000 people pay their mortgage—half of those estimated. More than 160,000 people were turned down. Another 170,000+ people applied, but withdrew their application, perhaps because they did not meet the criteria. Likely even more people did not apply at all knowing they did not meet the criteria. As an Inspector General's job is to root out fraud, waste, and abuse, and recommend improvements to effectiveness and efficiency, SIGTARP evaluated:

- Who applied for these funds and were denied, and
- Whether there are unnecessary restrictions that can be lifted to unlock the program's potential.

SIGTARP conducted this evaluation in accordance with the "Quality Standards for Inspection and Evaluation" established by the Council of the Inspectors General on Integrity and Efficiency. For a discussion of the evaluation's scope and methodology, see Appendix A.

³ In October 2015, GM announced that it would lay off about 500 hourly workers at its Orion Assembly plant in Michigan that makes the compact car Chevrolet Sonic. Ford laid off 700 workers in Wayne, Michigan where the Ford Focus was made and, according to press reports, announced in September 2016 that it would move all of its remaining small car production in the United States to Mexico. In April 2016, Fiat Chrysler announced it would lay off about 1,400 workers at its Sterling Heights Assembly Plant in Michigan.

⁴ In October 2016, GM announced that it will discontinue its iron casting division at its Defiance foundry, which will result in the layoff of 157 employees by 2018.

⁵ On January 16, 2017, about 840 workers will be laid off at GM's plant in Lansing, Michigan that makes the Chevrolet Camaro and Cadillac ATS and CTS luxury cars. One week later, GM will cut production at its Lordstown, Ohio plant that makes the Chevrolet Cruze, which will lay off approximately 1,250 workers. Lordstown already suffers from above average unemployment.



Background

The 19 state agencies in contract with Treasury to distribute these funds have largely paid them (more than 72%) to unemployed and underemployed homeowners. Treasury described the purpose of Hardest Hit Fund unemployment assistance as follows:

Responsible families across the country have found themselves unable to pay their mortgages due to unemployment or underemployment. The economic downturn has led to a record number of workers suffering from long term unemployment, and millions more are working part-time because they cannot find full time or otherwise adequate work. This assistance is designed to help thousands of families keep making their payments and stay in their homes until they can find work.⁶

The 19 states Treasury picked in 2010 to receive the TARP funds had high sustained unemployment and high numbers of underwater homeowners. These states are California, Florida, Michigan, Nevada, North Carolina, Ohio, Arizona, Oregon, Rhode Island, South Carolina, Alabama, the District of Columbia, Georgia, Illinois, Indiana, Kentucky, Mississippi, New Jersey, and Tennessee.

Treasury provides these TARP funds to homeowners through the state agencies. When a state housing finance agency ("state agency") approves a homeowner, it requests the mortgage servicer's agreement. A servicer participating in HHF should agree because it will receive either monthly payments or a lump sum. The states draw down on TARP funds from Treasury. Already \$6.8 billion (70%) of the total \$9.6 billion has been drawn down. Some of the remaining 30% may already be committed, as long as the homeowner stays in the home.

⁶ Treasury, "Guidelines for HFA Proposal Submission for Unemployment Programs," August 11, 2010.



85,000 People Who Earned Less Than \$30,000 Were Turned Down for Hardest Hit Funds

State agencies paid by Treasury to distribute this unemployment assistance turned down 84,965 people who earned less than \$30,000 (as shown in Figure 1), including 64,979 people who made less than \$20,000. SIGTARP has found that most of the people who were denied Hardest Hit funds (53%) earned less than \$30,000 (see Figure 2).⁷

Figure 1: Hardest Hit Fund Homeowner Denials by State, as of June 30, 2016

State Agency	Denied Homeowners Earning Less Than \$30,000
Florida	16,706
Michigan	12,653
California	10,032
Georgia	7,861
Arizona	6,801
North Carolina	6,559
South Carolina	5,350
Ohio	4,133
New Jersey	3,417
Illinois	2,787
Alabama	1,517
Oregon	1,478
Nevada*	1,293
Kentucky	1,241
Mississippi	1,158
Tennessee	952
Indiana	465
Rhode Island	456
DC	106
Total	84,965

* Data as of September 30, 2015 (the most recent data available).

Source: SIGTARP analysis of state agency Hardest Hit Fund data for homeowner programs. Table excludes 927 people for whom state agency records did not provide income information.

State agencies in Florida, Michigan, California, and Georgia turned down the largest numbers of people who made less than \$30,000.

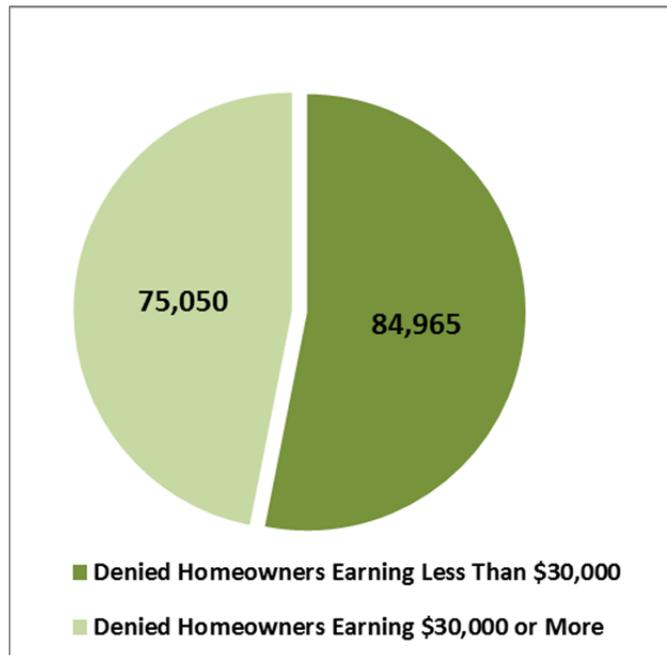
⁷ State agencies' records provided to SIGTARP show that 53% of all homeowners denied for Hardest Hit Fund dollars (84,965 out of 160,015) earned less than \$30,000 a year. This assistance is largely unemployment assistance.



In 6 States (Including Ohio, North Carolina, and Indiana), 3 of 4 People Turned Down for Hardest Hit Funds Earned Less Than \$30,000, and Nearly 3 of 4 People in 6 Other States (Including Michigan, Georgia, Illinois, Kentucky, and Tennessee)

Although nationwide 53% of all of the homeowners denied these Federal dollars earned less than \$30,000, SIGTARP found that in 12 of the 19 states, more than 70% of people turned down for these Federal funds earned less than \$30,000.

Figure 2: People Denied Hardest Hit Fund Dollars, as of June 30, 2016

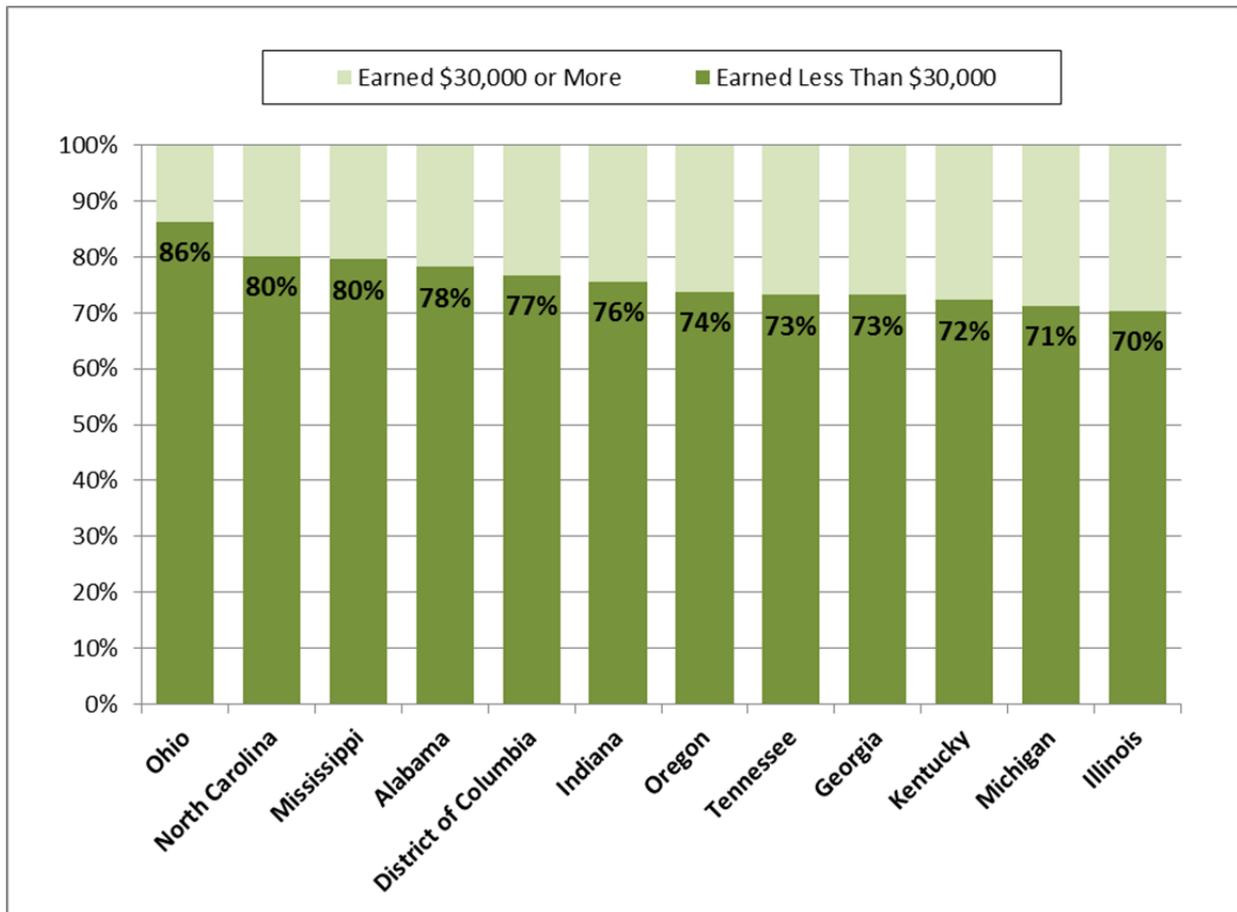


Source: SIGTARP analysis of applicant data provided by the states.

In 12 states, 70% or more of the people turned down earned less than \$30,000, as shown in Figure 3. People who earn less than \$30,000 are likely to fall within those still struggling with unemployment and underemployment, and have difficulties keeping their home.



Figure 3: Percentage of Denied Homeowners Who Earned Less Than \$30,000, by State



Source: SIGTARP analysis of applicant data provided by the states.

Of the people who were turned down in Ohio, North Carolina, Mississippi, Alabama, the District of Columbia, and Indiana, 76-80% earned less than \$30,000. At the same time, the state agencies gave Hardest Hit Fund dollars to nearly 20,000 people who made more than \$70,000—including almost 6,000 people making more than \$90,000.

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% in Ohio and 71% in Michigan.

- The Michigan state agency turned down 12,653 people who earned less than \$30,000, but gave Hardest Hit Fund dollars to 1,176 people who earned more than \$90,000, and 1,884 people who made between \$70,000 and \$89,999.
- The Ohio state agency turned down 4,133 people for Hardest Hit Fund dollars who earned less than \$30,000, but gave those dollars to 1,244 people who made more than \$70,000 (321 of them made more than \$90,000).



While state agencies may want to help people with these higher incomes, high numbers of people turned away who earned less than \$30,000 raises questions about whether these programs are as effective and efficient as they can be to reach those people who are the hardest hit.



High Percentages of People Turned Down for the Hardest Hit Fund Who Live in Cities Where General Motors Closed a Plant Earned Less Than \$30,000

State agency records from Michigan and Ohio provided to SIGTARP show that high percentages of the people being turned down for this program in cities where General Motors (“GM”) closed a plant or laid off workers earned less than \$30,000. The closing of an auto plant can have a ripple effect, including layoffs at auto parts suppliers. All of the state agencies report to Treasury quarterly on the number of people living in every city or county who receive these funds. This information is publicly released, but no one releases details on the people turned down.

SIGTARP performed a zip code search of the state records provided to identify where people earning less than \$30,000 lived and were turned down for this HHF assistance. That search revealed that, in Michigan, many of those people live in cities where GM closed plants or laid off workers, as seen in Figure 4:

Figure 4: People Denied HHF in Michigan Cities Where GM Closed Plants or Laid off Workers: Homeowners Denied HHF Who Earned Less Than \$30,000



Source: SIGTARP analysis of Michigan applicant data.



In Michigan, state records provided to SIGTARP show that in cities where GM closed plants or laid off workers, the Michigan state agency reported:

- Nearly 5,000 people living in the Detroit metropolitan area who earned less than \$30,000 were turned down for HHF dollars. That was 82% of all people in the Detroit area turned down for HHF.
- Of the almost 500 people living in Flint and surrounding areas who were turned down for HHF dollars, 407 of them (84%) earned less than \$30,000.
- About 83% of the people living in the Saginaw area who were turned down for HHF dollars earned less than \$30,000. This was more than 260 people.
- Two out of every three people (66%) living in Grand Rapids and surrounding areas who were turned down for HHF dollars earned less than \$30,000. This was nearly 250 people.
- More than 200 people in the Lansing area (50 miles west of Flint) who earned less than \$30,000 were turned down for HHF dollars. That is 63% of the people in the Lansing area who were turned down.
- More than 100 people in Ypsilanti and surrounding areas who earned less than \$30,000 were turned down for HHF dollars. That is 62% of all people in the Ypsilanti area that were turned down for HHF dollars.

GM also closed plants in Ohio, as did auto parts suppliers, as shown in Figure 5, below. However, one major plant in Moraine, Ohio was closed three years before this program launched.



Figure 5: People Denied HHF in Ohio Cities Where GM or Suppliers Closed Plants or Laid Off Workers: Homeowners Denied HHF Who Earned Less Than \$30,000



Source: SIGTARP analysis of Ohio applicant data.

Ohio state agency records provided to SIGTARP show:

- GM did not close a plant in Cleveland, but, according to media reports, jobs were lost when auto parts suppliers in Cleveland closed, including for example, Accel Performance Group, Metalworks Worldwide, and Shiloh Industries. More than 600 people in Cleveland and surrounding areas who earned less than \$30,000 were turned down for HHF dollars. That means that nearly 90% of Cleveland residents turned down for HHF earned less than \$30,000.
- More than 200 people in Dayton and surrounding areas (including Moraine and Vandalia) who earned less than \$30,000 were turned down for HHF dollars. That means that more than 90% of Dayton-area residents turned down for HHF earned less than \$30,000. Dayton also suffered from a loss of jobs at auto parts suppliers like Delphi.
- Most of the people living in Findlay, Lordstown, Mansfield, and Ontario who were turned down for HHF dollars earned less than \$30,000.



Figure 6, below, shows the percentages of denied workers who earned less than \$30,000 in Michigan and Ohio cities affected by GM and supplier plant closures.

Figure 6: Percentage of Denied Workers Who Earned Less Than \$30,000, by City



* Includes Dayton and nearby cities of Moraine and Vandalia, Ohio. Combined, these cities denied 238 homeowners who earned less than \$30,000.

Source: SIGTARP analysis of applicant data provided by Michigan and Ohio.

With such high percentages of people who earned less than \$30,000 being turned down for this program in cities where GM closed a plant, it becomes imperative to know why these people were turned down, as this level of income can show who has been hit hard in these cities.



SIGTARP Could Not Determine from State Records Why People Earning Less Than \$30,000 Were Turned Away, Which Could Be Easily Fixed

State agencies' records provided to SIGTARP were non-existent, missing or incomplete, about why the state agencies turned down people making less than \$30,000. Insufficient records make assessment of the basis for turning down these people difficult. Insufficient records hinder improvements to the use of these funds by those most in need. Insufficient records hamper determinations that the money is not being wasted.

Some state agencies were unable to provide SIGTARP even basic aggregate information about the reasons why they denied people seeking these Federal funds.

- A Florida official told SIGTARP that the state agency could not provide SIGTARP a listing of the number of Americans denied and the reasons why they were denied, despite the fact that SIGTARP recommended that they do so in an October 2015 report.
- SIGTARP found that state agencies' individual-level records in Nevada, South Carolina, and Arizona, are mostly blank in the field that stores the reason why each person was denied.
- The Ohio state agency's records list no reason for denying 3,602 (87%) of the 4,133 American workers who earned less than \$30,000.
- State officials in Ohio, Indiana and Illinois told SIGTARP that to determine the reasons why individuals were denied would require a manual review of each person's file.

When state agency records listed a reason why each person earning less than \$30,000 was denied, often it was a vague statement that the person was ineligible, raising concerns about whether the eligibility criteria are all necessary. Criteria adopted at the beginning of the program, when it was not known how slowly this money would flow to homeowners, may not make sense now nearly seven years later—and with an additional \$2 billion in funding. Unnecessary restrictions that serve as stumbling blocks or closed doors to American workers should be removed to improve effectiveness and efficiency.



To Level the Playing Field, States Can Remove Unnecessary Restrictions That: (1) Do Not Exist in Other States for These Dollars; and (2) Do Not Reflect the Reality of Working Class Americans

With the additional \$2 billion in funding Congress approved in 2015, along with unspent funds in some states, this program will be more effective and efficient if there is a fresh look at the criteria that should apply today. States that have underperformed in distributing the money should open up the funnel and remove any bottlenecks in their process.

Even states that have been distributing the money could open up the criteria to reach more workers who have been laid off or saw their paycheck cut. Using Michigan as an example, 12,653 people earning less than \$30,000 in Michigan were turned down, mostly because they were ineligible, as shown in Figure 7.

Figure 7: Reasons Why 12,653* Michigan Workers Earning Less Than \$30,000 Were Denied Hardest Hit Funds*

Michigan Workers Denied	
8,757	Borrower Ineligible
1,371	Hardship Requirement
1,259	Mortgage Ineligible
840	Property Ineligible
436	Not Participating (Investor/Servicer)
47	No Reason Given

* Detailed figures do not add to 12,653 because some homeowners were denied for more than one reason.

Source: SIGTARP analysis of Michigan applicant data.

There are another 12,522 people in Michigan who applied but later had their application withdrawn (by the agency or themselves), maybe because they could not meet one or more criteria. Others may not have even tried to apply because they did not meet the criteria.

Unfortunately, these vague records do not list which criteria the person did not meet, making it difficult from just the program data to see if certain criteria have become a stumbling block or closed door for many homeowners. The Michigan state agency, and any agency that lists “borrower ineligible” as a reason for denying someone, should provide more detail in their records. Once the state agency records the criteria the person did not meet, the agency and Treasury should implement



SIGTARP's October 2015 recommendation to analyze trends to see if criteria are too restrictive.

Even with poor records on why people earning less than \$30,000 have been turned away, trend analysis can show simple fixes that states can make to increase the flow of this money. The first fix is to level the playing field by eliminating criteria in that state that do not exist for homeowners in other states. The second fix is to eliminate criteria in that state that do not reflect the reality of the working class in that state.

As an example, Hardest Hit Fund Michigan can remove some criteria that do not exist in other states for these same funds and that do not reflect the reality of workers.

Hardest Hit Fund California has provided two times more Hardest Hit Funds dollars than any other HHF state. While Michigan has been providing these dollars to some, 96% of the workers turned away did not meet one or more criteria. This raises the question of whether all of the criteria are necessary going forward. Unlike Ohio, Michigan had not given out all of the funds before Congress approved the additional money.

Why should it matter that a Michigan worker received unemployment or saw their paycheck cut "in the last 12 months," when workers in Arizona do not have to meet that same timeframe to receive these same dollars?

The Michigan state agency prohibits workers from receiving Hardest Hit funds to help pay their mortgage if they received unemployment benefits or saw their paycheck cut more than 12 months ago. Most states do not put this timing restriction on a homeowner to get Hardest Hit Funds. It leads to an unlevelled playing field if a worker in Arizona who saw their paycheck get cut, or who received unemployment benefits more than a year ago, can receive these funds, while a worker in Michigan would be prohibited.

The reality for American workers is that unemployment lasts a long time. According to the Bureau of Labor Statistics, the national average length of unemployment is 27 weeks. But state unemployment benefits in Michigan only last 14 to 20 weeks. The Michigan requirement does not reward a responsible worker whose paycheck was cut more than one year ago and has exhausted unemployment benefits, savings, family help, or low-paying part-time work to pay their mortgage. With a 27-week average unemployment, at some point even the most self-sufficient run out of options.



Why should workers in Michigan have to suffer a 20% pay cut to receive these funds, while a worker in Florida and Oregon only has to suffer a 10% pay cut and a worker in California, Arizona and Indiana does not have to show any specific percentage?

Michigan has criteria to receive Hardest Hit Funds that an underemployed worker must have suffered a 20% cut in income, which is more restrictive than in other states. For example, an underemployed worker in California, Arizona, and Indiana does not have to show any specific percentage pay cut. Underemployed workers in seven other states can receive Hardest Hit Fund dollars showing less than a 20% cut in income.⁸ In other words, 10 other states determined that it was not necessary for an underemployed worker to show a 20% or more pay cut to receive Hardest Hit funds, raising concerns that this criteria creates an unlevelled playing field for Michigan workers.

The reality is that there are so many underemployed American workers. Of the 19 states in the Hardest Hit Fund, 13 of them (including Michigan) have above-average rates of underemployment. The Bureau of Labor Statistics does not measure underemployment by the percentage of lost wages or salary, but instead as “those working less than 35 hours per week who want to work full time, are available to do so, and gave an economic reason (their hours had been cut back or they were unable to find a full-time job) for working part time,” calling them “involuntary part-time workers.”⁹ This figure may not account for full time workers who saw a pay cut.

Why should Michigan workers be disqualified if their mortgage payment is more than 45% of their income?

This requirement may be well intentioned, but may not always match the reality of the working class who are suffering from unemployment and may be using much of whatever income they have to pay their mortgage. The Michigan state agency’s intent for this criteria is that the person “have income necessary to sustain future payments,” defined as a mortgage payment less than or equal to 45% of the person’s gross income. The reality for many is that they do not have enough income to make future payments, and any income they have may, in large part, go to

⁸ Florida and Oregon require a 10% pay cut; Alabama, Nevada, New Jersey, Mississippi and Kentucky require a 15% pay cut.

⁹ The Bureau of Labor Statistics calculates the underemployment rate (the “U-6” labor underutilization rate) as including unemployed workers, part-time workers who want to work full time but their hours were cut back or they were unable to find a full-time job, marginally attached workers who want to work but are not looking for work, and discouraged workers, who believe there are no jobs available to them and have given up looking as a result.



pay their mortgage payment to save their home. But that is precisely where a stopgap measure program like HHF steps in. The whole point is to help pay an unemployed worker's mortgage payment for a short time until they can hopefully find a job and get back their income.

Sustainability is not Treasury's stated goal for the Hardest Hit Fund, even though it is a stated goal for the Home Affordable Modification Program ("HAMP"). But HAMP is designed for sustainability by contracting with mortgage servicers to permanently lower a person's interest rate on their mortgage, and make TARP payments over six years. HHF is short term, sometimes a one-time payment, and typically no more than two years of monthly payments. It most often leads to no permanent change to the mortgage. Treasury's guidelines to state agencies for HHF have no requirement of sustainability.

HHF complements state unemployment benefits that do not have sustainability requirements such as the person has to show they have income to make future payments. Typically, a state agency requires that, in order to get HHF using unemployment as the hardship, the person has to be eligible for state unemployment benefits. The Hardest Hit Fund is an investment in these workers and their neighborhoods by providing a temporary safety net that prevents foreclosures until they can find a job.

Why does a Michigan worker facing an upcoming layoff or pay cut have to wait until they are laid off and become delinquent to qualify?

The California state agency allows a worker to qualify for these funds if they are going to face an upcoming hardship that could cause them to default on their mortgage. Opening up Michigan and Ohio to consider an upcoming, involuntary hardship would allow the workers at the GM plants in Lansing, Michigan or Lordstown, Ohio (where GM announced layoffs for January 2017), or workers at parts suppliers who may also be laid off, to work through the months-long application process now and receive help by February, the first month after the layoffs.



Why should a Michigan worker have to wait until they are delinquent on their mortgage to qualify when workers who are current on their mortgage in other states like Indiana, Oregon, and Tennessee qualify for these funds?

To qualify for Hardest Hit funds, workers in Michigan must be delinquent on their mortgages, property taxes, or condominium fees.¹⁰ Being current on the mortgage will not disqualify a worker in Indiana, Oregon and Tennessee for these dollars. Indiana, Oregon, and Tennessee have low numbers of people turned away who earn less than \$30,000. The reality is that some responsible homeowners have stretched their dollar to keep their mortgage current but may be running out of savings or other means.

Removing criteria not present for homeowners in other states ensures that there is a level playing field for these dollars. It also can open the program up to people earning less than \$30,000.

¹⁰ The Michigan state agency emphasizes on its home page and its HHF "Frequently Asked Questions" page that homeowners must be "delinquent" to apply for HHF assistance. Although an addendum (on page seven) to the agency's FAQ entitled "Information for Bankruptcy Clients" subsequently states that homeowners need not be delinquent on their *mortgage*, that clarification may easily be missed by many homeowners (and housing counselors), and discourage homeowners who are not delinquent on their mortgages from applying. Because the agency was unable to provide specific reasons each homeowner was denied, SIGTARP could not determine whether the Michigan state agency denied HHF assistance to homeowners who were current on their mortgages.



Conclusion

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.

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.

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.



Recommendations

1. To improve the effectiveness of distributing Hardest Hit Fund dollars to help unemployed and other homeowners save their homes and level the playing field for homeowners across states, Treasury and state agencies should eliminate unnecessary program eligibility criteria that prevent low-income homeowners from getting Hardest Hit Fund assistance, including those criteria that do not reflect the reality of the state's working class and those that do not apply to homeowners in other states for these Federal dollars.
2. To help America's working class save their homes, Treasury and state agencies should open up eligibility to the Hardest Hit Fund to workers subject to actual or announced layoffs, plant closings, or other similar reductions-in-force so that they do not have to wait until they actually fall behind on their mortgage payments to become eligible for Hardest Hit Fund assistance.
3. Treasury should require state agencies to keep detailed records on why they denied each person for Hardest Hit Fund assistance, including the specific program criteria not met.



Management Comments and SIGTARP's Response

In response to a draft of this report, Treasury provided a letter and some technical comments, which SIGTARP addressed where applicable. In its response, Treasury did not address SIGTARP's findings, but said it "...appreciates SIGTARP's analysis and is closely examining [SIGTARP's] recommendations."



Appendix A – Objective, Scope, and Methodology

SIGTARP performed this evaluation under authority of Public Law 110-343, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended. SIGTARP initiated this evaluation as part of SIGTARP's continuing oversight of Treasury's Hardest Hit Fund ("HHF") program. The evaluation's objective was to assess the denial of homeowners applying for Hardest Hit Fund assistance. The scope of this evaluation covered HHF homeowner assistance programs for all 19 state agencies. Given the limitations of the records kept by state agencies, the scope of this evaluation largely focused on incomes of homeowners who applied and were denied HHF assistance. SIGTARP conducted this evaluation from February 2016 through December 2016 in Washington, D.C.

SIGTARP obtained and analyzed data from each state agency about individual homeowners who were denied HHF unemployment assistance as of June 30, 2016 (the Nevada state agency only provided homeowner denial data as of September 30, 2015). Because state agencies denied many homeowners before they verified the homeowners' reported incomes, where available, SIGTARP used the earned incomes (wages, self-employment income, and rental income) reported by applicants and co-applicants in their applications. SIGTARP also obtained and analyzed state agency data, where available, regarding the reasons why homeowners were denied HHF assistance. SIGTARP also held interviews with state agencies to gain an understanding of their record keeping for maintaining data on homeowners denied for the program.

SIGTARP also analyzed state agency quarterly performance data, and performed a limited review of state agency agreements with Treasury and additional detailed program-level eligibility criteria, policies and procedures. In addition, SIGTARP collected information regarding automotive industry plant closures in Michigan and Ohio.

SIGTARP conducted this evaluation in accordance with the "Quality Standards for Inspection and Evaluation," January 2012 edition, established by the Council of the Inspectors General on Integrity and Efficiency. Those standards require that SIGTARP plan and perform the evaluation to obtain evidence sufficient to provide a reasonable basis for findings and conclusions based on the evaluation objectives. SIGTARP believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the evaluation objectives.



Limitations on Data

SIGTARP relied on state agencies to provide applicant-level data and data concerning why applicants were denied. In many cases the applicant data the state agencies provided contained blank fields, as noted in the report. SIGTARP also relied on Treasury's Quarterly Performance Reports. It is possible that the documentation provided by state agencies to SIGTARP did not reflect a comprehensive response to SIGTARP's data request, potentially limiting SIGTARP's review.

Use of Computer-Processed Data

SIGTARP relied on computer-processed data for this evaluation. Specifically, SIGTARP relied on the state agencies' data provided to SIGTARP to determine the numbers and percentages of denied homeowners and their incomes. SIGTARP relied on Treasury's quarterly performance reports to determine the numbers and percentages of approved homeowners and their incomes. SIGTARP did not validate the accuracy of the underlying data provided by Treasury or the state agencies.

Internal Controls

To address the reporting objective in this evaluation, SIGTARP performed a limited review of internal controls by interviewing state agency officials and by reviewing selected state agency agreements with Treasury and state agency eligibility criteria, policies and procedures.

Prior Coverage

SIGTARP has covered the HHF program in five previous reports. On April 12, 2012, SIGTARP released an audit report titled, "Factors Affecting Implementation of the Hardest Hit Fund Program." On April 21, 2015, SIGTARP released an audit report titled, "Treasury Should Do Much More to Increase the Effectiveness of the TARP Hardest Hit Fund Blight Elimination Program." On October 6, 2015, SIGTARP released an evaluation report titled, "Factors Impacting the Effectiveness of Hardest Hit Fund Florida." On June 16, 2016, SIGTARP released an audit report titled, "Treasury's HHF Blight Elimination Program Lacks Important Federal Protections Against Fraud, Waste, and Abuse." On September 9, 2016, SIGTARP released an audit report titled, "Waste and Abuse in the Hardest Hit Fund in Nevada." SIGTARP also issued an alert letter on



December 14, 2015, that addressed a risk related to diverting TARP funds to demolish lived-in properties, which could undermine the success of HHF's Blight Elimination Program.



Appendix B – Acronyms and Abbreviations

GM	General Motors
HAMP	Home Affordable Modification Program
HHF	Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (also “Hardest Hit Fund”)
State agency	State housing finance agency
TARP	Troubled Asset Relief Program
Treasury	U.S. Department of the Treasury



Appendix C – Evaluation Team Members

This evaluation was conducted and the report was prepared under the direction of Jenniffer F. Wilson, Deputy Special Inspector General for Audit and Evaluation, and Christopher Bosland, Assistant Deputy Special Inspector General for Audit and Evaluation, Office of the Special Inspector General for the Troubled Asset Relief Program.

Staff members who conducted the evaluation and contributed to the report include Craig Meklir, Kamruz Zaman, William Saunders, and Jeff Banks.



Appendix D – Management Comments



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 22, 2016

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

Dear Ms. Romero:

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

HHF is one of the housing programs created under the Troubled Asset Relief Program (TARP) pursuant to the Emergency Economic Stabilization Act of 2008 (EESA). HHF was created in February 2010 to provide assistance to the District of Columbia and 18 states designated "hardest hit" because they had experienced the nation's steepest home price declines and most severe unemployment. In the nearly seven years since, HHF has delivered meaningful results to these states and their residents that suffered the worst impact of the financial crisis. As of September 30, 2016, HHF programs had disbursed nearly \$6.2 billion for HHF program activities and related administrative expenses to assist more than 280,000 homeowners and remove nearly 15,000 blighted structures. Whether it was helping struggling homeowners to make their mortgage payments or removing blighted structures to stabilize housing prices in distressed neighborhoods, the primary beneficiaries were workers and families that experienced economic hardship. Approximately 80 percent of homeowners approved for HHF programs have received assistance due to a hardship related to either unemployment or underemployment. States also report that more than 80 percent of borrowers who have received assistance through HHF have an income of less than \$50,000 per year.¹

HHF is designed to prevent avoidable foreclosures and stabilize housing markets, in keeping with EESA's purposes of protecting home values and preserving homeownership. HHF provides the greatest possible flexibility to eligible state housing finance agencies (HFAs) to design programs that are responsive to the needs of their specific states. Individual HFAs create, administer, and monitor their own HHF programs, subject to requirements set forth in their contracts with Treasury. The HFAs currently operate 84 distinct programs under HHF, each with different objectives, processes and requirements, but all with the overarching goal of

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



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

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

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

Under their contracts with Treasury, each state HFA is required to retain all data and other records related to their HHF-funded programs. OFS conducts regular on-site compliance reviews of each state HFA. During these reviews, OFS's compliance team uses the data and records retained by the HFA to test -- on a sample basis -- denials of assistance by the HFA. This testing includes reviewing the reason for a denial and testing whether it was supported by appropriate documentation in order to verify that the correct decision was rendered.

* * *

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

Sincerely,

Mark McArdle
Deputy Assistant Secretary for Financial Stability

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

SIGTARP Hotline

If you are aware of fraud, waste, abuse, mismanagement, or misrepresentations associated with the Troubled Asset Relief Program, please contact SIGTARP.

By Online Form: www.SIGTARP.gov

By Phone: Call toll free: (877) SIG-2009

By Fax: (202) 622-4559

By Mail: **Office of the Special Inspector General
for the Troubled Asset Relief Program**
1801 L Street., NW, 3rd Floor
Washington, DC 20220

Press Inquiries

If you have any inquiries, please contact our Press Office:

Robert Sholars
Director of Communications
Robert.Sholars@treasury.gov
202-927-8940

Legislative Affairs

For Congressional inquiries, please contact our Legislative Affairs Office:

Joseph Cwiklinski
Director of Legislative Affairs
Joseph.Cwiklinski@treasury.gov
202-927-9159

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