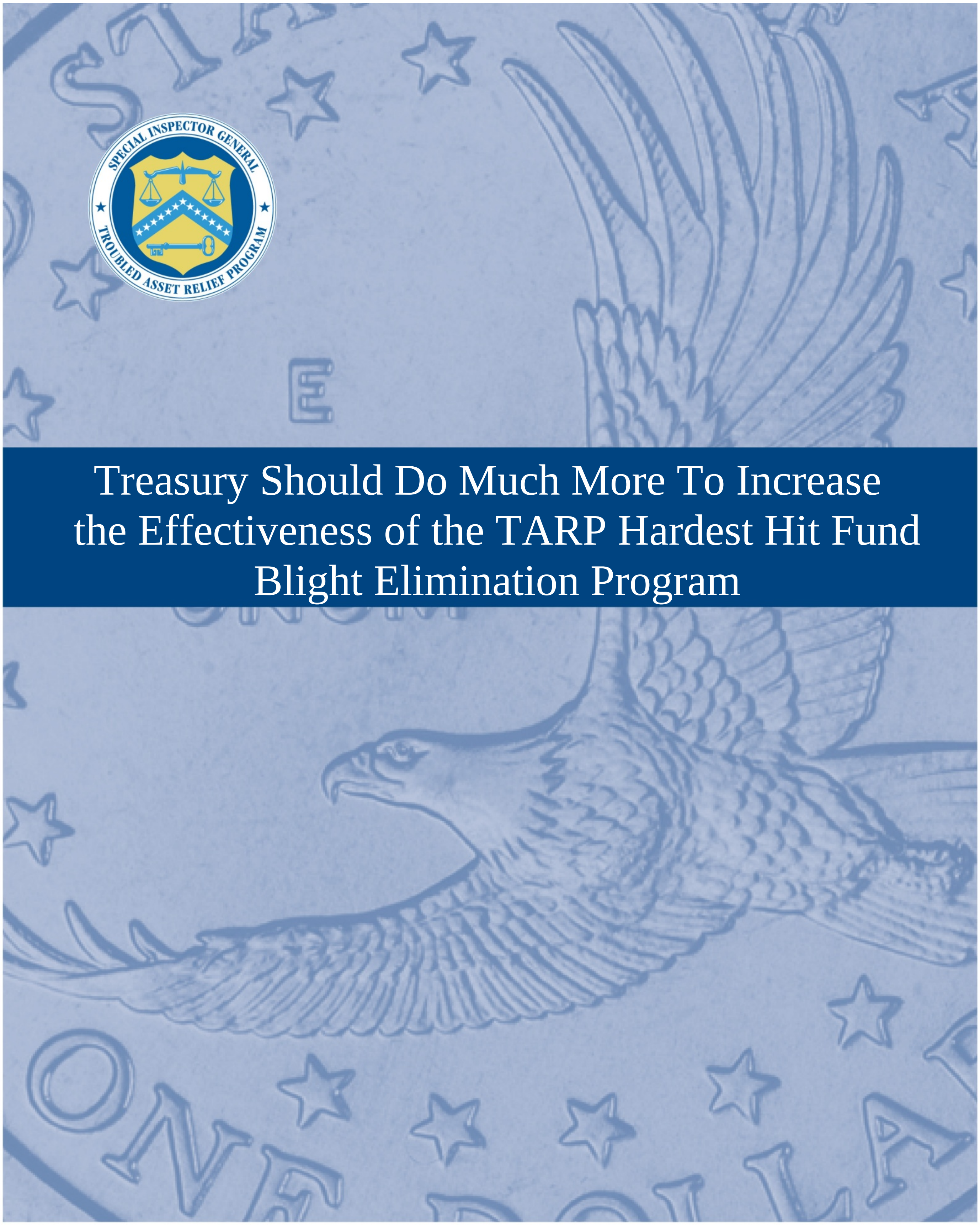
Treasury Should Do Much More To Increase the Effectiveness of the TARP Hardest Hit Fund Blight Elimination Program



Special Inspector General for the Troubled Asset Relief Program

SIGTARP 15-001

April 21, 2015

OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM
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WASHINGTON, D.C. 20220

April 21, 2015

MEMORANDUM FOR:	The Honorable Jacob J. Lew – Secretary of the Treasury
FROM:	Ms. Christy L. Romero – Special Inspector General for the Troubled Asset Relief Program
SUBJECT:	Treasury Should Do Much More To Increase the Effectiveness of the TARP Hardest Hit Fund Blight Elimination Program (SIGTARP 15-001)

We are providing this report for your information and use. It discusses the status of the Department of the Treasury's Hardest Hit Fund Blight Elimination Program, as well as Treasury's role in the program and factors affecting program implementation.

The Office of the Special Inspector General for the Troubled Asset Relief Program conducted this audit (engagement code 031) 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 Treasury when preparing the report. Treasury's comments are addressed in the report, where applicable, and a copy of Treasury's letter is included.

We appreciate the courtesies extended to our staff. For additional information on this report, please contact Mr. Bruce S. Gimbel, Deputy Special Inspector General for Audit and Evaluation (Bruce.Gimbel@treasury.gov / 202-927-8978), or Ms. Jenniffer F. Wilson, Assistant Deputy Special Inspector General for Audit and Evaluation (Jenniffer.Wilson@treasury.gov / 202-622-4633).

Treasury Should Do Much More To Increase the Effectiveness of the TARP Hardest Hit Fund Blight Elimination Program

Summary

By 2013, three years into the Troubled Asset Relief Program's ("TARP") foreclosure prevention program known as the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("Hardest Hit Fund," or "HHF"), the 19 state housing finance agencies ("HFAs") that Treasury has administering the program had drawn down only 27% of TARP funds available, and had helped only 109,874 homeowners. In June 2013, Treasury approved a new category of HHF assistance – the Blight Elimination Program – the demolition and "greening" of vacant and abandoned single-family and multifamily structures. Unlike other HHF assistance, the Blight Elimination Program does not provide direct assistance to homeowners, instead allowing for substantial payments to cities or counties, land banks, non-profit and for-profit organizations for demolition and other blight elimination activities. Since 2013, Treasury has increasingly reallocated a portion of HHF funds from other HHF programs that provide direct help to homeowners for a total of approximately $372 million for the HHF Blight Elimination Program in six states (Michigan, Alabama, Illinois, Indiana, Ohio, and South Carolina).

What SIGTARP Found

Treasury's role in HHF has contrasted with its role in other TARP programs. Throughout TARP's six years, Treasury has not waited until the end of a TARP program to measure progress and success toward the goals set out by Congress for TARP, nor has Treasury left achievement of the TARP goals to chance. Instead, Treasury has worked with regulators and others early to set target outcomes – what Treasury expected to achieve by using TARP funds. By measuring and reporting on progress, Treasury gained insight that led to Treasury making changes in TARP programs to make them more effective with the end in mind. Treasury has not set target outcomes with the Hardest Hit Fund, which has led to a lack of accountability, and lost opportunities to increase the effectiveness of HHF mid-program. Homeowners have suffered. With no baseline to measure progress, the aggregate number of homeowners the states estimated helping with HHF has dropped by nearly half (44%). If Treasury had worked with each state HFA to set a realistic target outcome for the number of homeowners to be helped by HHF, rolled that into a Treasury target, and measured against that target, Treasury could have gained insight into which states needed Treasury's help or what improvements could have been made.

Treasury's desire to use TARP's Hardest Hit Fund to seek locally tailored solutions administered by the 19 states does not relieve Treasury of its important responsibilities to ensure that TARP programs are operating in the most effective manner and are on track to achieve the TARP goals. The two concepts of Federal responsibility and locally tailored solutions are by no means mutually exclusive. HHF is not a grant program. It is an investment made by taxpayers, nationwide. Treasury, not each state, has an interest in leveraging the resources of all 19 jurisdictions with Treasury resources to provide further relief to states unable to help homeowners on their own. More is required of Treasury than dollars. Treasury cannot defer its responsibility to anyone to ensure that HHF progresses in the most effective way to achieve the TARP goals of protecting home values and preserving homeownership. Congress put Treasury in charge of TARP, so Treasury must act to fulfill that responsibility. It cannot do that with limited knowledge and involvement.

SIGTARP is not expressing an opinion as to whether the use of TARP funds for blight elimination activity is an appropriate use of TARP funds. Just as it has done with other TARP programs, Treasury should not wait until the end of HHF to measure whether the HHF Blight Elimination Program is on track to achieve TARP goals (protecting home values and preserving homeownership), nor should Treasury leave achievement of the goals to

chance. Treasury should follow the same pattern with HHF that Treasury has taken in other TARP programs to gain insight, be actively involved, and take action beyond initial TARP dollars to ensure the TARP funds are used effectively to ensure the program's success, including for demolition of vacant properties. However, SIGTARP has found that is not what Treasury is doing.

SIGTARP found that the HHF Blight Elimination Program is designed in a way that leaves Treasury in the dark on strategies, decisions, and blight elimination activity conducted under HHF and paid for with TARP dollars. Treasury has allowed the six participating state HFAs to place much of the decision making and the actual blight elimination activities in the hands of city or county/land bank/non-profit/for-profit partners, whose identities are unknown to Treasury, whose activities using TARP funds are unknown to Treasury, whose strategies and decisions on how to execute blight elimination under HHF are unknown to Treasury, that are not under contract with Treasury or even in contact with Treasury, and over which Treasury conducts no oversight. Treasury has very limited knowledge about blight elimination activity paid for with TARP dollars and is not keeping itself informed or gaining insight of critical activities taking place under the HHF Blight Elimination Program.

Treasury does not have or monitor the contracts and subcontracts for which TARP funds are the source of payment, and neither do the states. Treasury does not require a detailed accounting or know the details of contracts or subcontracts, or even the recipients. Treasury's HHF Program Director told SIGTARP that contract awards are "the state's business." However, Ohio HFA officials told SIGTARP that the Ohio HFA "does not collect all documentation pertaining to current and future contracts for the local land banks. We require thorough support documentation, including invoices and proof of payment, for all expenses that are reimbursed with HHF funds." A Michigan HFA official told SIGTARP it does not monitor or approve the contracts or even have a listing of the entities that their land banks or other partners have contracted with.

Unlike other blight demolition funds these states may receive, TARP funds are not grant funds and this is not a grant program. Greater knowledge and insight by Treasury of the participants in HHF demolition activities, strategies, and decisions, blight elimination activity, and expenditures do not take away a state's ability to tailor local solutions. The opposite is true. Treasury's role as a steward of TARP is more than about money. These states that are still struggling from the crisis need Treasury's involvement and full support.

Being in the dark makes it difficult for Treasury to fulfill its important responsibilities as the steward of TARP. Limited knowledge about strategies, decisions and blight elimination activity decreases Treasury's ability to ensure that HHF in this area is on track to success or that states and city or county local partners are proceeding with the most effective use of TARP funds, and decreases Treasury' ability to protect against fraud, waste, and abuse, which could diminish the effectiveness of the HHF Blight Elimination Program. Treasury can defer administration of a TARP program to another entity, but Treasury cannot defer its responsibility and oversight under the TARP law to ensure that a TARP program is successful, nor should it because these are the hardest-hit states that Treasury selected to help. Responsibility requires knowledge. Treasury cannot improve what it does not know. Treasury cannot protect what it does not know. Treasury cannot bring transparency to what it does not know.

SIGTARP found that Treasury takes a hands-off approach to the HHF Blight Elimination Program and has very limited involvement in the planning or execution of the program. Treasury has not conducted comprehensive planning that could ensure program success, ensure that TARP funds are spent in the most effective manner, and protect HHF against the risk of fraud, waste, and abuse. Treasury has left much of the planning to the HFAs, which have left much of the planning to the city or county local partners.

SIGTARP found that, unlike other TARP programs, Treasury has not set a target outcome that it wants the HHF Blight Elimination Program to achieve in order for Treasury to ensure that it will meet the high-level goals of stabilized neighborhoods and decreased foreclosures, instead deferring to each state HFA to set the target outcome. However, the state HFAs are not actually setting target outcomes, but instead are deferring to the city or county/land bank/non-profit/for-profit partners. The HHF Blight Elimination Program is designed so that the city or county/land bank/non-profit/for-profit partners are responsible for defining the target outcome and measuring their own progress toward that outcome.

SIGTARP recognizes the challenge of using a Federal program to offer local solutions administered by state agencies and Treasury's desire to give states flexibility because HFAs know best about the problems in their states. However, flexibility should not mean free rein.
Flexibility should not mean that states or city or county/land bank/non-profit/for-profit partners set the target outcome of a Federal TARP program. That is Treasury's responsibility under TARP law. If Treasury does not set a target outcome for HHF blight elimination, it is leaving the success of a TARP program to chance. This leads to a lack of accountability at the city or county, state, and Treasury level.

Treasury defining target outcomes that it expects to achieve does not take away the flexibility of states, but instead gives insight to Treasury and the states into whether improvements can be made to make the HHF Blight Elimination Program more effective as the program progresses. Treasury has an opportunity right now to increase the effectiveness of the program. However, that opportunity will diminish with time given the fast pace of demolition activity. If Treasury sets target outcomes now, Treasury and the states would have something to measure progress against to determine if each state is on track.

Spending the available TARP money should not be Treasury's end goal. State HFA officials from Michigan and Ohio told SIGTARP that the only goal Treasury has given them is to spend the HHF blight money by December 31, 2017. Just as the high-level goals of each of Treasury's TARP investments were not met upon Treasury investing TARP funds, Treasury's high-level goals to stabilize neighborhoods and decrease foreclosures are not met upon Treasury investing funds for blight elimination.

This type of comprehensive planning is not new to Treasury and is a recognized best practice for the Federal Government that does not harm a state's ability to tailor local solutions. Knowing the target outcomes that Treasury is trying to achieve provides a framework for states and cities or counties to make choices that are locally tailored, and are consistent with Federal objectives. Just as Treasury has worked with regulators and others before to develop target outcomes for TARP programs, Treasury could use its own resources and expertise on economic outcomes in consultation with each of the six participating states to set Treasury-defined target outcomes it wants, that are realistic for that state. These could include target level of decrease in foreclosures, vacancy rates, percentage of properties with negative equity, crime rates, and target level increase in home values.

Treasury cannot assume that any amount of demolition of vacant properties in any area of a city or county will result in stabilized home prices and decreased foreclosures. Treasury has already conducted an economic analysis for Detroit that assumed that the impact could only be felt within a 200-foot radius of the demolished property. Treasury estimated that demolishing a vacant house and greening the lot in Detroit would lower the default probability of nearby properties by between 0.7 and 1.7 percentage points on average with likely impact on foreclosure rates toward the 1.7 percentage point end, which could serve as a baseline for a target outcome.

Without establishing target outcomes for each state (in consultation with each state), Treasury will not be able to see which states need Treasury's help or additional oversight to ensure that the HHF Blight Elimination Program is on track for success. The state HFAs do not have the level of expertise and resources of Treasury on economic outcomes. If Treasury through its Economic Policy group can conduct an economic analysis to determine the target outcome of HHF demolition for one city, it can conduct them for others. Treasury could combine its expertise and resources with the states to conduct economic analyses that lead to Treasury setting realistic target outcomes that the states could work towards achieving.

Neither Treasury nor the state HFAs have developed performance indicators or are measuring the impact of demolition, which decreases Treasury's ability to see areas for improvement to ensure effective use of TARP dollars and success in TARP goals. The states can and should develop performance indicators at the start of the program so that performance can be measured as the program progresses, but that has not happened. Treasury is only requiring reporting on the number of properties demolished and the average cost. Demolition is not the end that Treasury should have in mind. It is the outcome of that demolition, not the demolition itself.

Although Treasury should have developed its target outcomes at the beginning of the program in 2013, it is not too late for Treasury to do so now, particularly as only three of the six states have started demolishing properties. Congress and the public rightfully expect Treasury to administer the program and ensure that TARP funds are appropriately spent and are achieving the desired goals.

SIGTARP found that Treasury has not taken a risk-based approach to identify and mitigate risks that could form barriers to the most effective use of TARP funds for demolition activity or could lead to fraud, waste, and abuse. The design of the HHF Blight Elimination Program that places much of the control and decision making in the hands of the city and county/land banks far removed from Treasury, which conduct work through contractors removed even farther from Treasury, produces certain risks that Treasury should assess and mitigate through comprehensive planning. Treasury has an oversight responsibility to ensure that the state HFAs, and their city or county local partners, are ready for, and can effectively handle, any increase in demolition and other activities under HHF. Even if some of the six state HFAs in the HHF Blight Elimination Program have experience with blight elimination, the TARP funds allocated for blight elimination will likely result in a significant increase in the amount of blight elimination activities these states have conducted. By allowing itself to be in the dark, Treasury has created a TARP program with very limited transparency to Treasury and the public, which impacts risk.

Given that Treasury decided to make a TARP investment in eliminating vacant properties, Treasury should do much more to fulfill its oversight responsibilities and ensure success. Federal dollars must come with some Federal involvement, guidance, assistance, transparency, and oversight. Homeowners deserve the same extraordinary Treasury action and support that Treasury gave the largest TARP institutions. Treasury cannot do that if it continues to be in the dark, with a hands-off approach and involvement, that limits transparency, oversight, and can impact risk. When HHF ends in December 2017, it is Treasury, not the individual six states in the HHF Blight Elimination Program, that is responsible for reporting whether Treasury's use of those TARP funds successfully achieved TARP goals.

What SIGTARP Recommends

In this report, SIGTARP made nine recommendations aimed at increasing the effectiveness of Treasury's Hardest Hit Fund

Blight Elimination Program. SIGTARP's recommendations include that Treasury ensure that the state HFAs and their city or county local partners can effectively handle any increase in demolition and other activities under HHF, that Treasury keep informed and gain insight of critical activities taking place under HHF blight elimination at both the Treasury and state HFA levels, and that Treasury increase transparency by publicizing blight-specific details on Treasury's website. SIGTARP also recommends that Treasury engage in comprehensive planning, set target outcomes, and require state HFAs participating in blight elimination activities under TARP to develop performance indicators to ensure that blight elimination under HHF progresses in the most effective way. Finally, SIGTARP recommends that Treasury should require detailed accounting and reporting by state HFAs on how TARP funds are spent reimbursing local partners for blight elimination activities under HHF, and require state HFAs to develop a system of internal controls targeted specifically at blight elimination.

Treasury provided comments to the draft report. SIGTARP addressed those comments where applicable. Treasury generally disagreed with SIGTARP's findings citing to the expertise of states and need for states' flexibility, an issue that SIGTARP has addressed in the audit. Treasury did not agree to implement SIGTARP's recommendations, but said they would consider them.

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Introduction

Three years into TARP's Hardest Hit Fund ("HHF"), with the program not reaching nearly as many homeowners as the 18 states and the District of Columbia ("19 jurisdictions") housing finance agencies ("HFAs" or the "state HFAs") had estimated to help, the Michigan HFA proposed to Treasury that it be allowed to reallocate HHF funds away from existing HHF programs to the demolition of vacant properties, which Michigan was already doing through non-TARP Federal and state grant programs. By March 31, 2013, Treasury reported HHF had helped 109,874 homeowners compared to the 500,000 homeowners the states estimated helping with HHF, and the HFAs in the 19 jurisdictions had drawn down only 27% of TARP's allocated $7.6 billion, leaving nearly $5.5 billion in available TARP funds to help homeowners.

In June 2013, Treasury created the Blight Elimination Program under HHF, according to an internal Treasury memorandum. Treasury described the program as the demolition and "greening" of certain vacant and abandoned single-family and multifamily structures. Previously, Treasury used HHF to make payments to homeowners or to mortgage servicers to help keep homeowners in their homes. TARP's Blight Elimination Program allows for substantial payments to city or county/land bank/non-profit/for-profit partners for demolition and other blight elimination activities. Treasury has approved six HHF state HFAs to reallocate approximately $372 million in TARP funds from other HHF programs for blight elimination.

Although created in June 2013, TARP's HHF Blight Elimination Program did not see a single demolition until the fourth quarter of 2013, and no significant demolition until the first quarter of 2014, when Treasury reported 124 demolitions. Only two of the six states (Michigan and Ohio) have started demolitions under HHF, according to Treasury reports. An official from Indiana HFA told SIGTARP that they have had 50 demolitions.

As part of SIGTARP's continuing oversight of TARP, SIGTARP initiated an audit in October 2014 of the HHF Blight Elimination Program. The specific objectives of this audit were to determine:

- the status of HHF's Blight Elimination Program;
- Treasury's role in the program; and
- factors affecting the implementation of the HHF Blight Elimination Program.

SIGTARP conducted this audit in accordance with generally accepted government auditing standards established by the Government Accountability Office ("GAO"). SIGTARP interviewed officials at Treasury's Office of

Financial Stability ("OFS"), and at Michigan, Ohio, and Indiana HFAs. For a complete discussion of the audit's scope and methodology, see Appendix A.

Background

When Congress authorized the creation of TARP in 2008, the nation was in the midst of a housing crisis with a record number of foreclosures. Congress did not pass TARP until it was amended to include assistance to homeowners. The promise of TARP was to be more than a bailout of Wall Street. Former Treasury Secretary Henry M. Paulson, Jr., wrote in his book, *On the Brink: Inside the Race to Stop the Collapse of the Global Financial System*, that Treasury "devised TARP to save the financial system." However, that was not Congress' sole intent when it approved the final TARP law. Congress did not enact Treasury's initial three-page proposal, submitted on September 20, 2008, which would have authorized Treasury to spend TARP funds, taking into consideration "providing stability or preventing disruption to the financial markets or banking system and protecting the taxpayer."[1] The final TARP law states a dual purpose of restoring stability and liquidity, and ensuring that Treasury use the funds in such a way that would do more than just save the financial system, but also protect investments of individuals and families across the nation, including home values, life savings, retirement funds, and college accounts, to preserve homeownership, and to promote jobs and economic growth. Former Secretary Paulson recounts in his book:

> The House and Senate needed to be able to sell any legislation we came up with, and the political calculus was tricky just weeks before an election. Averse to bailouts, voters would never grasp the pain of a meltdown unless they experienced it. As Barney [Frank] put it: "No one will ever get reelected avoiding a crisis." Nancy Pelosi noted: "we have to position this as stimulus and relief for the American homeowner."

Congress explicitly stated in the final TARP law that a purpose of TARP is to ensure that the authority given to the Treasury Secretary and such facilities is used in a manner that, among other things, protects home values, preserves homeownership, and promotes jobs and economic growth.

On February 19, 2010, Treasury announced TARP's Hardest Hit Fund, with the goals to help families in those states determined by Treasury to be hit the hardest by the bursting of the housing bubble, which would allow for "locally focused" programs, support "innovative" foreclosure prevention efforts, prevent foreclosures, and stabilize the housing market. Treasury designed the HHF program to provide $7.6 billion in TARP funding for foreclosure prevention programs administered by housing finance agencies in 18 states and the District of

[1] See SIGTARP's Initial Report to the Congress dated February 6, 2009, "Advancing Economic Stability Through Transparency, Coordinated Oversight and Robust Enforcement."

Columbia. HFAs are entities created by state law that help provide affordable housing, among other responsibilities. As SIGTARP previously reported, one Treasury official stated that HHF offered locally tailored solutions, something that the nationally focused TARP housing program Home Affordable Modification Program ("HAMP") did not. The Administration stated in announcing HHF that HFAs were "already familiar with the urgent challenges facing their communities and have demonstrated the ability to address those challenges."

Since the beginning of the Hardest Hit Fund, Treasury has repeatedly stated the importance of transparency and oversight of TARP's housing programs. Shortly after HHF was established, Treasury's then-Chief of Homeownership Preservation Office, Phyllis Caldwell, who was in charge of implementing HHF, testified before the House Financial Services Subcommittee on Housing and Community Opportunity in November 2010 about the importance of transparency and accountability to the public on TARP's housing programs, stating: "To protect taxpayers and ensure that TARP dollars are directed toward promoting financial stability, Treasury established rigorous transparency and accountable measures for all of its programs, including all housing programs."

SIGTARP previously reported in its April 2012 audit report that Treasury could do more to improve transparency because tracking performance of all HHF programs would require a taxpayer to gather information from 19 separate HFA websites. As SIGTARP reported, HFAs publish quarterly numeric data on their own websites, but without stated goals, it is difficult to assess performance. Treasury states publicly its commitment to increasing transparency in TARP housing programs, including HHF. Treasury's website section on TARP stresses Treasury's efforts "[t]o ensure that Treasury's housing programs operate in full view of the public…." Reiterating the importance of this transparency, Treasury included similar language in its retrospective reports on TARP. Particularly, Treasury's Four Year Retrospective Report, issued in March 2013, reminded: "Treasury is committed to making sure that every TARP program is operating at the highest standards of transparency and accountability. This includes providing regular and comprehensive information about how TARP funds are being spent, who has received them and on what terms, and how much has been recovered to date." The report added: "Treasury is equally committed to ensuring that TARP's housing initiatives are being implemented to the highest level of transparency." Concerning HHF, Treasury stated in the report: "Treasury makes available the latest state-by-state information from HFAs that are administering local programs under the Hardest Hit Fund. Visitors to Treasury's website can also find each state's plan, contract agreements, and their latest quarterly report."

As SIGTARP reported in its April 2012 audit report, and in quarterly reports to Congress since, HHF is a program that has faced difficulties in reaching the intended number of homeowners.[2] As SIGTARP reported, HHF has experienced significant delays in providing help to homeowners due to several factors, including a lack of comprehensive planning by Treasury and a delay in participation by large mortgage servicers and the Government-sponsored enterprises ("GSEs") Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac"). At that time, two years into the program, HHF funding had helped 30,640 homeowners, with nearly all (98%) of the help for unemployment assistance or reinstatement of past due amounts, the only types of assistance for which the GSEs directed servicers to participate.[3] Of the 98%, the great bulk (78%) of the HHF help to homeowners has been for unemployment assistance.

At the end of fiscal year 2012, Treasury began looking at the possibility of using HHF funds for the demolition of vacant houses. On September 24, 2012, Treasury convened an interagency meeting, "Residential Property Vacancy, Abandonment, and Demolition," with Congressional staff, representatives from the executive branch and regulatory agencies, and housing experts. By March 31, 2013, three years after the program start, HHF had helped 109,874 homeowners compared to the 500,000 homeowners that state HFAs in the 19 jurisdictions collectively estimated to help with HHF, and states had drawn down only 27% of the allocated $7.6 billion in TARP funding, leaving nearly $5.5 billion available.

In June 2013, Treasury approved a sixth category of HHF program assistance – the Blight Elimination Program – the first HHF program not to provide direct assistance to homeowners. Michigan proposed to Treasury in May 2013 that it be allowed to use HHF funds for blight elimination. Michigan was already participating in the Neighborhood Stabilization Program ("NSP"), a U.S. Department of Housing and Urban Development ("HUD") grant program for blight elimination, as well as state-funded blight elimination. Treasury's Economic Policy group conducted an economic analysis to estimate the stabilization of home prices and the decrease in foreclosures that would come from demolitions in the City of Detroit. Subsequent to its economic analysis, Treasury approved changes to its HHF contract with Michigan. Treasury's June 2013 memorandum includes "Blight Elimination Program (new), to focus on decreasing foreclosures and stabilizing neighborhoods through the demolition and greening of vacant and abandoned single family and multi-family structures in designated areas across Michigan." Treasury approved the HHF Blight Elimination Program of single-family residential (1-4 units) and multifamily

[2] See SIGTARP audit report, "Factors Affecting Implementation of the Hardest Hit Fund Program," issued April 12, 2012; and see SIGTARP'S Quarterly Report to Congress dated January 28, 2015.
[3] Treasury approved HHF programs in five categories of assistance: (1) principal reduction; (2) second-lien reduction or payoff; (3) reinstatement through payment of past due amounts; (4) unemployment/underemployment assistance; or (5) transition assistance.

(4+ units) properties in Michigan funded with $100 million of Michigan's HHF funds, reallocating those funds from other HHF programs as Michigan had proposed.[4] Treasury approved per property costs of $25,000 for actual costs incurred to acquire, demolish, green, and maintain property for a period not to exceed five years. Treasury's internal memorandum states that the estimated number of properties to be demolished is 4,000, if each property receives the maximum funding amount of $25,000.

Since that time, Treasury has increasingly allocated a significant portion of HHF funds to blight elimination programs. These are not new funds authorized by Treasury, but instead, funds that the states had reallocated from their other existing HHF programs that had provided direct help to homeowners. Treasury expanded the HHF Blight Elimination Program to provide additional TARP funding to Michigan (up to $175 million) and to five additional states, Ohio, Indiana, Illinois, South Carolina, and Alabama, allocating approximately $372 million in TARP funding, as shown in the following table. Treasury also set a cap on allowable costs to be paid for with TARP funds per property, to include costs such as demolition and greening.

[4] The proposal also increased Michigan's administrative expense allocation from $53 million to $60 million.

TABLE 1

STATES PARTICIPATING IN TARP'S HHF BLIGHT ELIMINATION PROGRAM

State	Allocated TARP Dollars for Blight Elimination	Alllowable Costs Per Property (TARP $)	Estimated Number of Properties To Be Demolished	Timing of Treasury's Approval of State for BEP
Alabama	$25,000,000	Maximum $25,000 per structure	1,000	Sept. 1, 2014
Illinois	$1,900,000	Maximum $35,000 per structure	50	Summer 2014
Indiana	$75,000,000	Maximum $25,000 per structure	Between 3,000 and 5,000	Q1 2014
Michigan	$175,000,000	Maximum $25,000 per structure	7,000	Late November 2014
Ohio	$60,000,000	Maximum $25,000 per structure	5,000	Jan. 1, 2014 (effective contracts with partners)
S.C.	$35,000,000	Maximum $35,000 per structure	Between 1,000 and 1,300	Q3 2014
	$370,000,000			

Source: SIGTARP-prepared table based on the state HFA's term sheets, as amended in each state's Housing Participation Agreement with Treasury, and the data call.

Like Michigan's HFA, three other state HFAs were already involved with blight elimination, using grants in other Federal, state, or local programs. The following table shows other blight programs that state HFAs are involved with:

TABLE 2

STATE HFAS' HHF AND NON-HHF BLIGHT ELIMINATION PROGRAM PARTICIPATION

State	HHF Program	Non-HHF Program 1	Non-HHF Program 2	Non-HHF Program 3
Michigan	Blight Elimination Program	HUD CDBG[a]-Blight Elimination for Non-Entitled Local Units of Government	Michigan Attorney General-Blight Elimination Grants	HUD NSP[b] 2 Program
S.C.	Neighborhood Initiative Program	HUD NSP 1	HUD NSP 3	--
Illinois	Blight Reduction Program	Illinois-Abandoned Property Program	--	--
Ohio	Neighborhood Initiative Program	Ohio Attorney General-Moving Ohio Forward	--	--
Indiana	Blight Elimination Program	--	--	--
Alabama	Blight Elimination Program	--	--	--

[a] Community Development Block Grant.
[b] Neighborhood Stabilization Program.
Source: SIGTARP-prepared table based on the responses received from state HFAs.

As of December 31, 2014, the latest data available, only two state HFAs, Michigan and Ohio, had reported to Treasury that properties had been demolished. Specifically, Michigan's HFA reported that it had spent $22,795,284 in HHF funds to remove or demolish 1,887 properties. When averaged, this comes to a spend rate of $12,080 per property. A spend rate may be different than the actual cost. Michigan's HFA reported to Treasury that the median assistance spent on acquisition of properties is zero, the median assistance spent on demolition is $9,440, and the median assistance spent on greening is $1,250. Ohio's HFA reported to Treasury that it had spent $4,833,691 to remove or demolish 428 properties under the HHF Blight Elimination Program, which covers only 1-4 unit residential and, according to an Ohio HFA official, mixed-use properties. This comes to an average spend rate of $11,293 per property. Ohio's HFA reported to Treasury that the median assistance spent on acquisition of properties is $0 and the median assistance spent on demolition is $8,195.[5]

As of December 31, 2014, the latest data available, the four remaining states have not reported any demolitions to Treasury. However, this information will be outdated because Treasury requires reporting on a lagged basis to give state HFAs time to compile these reports. For example, Indiana's HFA told SIGTARP that the state has approximately 50 demolitions.

[5] Ohio's median assistance spent on demolition includes greening costs.

The HHF Blight Elimination Program Is Designed in a Way that Leaves Treasury in the Dark on Strategies, Decisions, and Blight Elimination Activity Under HHF and Paid for With TARP Dollars

SIGTARP found that the Hardest Hit Fund Blight Elimination Program is designed in a way that leaves Treasury in the dark on strategies, decisions, and blight elimination activity conducted under HHF and paid for with TARP dollars. Treasury's contracts with the six participating state HFAs specifically contemplate that the state HFAs will administer blight elimination under HHF with partners. For example, Treasury's contract with Michigan states:

> **Program Overview:** Strategically target residential and multifamily demolition in designated areas within the state of Michigan, by partnering with land banks, non-profit and/or for-profit organizations (together, "Partners").

Each state HFA can have many of these partners depending on, for example, how many cities and counties receive a portion of the HHF funding for blight elimination. For example, Ohio's HFA has 21 partners for HHF blight elimination, all of which are land banks. A land bank does not have to be a governmental entity. Bigger cities or counties may have more than one participating partner.

Treasury does not know the identities of the city or county/land bank/non-profit/for-profit partners that are making key decisions on blight elimination and will receive TARP dollars

Treasury could not identify for SIGTARP all of the land bank and program partners for each of the six states that will participate in HHF blight elimination activity. When SIGTARP asked Treasury to provide a listing of all program partners in the HHF Blight Elimination Program, Treasury responded that it did not maintain the information. Instead, a Treasury official told SIGTARP that each HFA may work and contract with servicers, non-profit organizations, contractors and other vendors, that Treasury is not a party to those contracts, and that the HFAs are in the best position to provide a list of their partners in any of their programs. Treasury's contracts with the six states contemplate that these partners will be key participants and receive TARP funding. Treasury does not conduct oversight over these partners, given that it does not know their identities.

Treasury's HHF Blight Elimination Program puts most of the decision making in the hands of city or county land banks, non-profit organizations, and in some instances for-profit organizations whose identities are unknown to Treasury

Treasury has allowed the state HFAs to place much of the decision making and the actual blight elimination activities in the hands of the city or county land banks, non-profit organizations, or in some cases, for-profit organizations[6] that are considered to be "partners" under Treasury's contract.[7] For example, Treasury's contract with Michigan's HFA states that the HFA will determine project sites in direct consultation with partners. Treasury's contract with Michigan's HFA provides:

> **Structure of Assistance:** Partners will be responsible for property acquisition (if applicable), demolition work and on-going property maintenance.
> Partners will submit to [the state HFA] the following for each demolition candidate:
> - property ownership and/or acquisition costs;
> - pre demolition inspection with photos and post demolition inspection with photos, third party environmental demolition inspection (including asbestos information), report providing proof of completion
> - Any other miscellaneous information identified on property to include hazards, adverse findings, etc.

One state HFA official told SIGTARP that the detail on the selection of properties for demolition is driven from that city or county/land bank/non-profit/for-profit partner based on their strategic plan.

SIGTARP found that the city or county/land bank/non-profit/for-profit partners, not the state HFAs that contract with Treasury, make the following decisions under HHF:

- selection of neighborhoods for demolition;
- selection of how much of the vacant residential properties in those neighborhoods should be demolished;
- selection of the specific properties to be demolished;
- determination of applicable Federal and state laws and regulations;

[6] While Treasury's contract with Michigan states that a partner can be a non-profit or for-profit organization, Treasury's contract with Ohio states that a partner can only be a land bank.
[7] Treasury's Blight Elimination Program represents a significant shift by Treasury in who makes decisions under HHF. Previously, state HFAs determined which homeowners would receive HHF assistance and paid that TARP assistance to the homeowners' mortgage servicer.

- whether to conduct environmental studies and determining the presence of any asbestos;
- selection of engineering firms and asbestos-removal contractors necessary to comply with applicable laws and regulations, and contracting with those firms;
- selection of demolition contractors, greening contractors, maintenance contractors, and contracting with those vendors; and
- completion of the work as required under the contract.

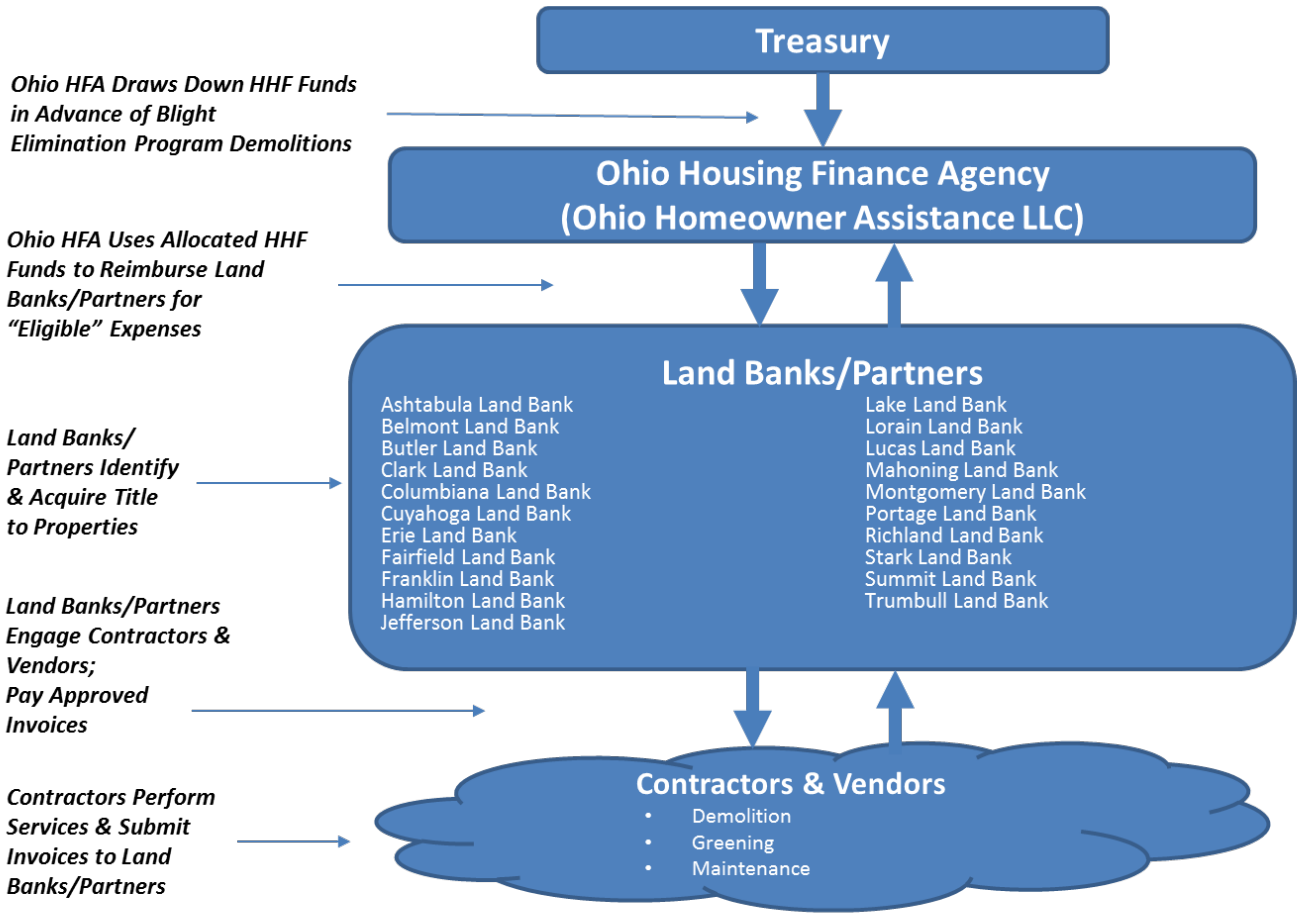
Treasury does not know the outcome of these decisions. Treasury does not know the important blight elimination strategies and decisions being employed by city or county/land bank/non-profit/for-profit partners. Treasury does not require the state HFAs to report meaningful data on the identity of the partners, their subcontractors, and the blight elimination activities being paid for with TARP dollars. According to an Indiana official, they are not currently sharing any contracting information with Treasury. The Indiana official told SIGTARP: "Again, if – when Treasury asks for that, we will provide it."

SIGTARP found that Treasury's HHF Blight Elimination Program is designed for state HFAs to pay TARP dollars to partners including city or county land banks, non-profit organizations, and in some instances for-profit organizations, whose identities are unknown to Treasury, for HHF blight elimination activities

Treasury's contracts with state HFAs specifically contemplate the payment of TARP funds to the city or county/land bank/non-profit/for-profit partners for HHF blight elimination activities. For example, Treasury's contract with Michigan provides that upon receipt of documentation, the state HFA "will provide Hardest Hit funding to Partner ….Total assistance will provide for payoff of any existing lien (if applicable), demolition costs, a $500 one-time project management fee, and $750 maintenance fee to cover maintenance of property." The city or county/land bank/non-profit/for-profit partner would then use these TARP funds to pay contractors for the demolition activities.

SIGTARP found that TARP's HHF Blight Elimination Program allows for Federal bailout dollars to be funneled for payments through multiple layers of recipients whose identities also are unknown to Treasury. Because of these layer-upon-layer transactions, some of which are not public and are not maintained in one place, or by Treasury, it is difficult to follow the flow of TARP dollars. However, to illustrate the flow of TARP funds through different layers for HHF blight elimination activity, SIGTARP created the following chart:

FIGURE 1
OHIO HHF BLIGHT ELIMINATION PROGRAM



Source: SIGTARP-prepared chart based on interviews with and documentation provided by the Ohio HFA.

Treasury has very limited knowledge and is not keeping itself informed or gaining insight of critical activities taking place under HHF blight elimination being paid for with TARP dollars

Treasury does not know the strategies and decisions being made by the city or county/land bank/non-profit/for-profit partners on how to execute blight elimination under HHF. Treasury does not know the strategies being employed by the city or county/land bank/non-profit/for-profit partners to conduct HHF blight elimination activity such as demolition and greening. Treasury does not know the neighborhoods selected by the city or county/land bank/non-profit/for-profit partner for HHF blight elimination or the strategy behind the selection of the neighborhoods. Treasury does not know the strategy of how many homes should be demolished in each neighborhood. Treasury does not know the properties selected for HHF demolition or the strategy behind that selection. Treasury does not get involved in, or have knowledge of, the selection or approval of properties before or after they are demolished. Treasury does not know the addresses or zip codes of demolitions under HHF. Treasury has very few reporting requirements for state HFAs and no reporting requirements for the city or county/land bank/non-profit/for-profit partner. Treasury requires very little reporting on demolition activity, only requiring states to report the number of properties demolished; the number scheduled waiting to be demolished; the number of applications for demolition; the aggregate dollars spent; and median cost of property acquisition, demolition, and greening.

Treasury is not keeping itself informed or monitoring critical HHF blight elimination activities by the city or county/land bank/non-profit/for-profit partners being paid for with TARP dollars. Treasury does not require a detailed accounting on how the TARP funds are spent on blight elimination. Treasury does not know the aggregate number or dollar value of demolition, greening, or other awarded contracts and subcontracts under HHF for blight elimination. Treasury does not know the details of those contracts or subcontracts or even the recipients. SIGTARP found that Treasury does not collect, maintain, or review the contracts for demolition, greening, and maintenance. Treasury's HHF Program Director told SIGTARP that contract awards are "the state's business."

However, officials from the two state HFAs that have reported to Treasury that they have started demolitions under HHF (Michigan and Ohio) told SIGTARP that they do not collect the contracts and subcontracts. An official from Ohio's HFA told SIGTARP that the Ohio HFA "does not collect all documentation pertaining to current and future contracts for the local land banks. We require thorough support documentation, including invoices and proof of payment, for all expenses that are reimbursed with HHF funds." In another example, the Michigan HFA told SIGTARP that it does not monitor or approve the contracts or even have a listing of the contractors that their land banks/other partners have entered into with external entities.

In other words, Treasury does not have or monitor the contracts and subcontracts for blight elimination activity for which TARP funds are the source of payment, and neither do the states. Treasury and state HFA officials told SIGTARP that would require going to each individual partner to obtain the listing of contracts and subcontracts. However, Treasury and the state HFAs do not do that.

Greater knowledge and insight by Treasury of the participants, strategies, decisions, blight elimination activities, and expenditures in HHF blight elimination activities do not take away a state's ability to tailor local solutions – the opposite is true

Unlike other blight elimination dollars these states may receive, TARP funds provided by Treasury are not grant funds, and this is not a grant program. Greater knowledge and insight by Treasury of the participants in HHF demolition activities, strategies, and decisions, blight elimination activity, and expenditures do not take away a state's ability to tailor local solutions. The opposite is true. Treasury's role as a steward of TARP is more than about money. These states that are still struggling from the crisis need Treasury's involvement and full support.

These states are already used to providing a detailed accounting and other information on their partners and expenditures related to blight elimination activity. For example, Michigan's HFA is required to provide the state legislature with quarterly reporting on demolition projects including, at a minimum, a description of the project areas selected and a complete accounting of all expenditures. Michigan's HFA's quarterly reporting to the state provides an aggregate accounting as well as identifies every partner (land bank and others), the award amount, and the status of the contract, whether work was initiated, and how much had been invoiced. Michigan's HFA's quarterly reporting to the state identifies the neighborhoods selected for blight elimination and provides detailed maps of those neighborhoods identifying properties demolished. In a November 27, 2013 report, Michigan Land Bank informed the state legislature that HHF demolitions would be scheduled in the same neighborhoods as a state blight elimination program. In addition, some of the land banks are putting property addresses of all properties demolished under HHF on their website. If there is no harm in the public seeing them, then there is no harm in Treasury seeing them.

Treasury Takes a Hands-Off Approach to the HHF Blight Elimination Program and Has Very Limited Involvement in the Planning or Execution of the Program

SIGTARP found that Treasury takes a hands-off approach to the HHF Blight Elimination Program and has very limited involvement in the planning or execution of the program. Treasury has not conducted comprehensive planning that could ensure the success of blight elimination under HHF, ensure that TARP funds are spent in the most effective manner, and protect HHF against the risk of fraud, waste, and abuse.

Treasury has not set target outcomes that it wants to achieve with HHF to meet the TARP goals, instead deferring to each state HFA to set the target outcome. In April 2012, SIGTARP reported that Treasury's goals and metrics for the HHF program fall short of those used in best practices and make effective program evaluation and oversight difficult. HHF is a program that has faced difficulties in reaching the intended number of homeowners. SIGTARP reported in April 2012 that HHF has experienced significant delays in providing help to homeowners due to several factors, including a lack of comprehensive planning by Treasury and a delay in participation by large mortgage servicers, and Fannie Mae and Freddie Mac, resulting in HHF helping only 30,640 homeowners after two years. Treasury rejected SIGTARP's 2012 recommendations that Treasury set measurable program goals (target outcomes), measure progress against those goals, and make changes needed to the program to reach those goals.

Homeowners have suffered from Treasury's rejection of SIGTARP's recommendations to set target outcomes, measure progress and work to reach those outcomes. Treasury required participating HHF states to estimate the number of homeowners to be helped by HHF in each state, but did not set a target outcome of how many homeowners Treasury wanted to help. As a result, there is no baseline by which to measure progress. A lack of a baseline does not allow Treasury to escape accountability. With Treasury not setting a target outcome, such as the aggregate number of homeowners Treasury wants to help with HHF, the 19 jurisdictions have collectively reduced by nearly half (44%) the number of homeowners estimated to be helped with HHF (from 546,562 homeowners in 2011 to 303,386 homeowners, as of September 30, 2014).

Treasury has lost opportunities in HHF that began with its failure to set a target outcome for the program. Treasury is responsible for HHF not helping as many people as Treasury had expected. If Treasury had worked with each state to set a realistic target outcome of the number of homeowners to be helped in each state, and rolled the number of homeowners into a Treasury target, Treasury could have measured against the target and gained better insight into which states were not meeting their portion of the target. This insight could have shown Treasury which states needed Treasury's help and resources, or where improvements could have been made.

Treasury is continuing on its same path for the HHF Blight Elimination Program.

Treasury has not conducted comprehensive planning that could ensure the success of the program, that TARP funds are spent in the most effective manner and are protected against the risk of fraud, waste, and abuse

SIGTARP found that Treasury has not engaged in comprehensive planning for HHF blight elimination that could ensure the success of the program, ensure that TARP funds are spent in the most effective manner, and protect HHF against the risk of fraud, waste, and abuse. Treasury has left much of the planning to the state HFAs, which in turn have left much of the planning to the city or county/land bank/non-profit/for-profit partners. Treasury's only goals are the high-level goals to stabilize neighborhoods and decrease foreclosures, which tie to the goals in the TARP law. However, Treasury has not established what it expects to see from HHF's Blight Elimination Program to ensure that the program reaches those high-level goals.

SIGTARP recognizes the challenge of using a Federal program to offer local solutions administered by state agencies and Treasury's desire to give states flexibility because the states know best about their problems. However, flexibility should not mean free rein. Comprehensive planning to ensure that Federal interests and state interests align can mitigate this challenge. The first part of mitigating this challenge is for Treasury to identify its Federal interests to the states in the form of Treasury-defined target outcomes, rather than let the states or anyone else determine the desired outcome for a TARP program.

Treasury has not set target outcomes that it wants the HHF Blight Elimination Program to achieve in order for Treasury to ensure that it will meet the high-level goals of stabilized neighborhoods and decreased foreclosures, instead deferring to each individual state to set the target outcome

SIGTARP found that Treasury has not set target outcomes that it wants the HHF Blight Elimination Program to achieve in order for Treasury to ensure that it will meet the high-level goals of stabilized neighborhoods and decreased foreclosures, instead deferring to each state HFA to set the target outcome. Treasury needs to determine the target outcomes it wants to achieve with the HHF Blight Elimination Program to ensure that the program results in stabilized neighborhoods and decreased foreclosures; however, Treasury has not done that. Treasury's HHF Program Director told SIGTARP that Treasury left it up to the states to tell Treasury what the states would point to as showing that TARP funds went to stabilize neighborhoods and decrease foreclosures. Treasury's HHF Program Director told SIGTARP that it is incumbent on the states "to develop their own means or metrics that will point to success of the program." Treasury asking states to measure progress toward success is not the same thing as asking states to define success.

SIGTARP found that the HHF Blight Elimination Program is designed so that the city or county/land bank/non-profit/for-profit partners are responsible for defining the target outcome and measuring their own progress towards that outcome. Treasury's contracts with several states on blight specifically reference the states will develop performance indicators in connection with the city or county level partners.[8] Performance indicators measuring progress are not the same thing as defining what targeted outcome is necessary to ensure that the HHF Blight Elimination Program successfully achieves stabilized home prices and decreased foreclosures. Treasury is relying on the states to set target outcomes. However, the state HFAs that SIGTARP interviewed are not actually setting target outcomes, but instead deferring to the city or county/land bank/non-profit/for-profit partners. For example, two state HFAs told SIGTARP that they do not have target outcomes, but are deferring to the city or county land banks.

Flexibility of states to offer locally tailored solutions should not mean that states or city or county/land bank/non-profit/for-profit partners set the target outcome of a Federal TARP program. It is one thing to have the states and the city or county land banks or other partners measure their own success against Treasury's target outcome, but states, cities, and counties should not define what level of success is expected for a TARP program to achieve the high-level TARP goals. That is

[8] While the Ohio contract excludes working with partners to develop performance indicators, an official told SIGTARP the Ohio HFA expects to develop indicators at a later time.

Treasury's responsibility under TARP law and as the Federal department administering TARP. If Treasury does not set a target outcome for HHF blight elimination, it is leaving the success of a TARP program to chance. This leads to a lack of accountability at the city or county level, state level, and Treasury level.

Treasury-defined target outcomes that Treasury expects to achieve do not take away the flexibility of states, but instead give insight for Treasury and the states into whether improvements can be made to make the HHF Blight Elimination Program more effective as the program progresses

With only three states underway with demolition, and two of those states having just started, Treasury has an opportunity right now to increase the effectiveness of the program by setting target outcomes that will give it and each state insight into whether the HHF Blight Elimination Program in each state is on track for success and whether improvements can be made to make the program more effective as the program progresses. However, that opportunity will diminish with time, given the fast pace of demolition activity.[9] If Treasury sets target outcomes now, Treasury and the states would then have something to measure progress against to determine if each state is on track.

Treasury's desire for the states to have flexibility should not prevent Treasury from doing all that it can to help these states ensure that HHF demolition successfully stabilizes neighborhoods and decreases foreclosures. Treasury establishing target outcomes does not take away a state's flexibility to tailor a local solution as is Treasury's desire with HHF, but helps states find areas where local objectives are aligned with the goals of TARP.

State HFA officials from Michigan and Ohio told SIGTARP that the only goal Treasury has given them is to have the HHF blight money spent by December 31, 2017. Spending the available TARP money should not be Treasury's end goal.

This type of comprehensive planning is not new to Treasury and is a recognized best practice for the Federal Government that does not harm a state's ability to tailor local solutions that are aligned with Treasury's target outcomes. Without knowing the target outcomes Treasury wants to achieve beyond spending the money allocated for blight elimination, the states and the city or county land banks or other partners make decisions based on information they have from the state or local interests that have been articulated in their strategic plans. For example, Indiana is the only state in which Treasury included increasing

[9] For example, in the second quarter of 2014, Michigan reported cumulative demolitions of 315 properties, which had increased to 816 the next quarter, and further increased to 1,887 the following quarter.

neighborhood safety as one of its high-level program goals along with stabilizing neighborhoods and decreasing foreclosure in its contract. However, Michigan is using HHF for the high-level policy goal of increasing neighborhood safety. Michigan's HFA also conducts blight elimination activities using $25 million from an Attorney General settlement with mortgage servicers. Under this state blight program called the Neighborhood Stabilization School Anchor Initiative, and a Pathways to Potential Program, the state has articulated its interests "to make students and families stronger and safer by making the surrounding neighborhood safer, reducing truancy, and offering better and more integrated services." Michigan Land Bank states that this program's goal is to provide safer routes to and from school for children. With that state interest in mind, Michigan's HFA identified properties to be demolished focusing on neighborhoods surrounding specific schools. On August 28, 2013, Michigan Land Bank reported to its state legislature that it would use Federal HHF funds to demolish properties in the same neighborhoods by schools selected in the state program. Given that Treasury has not defined Federal interests and targeted outcomes specific to blight elimination, the Michigan HFA appears to have used the state's interest of protecting student safety in selecting neighborhoods for HHF demolition. But demolition in these neighborhoods may or may not decrease foreclosures at an expected level because that is not the primary goal. Knowing the target outcomes that Treasury is trying to achieve provides a framework for states and cities or counties to make choices that are locally tailored, and are also consistent with Federal objectives.

Treasury could use its resources and expertise on economic outcomes in consultation with each state to set Treasury-defined target outcomes that are realistic for that state

Treasury could use its own resources and expertise on economic outcomes in consultation with each of the six participating states to help Treasury set target outcomes that are realistic for that state. Some potential target outcomes that Treasury could set using its own expertise and resources and after consulting with states to gain insight as to whether HHF blight elimination is on track for success in each city or county or whether improvements could be made are:

- target level of decrease in foreclosures overall for cities and states;
- target decrease in vacancy rates in targeted neighborhoods, cities, and states;
- target level of increases in home values in targeted neighborhoods, cities, and states;

- target reduction in the percentage of properties with negative equity in targeted neighborhoods, cities, and states; and
- target reduction in crime rates in targeted neighborhoods, cities, and states.[10]

Treasury cannot assume that any amount of demolition of vacant properties in any area of the city or county will result in stabilized home prices and decreased foreclosures. For example, prior to agreeing to allow Michigan to use HHF funds for blight elimination, Treasury's Economic Policy group conducted an economic analysis to estimate the stabilization of home prices and decrease in foreclosures that would come from demolitions in the City of Detroit, and that analysis assumed that the impact would only be felt within a 200-foot radius of the demolished property. Additionally, the Government Accountability Office reported that officials in Las Vegas, Nevada, and the surrounding areas told GAO that they were able to acquire a few hundred properties with HUD grant funds for blight elimination, as of June 2011, but that this number was not enough to stabilize the neighborhood.[11]

Without establishing target outcomes for each state (in consultation with each state), Treasury will not be able to determine which states need Treasury's help or additional oversight to ensure that the HHF Blight Elimination Program is on track for success. Even if some of these six state HFAs have experience with blight elimination, and local expertise, they do not have the level of expertise and resources of Treasury on economic outcomes. Officials from the three state HFAs told SIGTARP that they do not have an economic analysis to serve as a baseline by which they make demolition decisions. For example, a Michigan HFA official told SIGTARP that HFA officials have not conducted an economic analysis. Michigan's HFA also told SIGTARP that Treasury has not shared its economic analysis on the impact of demolitions in Detroit with Michigan's HFA. This is a perfect example of where Treasury could use its significant resources and expertise in consultation with those states to ensure the success of the program.

If Treasury, through its Economic Policy group, can conduct an economic analysis to determine the target outcome of HHF demolition for one city, it can conduct them for others. Treasury could combine its expertise and resources with the states to conduct economic analyses that lead to Treasury setting realistic target outcomes that the states can work toward achieving.

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[10] Treasury may have other targeted outcomes it wants to achieve such as a certain number of contracts awarded with best value or low cost, timeliness of the demolition and greening work, demolition in low-income or middle-income neighborhoods, demolition in neighborhoods with senior citizens, and demolition in certain areas with high crime or drug rates.

[11] See GAO audit report (GAO-12-34), "Vacant Properties: Growing Number Increases Communities' Costs and Challenges," issued November 2011.

The economic analysis that Treasury already conducted for Detroit provides a baseline for Treasury to develop its target outcome. An initial analysis, such as an economic analysis, used in making investment decisions helps identify the possible outcomes to success as well as helps to establish baseline information for measuring success. Treasury's Economic Policy group's analysis stated that Treasury could find no academic research that links the prevalence of vacant properties directly to changes in the foreclosure probabilities of nearby properties. Treasury determined that the price impact of blight reduction affects homes within an approximate 200-foot radius of the property. Treasury estimated that demolishing a vacant house and greening the lot in Detroit would lower the default probability of nearby properties by between 0.7 and 1.7 percentage points on average with likely impact on foreclosure rates toward the 1.7 percentage point end.

Just as it did for Detroit, Treasury could estimate a decrease in foreclosure rates that it expects to see in each city or county with the HHF Blight Elimination Program and use that to set its target outcome. Treasury can do that through its Economic Policy group as it did with Detroit or by combining the resources and expertise of Treasury's team with the local knowledge of the state HFAs and the city or county/land bank/non-profit/for-profit partners that are developing the strategies in HHF blight elimination.

A Treasury-defined target outcome would give Treasury and the states immediate and ongoing insight into ways to improve the effectiveness of HHF blight elimination as the program progresses. One example might be that if Treasury's overarching goal is to stabilize home prices in an effort to halt foreclosures, then one baseline Federal goal could be that home prices are stabilized within a 200-foot radius of each blighted property. Officials from three state HFAs told SIGTARP that they were not aware of Treasury's economic analysis. Therefore, all six states participating in HHF blight elimination may not know about Treasury's assumption of the 200-foot radius progress on home prices. The city or county land banks determine the strategies of which neighborhoods they hope to impact. However, they may be picking homes for demolition in that neighborhood that are outside or on the edge of the 200-foot radius, which may not be as effective on stabilizing home prices and decreasing foreclosures as other homes.

An economic analysis that establishes target outcomes also helps Treasury make investment decisions. Treasury's economic analysis that it conducted prior to making the decision to allocate HHF funds for blight elimination determined that demolishing a vacant home and greening the lot in Detroit would lower the default probability of nearby properties by between 0.7 and 1.7 percentage points on average. If Treasury has a target reduction of foreclosure or increased home values, and shared that with the states, the states could select properties for demolition that may be more likely to meet that target and also further local objectives. Sharing the analysis with Michigan could change the way Michigan selects locations. As of December 31, 2014, Michigan has demolished 1,887 properties and it is not known to what extent these properties fall within or outside this 200-foot radius; and Treasury may have missed an opportunity to ensure program success.

Neither Treasury nor the state HFAs have developed performance indicators or are measuring the impact of demolition, which decreases Treasury's ability to see areas for improvement to ensure effective use of TARP dollars and success in TARP goals

SIGTARP found that neither Treasury nor the state HFAs have developed performance indicators to measure whether the strategies, decisions, and activities under HHF blight elimination will result in stabilized neighborhoods and decreased foreclosures. Treasury's HHF Program Director told SIGTARP that if Treasury is seeing things within HHF numbers that are presented to Treasury that look like they are not where Treasury would like them to be, Treasury would reach out to the states. With blight elimination, Treasury is only requiring limited reporting on the number of properties demolished, and the median cost, so it is unclear in that context where Treasury would like the states to be. A Treasury-defined target outcome means that states do not have to guess where Treasury would like them to be.

Treasury's contracts provide that the state HFAs will develop performance indicators and measure progress; however, states are deferring to city or county/land bank/non-profit/for-profit partners. While Treasury's contracts with states say: "[the state housing finance authority] will work with program partners to identify meaningful indicators that will enable them to track and quantify the Blight Elimination Program's impact in the designated communities," state HFAs are deferring to city or county/land bank/non-profit/for-profit partners to set performance indicators.[12] A Michigan HFA official told SIGTARP that "lenders in the community have their specific targets."

The states should develop performance indicators at the start of the program so that performance can be measured as the program progresses, but that has not happened. Michigan, Ohio, and Indiana HFA officials told SIGTARP that the program is too new to identify metrics and performance indicators to measure program effectiveness. For example, one state HFA official told SIGTARP that "it is something that we are set up to do once we're further into the program."

[12] While the Ohio contract excludes working with partners to develop performance indicators, an official told SIGTARP the Ohio HFA expects to develop indicators at a later time.

Officials from Treasury and state HFAs told SIGTARP that impact cannot be measured for a long time, possibly until after the program closes. A Michigan HFA official told SIGTARP that measurement of the impact would be conducted post program.

Treasury is aware that the states have not established performance indicators and are not measuring progress of the impact of HHF blight elimination activities. Treasury does not require that state HFAs currently report on progress toward target outcomes or even Treasury's high-level goal of stabilizing neighborhoods and decreasing foreclosures. The current state HFA quarterly reporting does not provide insight as to whether the properties selected for demolition are within a radius, range, or zip code of homeowners struggling to preserve their homes and, therefore, will reduce the likelihood of foreclosures. Treasury does not require state HFAs to report on the number of foreclosures or neighborhood stabilization information.

Treasury does not know when it would require states to develop performance indicators or report on those performance indicators. A Treasury official told SIGTARP that the states will design their own reports to Treasury and will not provide those to Treasury "until the program is further seasoned." When asked at what point Treasury will consider the program "seasoned," Treasury's HHF Program Director told SIGTARP that Treasury would have to work with the state on that. Treasury's HHF Program Director told SIGTARP that she did not know in the time that Treasury's HHF program was around that Treasury would see increases in property values. If this is a target outcome that Treasury considers important, then it should make that apparent to the states and set a target for the increase.

While certain indicators of the impact of HHF blight elimination (in combination with other factors) may take time to measure the progress, others do not. For example, if Treasury set a target decrease in foreclosures, two performance indicators that could measure progress could be a specified decrease in mortgage defaults and foreclosure filings in each targeted city or county where HHF blight elimination is conducted, aggregated by state. Without Treasury establishing a target outcome, it is not clear whether Treasury would claim that any decrease in the state foreclosure filings means that blight elimination was successful, even if there were no decreases in the default rate or foreclosure filings of cities or counties that had HHF demolition. A zero or very low decrease in the default rate of foreclosure filings of cities or counties that had HHF demolition might indicate that the strategies used by the city or county/land bank/non-profit/for-profit partners in choosing properties or neighborhoods may not be as effective as they should be.

In addition, home values are measured by other entities on an interim basis such as by local tax authorities that assess home values on an annual basis. If Treasury set a target increase in home value, states could set performance indicators including measuring the price of home sales on an ongoing basis, measuring home values as determined by local tax authorities annually, and by measuring the number of short sales. No improvement in these indicators within a set period of time might indicate that the strategies used by the city or county/land bank/non-profit/for-profit partners in choosing properties or neighborhoods may not be as effective as they should be.

Tracking the impact of HHF blight elimination on a periodic basis would allow Treasury and the state HFAs to give guidance to the city and county land banks that could allow for a greater economic impact. By keeping itself in the dark, and having little involvement in strategic decisions on blight elimination, Treasury misses an opportunity to help states and cities or counties develop a strategy that has the most effective use of HHF dollars and the best chance for success.

Treasury is also missing an opportunity as it oversees blight elimination in all six states to provide guidance on best practices or lessons learned to ensure the most effective use of HHF for blight elimination. Instead, Treasury appears to leave sharing of information to the states themselves. State HFAs are trying to talk to each other. Treasury's principal role is to review the state's proposal. After agreeing to a two- to three-page term sheet with limited requirements, Treasury listens in on calls set up by the states. Treasury should not be reactive and wait as a resource. Treasury should be proactive in providing this program and each state all of its resources. Treasury issuing guidance including best practices would not take away a state's ability to create locally tailored approaches. A GAO report stated that HUD helps local officials adjust their strategy so that grant spending on blight elimination would be used in the most effective manner.[13] HUD also provides guidance on contracting. Treasury should be doing even more than HUD because HHF is not a grant program.

SIGTARP found that the HHF Blight Elimination Program is designed so that the city or county/land bank/non-profit/for-profit partners are responsible for measuring progress. In other words, Treasury is allowing the city and county land banks to measure their own success. As currently envisioned, that may not be until the program ends. In addition to concerns over how this leads to a lack of accountability at a Federal, state, and local level, without that measurement,

[13] GAO issued a report (GAO-12-34) in November 2011, "Vacant Properties: Growing Number Increases Communities' Costs and Challenges," in which it stated that officials in two localities reported that the technical assistance they received from HUD helped fill gaps in their capacity to develop systems to implement Neighborhood Stabilization Program ("NSP") projects. GAO reported that a HUD official explained how the agency's technical assistance has helped local officials analyze their local markets and adjust their strategies for spending NSP funds on programs that would be most effective. HUD also revised its NSP technical assistance efforts to target spending better to communities that need it the most and developed Web-based resources for all NSP grantees.

Treasury could lose opportunities to ensure the success of the program through improvements.

Although Treasury should have developed its target outcomes at the beginning of the program in 2013, it is not too late for Treasury to do so now, particularly as only three of the six states have started demolishing properties. It is also not too early for states to develop performance indicators.

Treasury Has Not Taken a Risk-Based Approach To Identify and Mitigate Risks that Could Form Barriers to the Most Effective Use of TARP Funds for Demolition Activity or Could Lead to Fraud, Waste, and Abuse

The design of the HHF Blight Elimination Program that places much of the control and decision making in the hands of city or county land banks and other partners far removed from Treasury, which conduct work through contractors removed even farther from Treasury, produces certain risks that Treasury should assess and mitigate through comprehensive planning.

Treasury's oversight is impacted by state HFAs being in the dark on Blight Elimination Program activities being conducted by their land banks and other partners

SIGTARP found that Treasury's ability to conduct oversight of TARP's HHF Blight Elimination Program could be directly impacted by Treasury's and the state HFAs' lack of knowledge of the program executed by their land banks and other partners. Treasury's hands-off approach and design of the HHF Blight Elimination Program, which allow the state HFAs to put much of the decision making and actual blight elimination activities in the hands of external partners, necessitate that HFAs have an effective system of internal control to minimize the risk of fraud, mitigate conflicts of interest, maximize operational efficiency and effectiveness, and ensure effective delivery of services. This is especially true given the layer-upon-layer transactions involved with executing the HHF blight elimination activities and Treasury's lack of knowledge and involvement over these activities.

Not only does Treasury not collect all of the contracts for blight elimination activities under HHF, officials from the two state HFAs that have reported to Treasury that they have started demolition under HHF (Michigan and Ohio) told SIGTARP that they do not collect the contracts, either. Michigan's HFA does not monitor the contracts that the land banks or other partners have for blight elimination activities under HHF or even has a listing of the contractors.

In addition, costs associated with demolition projects vary depending upon the scope of work necessary for successful acquisition, demolition, and disposition of eligible sites. For example, the Ohio HFA Compliance and Neighborhood Initiative Program Manager told SIGTARP that each demolition project is "likely to involve dozens of organizations including municipal subdivisions, sellers, closing agents, title searchers, structural inspectors, trash collectors, environmental inspectors, asbestos abatement workers, demolition contractors, site surveyors, landscapers, groundskeepers, maintenance workers, and administrative support services." The HFAs approve reimbursement for the delivery of these services based on invoices and receipts and other documentation that have been passed on to them by their land banks and other partners through their external partners. This pass-through arrangement increases the importance of the HFAs having the contracts on hand when approving invoices and receipts for the delivery of demolition services under the HHF program.

State HFAs must make necessary adjustments to their existing HHF oversight and internal controls, as required under their contracts with Treasury, to ensure TARP funds are used as intended. By not collecting the subcontracts being paid for with TARP funds, state HFAs are entirely dependent on the city or county/land bank/non-profit/for-profit partners' representations. Because of the design of this layering of transactions, maintaining the contracts for these services at the state and Federal levels would reduce vulnerabilities.[14] Treasury's shift in the use of TARP funds under the HHF Blight Elimination Program necessitates guidance from Treasury to the participating six states about changes needed to their existing HHF oversight and internal controls in order to reduce vulnerabilities specific to blight elimination.

Treasury has an oversight responsibility to ensure that the state HFAs, and their city- or county-level partners, are ready for, and can handle, increases in demolition and other work contemplated under HHF

One of the risks that Treasury has already experienced with HHF is that the state HFAs did not have the resources, staffing, training, and knowledge to implement HHF, which led to significant delays in getting help to homeowners. Even if some of these six state HFAs (Alabama, Ohio, Illinois, Indiana, Michigan, and South Carolina) have experience with blight elimination, the TARP funds allocated for blight elimination will likely result in a significant increase in the amount of blight elimination activities these states and cities have conducted. An Indiana HFA official told SIGTARP that there has never been a program like this in Indiana.

Part of Treasury's oversight responsibility is to ensure that these six state HFAs, and their city- or county-level local partners, are ready for, and can effectively handle, this increase. TARP funds will significantly increase the number of

[14] Some vulnerabilities could include improper contract awards, payment for non-performance of services, inflated costs for services, double billing, improper performance of services such as lead or asbestos removal, use of disbarred contractors to perform services, and non-compliance with applicable laws including those related to the environment and historic preservation, among other things.

demolition jobs that will go through the city- or county-level entity that is making most of the decisions and conducting the activity for which they will invoice the state HFAs to be paid with TARP money. While Treasury is supposed to conduct an assessment to see if each state HFA is ready to execute HHF, Treasury does not update that assessment with each new program. Treasury has not assessed readiness specific to blight elimination at the state or city/county level.

Treasury should learn the identities of the city or county/land bank/non-profit/for-profit partners, and conduct oversight to ensure that they have the staffing, knowledge, experience, and training to handle the level of contracting and demolition and other blight activities required under this TARP program. HUD Office of Inspector General ("OIG") has issued several reports on blight elimination using a HUD grant program, including risks caused by a city unable to handle the increase in work that came with Federal blight elimination dollars. In January 2014, HUD OIG issued a report finding weaknesses with the City of Detroit.[15] HUD OIG reported that a former city official stated that the number of demolition jobs increased by approximately 600% after the city was awarded program funds. The city allocated $19.9 million of these Federal grant funds for blight elimination. HUD OIG reported that the former city official stated that the city's Building Department was not structured, and its staff did not have the necessary knowledge, experience, and training to handle the increase in demolition jobs. It is unknown whether this same entity is involved with the TARP-funded demolitions; however, the problem could reside with any entity. If an entity (state or city/county level) cannot handle the increase in demolition jobs that came from HUD funding, they may not be able to handle the increase that comes from TARP funding. However, Treasury will not know that if it has no insight.

By allowing itself to be in the dark, Treasury has created a TARP program with very little transparency to Treasury and to the public, which could impact risk

By allowing itself to be in the dark, Treasury has created a program with very limited transparency to itself and to the public, which could impact risk. Although Treasury in its public statements has heralded transparency in TARP programs, SIGTARP found that Treasury has failed to provide adequate

[15] HUD OIG-2014-CH-1002, "The City of Detroit, MI, Lacked Adequate Controls Over Its Neighborhood Stabilization Program-Funded Demolition Activities Under the Housing and Economic Recovery Act of 2008," 1/6/2014.

transparency to the public about the HHF Blight Elimination Program.[16]
It should be no surprise, given Treasury's lack of knowledge about even the identity of the city and county land banks, or involvement on the blight elimination paid for with TARP dollars, that there is very little transparency for any taxpayer to understand where and how the TARP dollars are being used for blight elimination. Treasury does not require transparency to itself or to the public on the identity of the city or county/land bank/non-profit/for-profit partners, which the state HFAs are partnering with for blight elimination activities.[17] Treasury does not require transparency to itself or to the public on the contractors and subcontractors who are performing the blight elimination services, the contracts and subcontracts that the HFAs and their partners have awarded for these services, the dollar values of those contracts, program expenditures, or the properties selected for demolition. Treasury does not require the states to report such information, which could impact risk.

To understand the detailed status of HHF blight elimination actors and activities, Treasury, oversight bodies such as SIGTARP, and taxpayers would need to hunt through various websites to piece together information and guess at the identity of each of the land banks or other designated program partners. Treasury's website has very limited information on blight activity. State HFA websites have incomplete information, without meaningful data on HHF partners, the contracts awarded, the properties removed, and how much is spent on these contracting activities. Treasury does not require the state HFAs to report this information to Treasury or the public. Some land banks have no website.[18] The information that is available on land bank websites varies, with some land bank websites providing

[16] Treasury's website on TARP currently includes a section titled: "Home/Initiatives/Financial Stability/TARP Programs/Housing/Transparency," which stresses its efforts put in place "[t]o ensure that Treasury's housing programs operate in full view of the public…." Reiterating the importance of this transparency, Treasury included similar language in its retrospective reports on TARP. Particularly, Treasury's Four Year Retrospective Report, issued in March 2013, states: "Treasury is committed to making sure that every TARP program is operating at the highest standards of transparency and accountability. This includes providing regular and comprehensive information about how TARP funds are being spent, who has received them and on what terms, and how much has been recovered to date." The report included: "Treasury is equally committed to ensuring that TARP's housing initiatives are being implemented to the highest level of transparency." In that report, Treasury states: "Treasury makes available the latest state-by-state information from HFAs that are administering local programs under the Hardest Hit Fund. Visitors to Treasury's website can also find each state's plan, contract agreements, and their latest quarterly report."

[17] For example, the Michigan HFA and Ohio HFA websites contain a list of partners; however, for Michigan it is unclear whether the partners are specific to the HHF Blight Elimination Program and, for Ohio, the information is not easy to locate.

[18] For example, the land banks for Oakland County (Pontiac) and Saginaw County do not appear to have their own websites.

incomplete information on a very limited and inconsistent basis.[19] Treasury, oversight bodies such as SIGTARP, and taxpayers should not have to engage in a scavenger hunt to obtain details on blight elimination under TARP.

Greater transparency would not hurt HHF's approach to find locally tailored solutions. Greater transparency to the public builds trust and empowers taxpayers who fund TARP programs and have a right to transparency in how those funds are spent. Greater transparency allows taxpayers to hold Treasury accountable for how Federal dollars are used and what results they achieve. Greater transparency is required for oversight. As a result of the lack of transparency, it is difficult for Treasury and taxpayers to understand details of HHF Blight Elimination Program decisions, strategies, and activities, making oversight difficult and impacting risk.

[19] For example, the Detroit Land Bank Authority published a current list of addresses approved and demolished in the City of Detroit as of February 2015; the Genesee County Land Bank (Flint) published a similar list of addresses approved and demolished in Flint using HHF funds. By contrast, the Kent County Land Bank (Grand Rapids) appeared to post no information regarding the Blight Elimination Program on its website. Additionally, none of the five land banks posted detailed contracting information (*e.g.*, Requests for Proposals ("RFPs"), bidding tabulations, contracts granted) relating to the use of HHF funds for blight elimination. Taxpayers who knew to separately search the website of the state land bank, the Michigan Land Bank Fast Track Authority, could find a link to yet another website, mlbdemo.us, where they could find actual contract RFPs and bid tabulations for all properties demolished under several demolition programs, including HHF – but only for the cities of Detroit and Pontiac. Similar information regarding HHF Blight Elimination Program activity in the other cities was unavailable.

Conclusion

In order to understand the U.S. Department of the Treasury's ("Treasury") role and responsibility in the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("Hardest Hit Fund," or "HHF") Blight Elimination Program, it is necessary to understand Treasury's role and history under the Troubled Asset Relief Program ("TARP") law and with other TARP programs. While stability of the nation's financial system was the goal of TARP as initially proposed by Treasury, it was not the only worthwhile and necessary purpose or policy goal that Congress requires for Treasury to use TARP funds. Congress requires in the TARP law that the Treasury Secretary use TARP for purposes geared toward, not only the impact of the financial crisis on Wall Street, but on Main Street as well. Congress required in the final TARP law that Treasury use TARP funds to do more than restore stability and liquidity to the financial system, but also to protect home values, life savings, retirement funds, college funds, preserve homeownership, promote jobs and economic growth, and maximize returns to taxpayers. These purposes articulated by Congress in the TARP law are not a list of possible outcomes of TARP programs and investment of TARP dollars, but instead an expectation that Treasury will use TARP programs to achieve these purposes. Treasury's role and responsibility as the steward over TARP has two equally important parts: (1) ensure that the TARP programs are successful in achieving the applicable TARP purposes required in the TARP law; and (2) ensure that TARP programs and funds are used effectively and efficiently and protected from fraud, waste, and abuse.

Throughout TARP's six years of history, Treasury has not waited until the end of a TARP program to measure progress and success toward the goals set out by Congress for TARP, nor has Treasury left achievement of the TARP goals to chance. Instead, Treasury has worked with regulators and others to set target outcomes early on in TARP programs – what Treasury expected to achieve by using TARP funds. These Treasury-defined target outcomes include targeted improvement in capital levels for banks in the Capital Purchase Program ("CPP"),[20] targeted buffer of capital for the largest stress-tested CPP banks,[21] a return to profitability and a target dealership structure for General Motors

[20] See Treasury Press Release, "Statement by Secretary M. Paulson, Jr. on Capital Purchase Program," 10/20/2008; see Treasury Press Release, "Treasury Releases March Monthly Bank Lending Survey," 5/15/2009.

[21] See SIGTARP audit report, "Exiting TARP: Repayments by the Largest Financial Institutions," issued September 29, 2011; see Treasury Press Release, "Treasury Secretary Tim Geithner's Written Testimony for Congressional Oversight Panel," 4/21/2009.

Corporation ("GM") and Chrysler Group LLC ("Chrysler"),[22] targeted restructuring of American International Group ("AIG") including the sale of assets,[23] targeted capital for Ally Financial Inc. ("Ally"), formerly known as General Motors Acceptance Corp. ("GMAC Inc."),[24] and a positive return in CPP.[25]

Treasury did not wait until the end of these TARP programs to measure whether these programs would be successful. Treasury actively measured whether these TARP programs were on track to achieve the goals set out by Congress in the TARP law. Treasury reported publicly and to Congress on that progress.[26]

By measuring and reporting on progress, Treasury gained insight into program results that led to Treasury making changes in TARP programs to make them more effective with the end in mind – restored stability and liquidity, and maximized return to shareholders. This was particularly true for the largest TARP institutions. TARP dollars for the largest TARP institutions came with the full support and active involvement of Treasury to ensure success. Treasury was actively involved after investing initial TARP dollars, taking extraordinary action, as SIGTARP has reported, to support the largest banks, the auto manufacturers,

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[22] See White House Press Release, "Fact Sheet: Financing Assistance to Facilitate the Restructuring of Auto Manufacturers to Attain Financial Viability," 12/19/2008; Treasury Secretary Timothy Geithner Op-Ed: "A rescue worth fueling," 5/31/2011. The op-ed was published on *The Washington Post*'s website 5/31/2011; see SIGTARP audit report, "Factors Affecting the Decisions of General Motors and Chrysler to Reduce Their Dealership Networks," issued July 19, 2010.

[23] See Treasury Press Release, "Treasury to Invest in AIG Restructuring Under the Emergency Economic Stabilization Act," 11/10/2008.

[24] See SIGTARP report, "Taxpayers Continue to Own 74% of GMAC (Rebranded as Ally Financial Inc.) from the TARP Bailouts," issued January 30, 2013; see the Congressional Oversight Panel March Oversight Report, "The Unique Treatment of GMAC Under the TARP," 3/10/2010.

[25] See Treasury Press Release, "Written Testimony of Herbert M. Allison, Jr., Assistant Secretary for Financial Stability Domestic Policy Subcommittee of the Oversight and Government Reform Committee," 12/17/2009.

[26] See Treasury's Monthly Report to Congress, "United States Department of the Treasury Section 105(a) Troubled Asset Relief Program Report to Congress for the Period December 1, 2008 to December 31, 2008," 1/6/2009; Testimony of Treasury Secretary Timothy F. Geithner before the Congressional Oversight Panel, 12/10/2009, www.gpo.gov/fdsys/pkg/CHRG-111shrg55245/pdf/CHRG-111shrg55245.pdf, accessed 4/8/2015; Treasury Secretary Timothy F. Geithner Op-Ed: "A rescue worth fueling," 5/31/2011. The op-ed was published on *The Washington Post*'s website 5/31/2011; Testimony of Treasury Secretary Timothy F. Geithner before the U.S. House of Representatives Committee on Financial Services, "Oversight of the Federal Government's Intervention at American International Group," 3/24/2009, archives.financialservices.house.gov/media/file/hearings/111/111-20.pdf, accessed 4/8/2015; Testimony of Treasury Secretary Timothy F. Geithner before the U.S. House of Representatives Committee on Oversight and Government Reform, 1/27/2010, http://oversight.house.gov/wp-content/uploads/2012/01/20100127geithner.pdf, accessed 4/8/2015; see Treasury Press Release, "TARP Bank Programs Nearing Profitability after Fifth Third Bancorp Repays $3.4 Billion," 2/2/2011; see Treasury Press Release, "More than 99 Percent of TARP Disbursements to Banks Now Recovered as Six Financial Institutions Deliver Nearly Half Billion Dollars in Proceeds to Taxpayers," 3/16/2011; see Treasury Press Release, "TARP Bank Programs Turn Profit After Three Financial Institutions Repay $7.4 Billion," 3/30/2011.

AIG, and Ally.[27] For example, Treasury made additional TARP investments and agreed to guarantee certain losses for Bank of America Corporation and Citigroup Inc. ("Citigroup"),[28] dedicated a Treasury Auto Team to the restructuring of Chrysler and GM and funded GM's bankruptcy with TARP funds,[29] invested additional TARP funds to purchase Federal Reserve Bank of New York's interest in AIG,[30] converted its preferred stock in Citigroup to common stock to strengthen Citigroup's capital structure,[31] made additional TARP investments and converted its stake in Ally to address capital needs identified in the stress test.[32] When Treasury exited each of these large TARP investments, it reported publicly that the use of TARP funds for these programs successfully achieved the goals in TARP such as stability, liquidity, maximized returns to taxpayers, and the promotion of jobs and economic growth.[33]

[27] See SIGTARP'S Quarterly Report to Congress dated January 28, 2015, "The Legacy of TARP's Bank Bailout Known as the Capital Purchase Program"; see SIGTARP audit report, "Emergency Capital Injections Provided To Support the Viability of Bank of America, Other Major Banks, and the U.S. Financial System," issued October 5, 2009; see SIGTARP audit report, "Extraordinary Financial Assistance Provided to Citigroup, Inc." issued January 13, 2011; see SIGTARP audit report, "Exiting TARP: Repayments by the Largest Financial Institutions," issued September 29, 2011; see SIGTARP audit report, "Factors Affecting the Decisions of General Motors and Chrysler to Reduce their Dealership Networks," issued July 19, 2010; see SIGTARP audit report, "Treasury's Role in the Decision for GM To Provide Pension Payments to Delphi Employees," issued August 15, 2013; see SIGTARP report, "Taxpayers Continue to Own 74% of GMAC (Rebranded as Ally Financial Inc.) from the TARP Bailouts," issued January 30, 2013; see SIGTARP'S Quarterly Report to Congress dated July 25, 2012, "AIG Remains in TARP as the Largest TARP Investment."

[28] See SIGTARP audit report, "Extraordinary Financial Assistance Provided to Citigroup, Inc.," issued January 13, 2011; see Treasury's Monthly Report to Congress, "United States Department of the Treasury Section 105(a) Troubled Asset Relief Program Report to Congress for the Period December 1, 2008 to December 31, 2008," 1/6/2009.

[29] See SIGTARP audit report, "Treasury's Role in the Decision for GM To Provide Pension Payments to Delphi Employees," issued August 15, 2013.

[30] See Treasury Press Release, "Treasury Department Statement on AIG's Transaction Agreement," 12/8/2010.

[31] See SIGTARP audit report, "Extraordinary Financial Assistance Provided to Citigroup, Inc.," issued January 13, 2011; see Treasury Press Release, "Treasury Announces Participation in Citigroup's Exchange Offering," 2/27/2009.

[32] See Treasury Press Release, "Treasury Announces Additional Investment in GMAC LLC," 5/21/2009; see Treasury Press Release, "Treasury Announces Restructuring of Commitment To GMAC," 12/30/2009.

[33] See Treasury Press Release, "Treasury Department Releases Text of Letter from Secretary Geithner to Hill Leadership on Administration's Exit Strategy for TARP," 12/9/2009; see Treasury Press Release, "Treasury Receives $45 Billion Payment from Bank of America," 12/9/2009; Testimony, "Secretary of the Treasury Timothy F. Geithner Written Testimony before the Congressional Oversight Panel," 12/10/2009, www.treasury.gov/press-center/press-releases/Pages/tg437.aspx, accessed 4/10/2015; Treasury Secretary Timothy F. Geithner Op-Ed: "A rescue worth fueling," 5/31/2011. The op-ed was published on *The Washington Post*'s website 5/31/2011; see Treasury Press Release, "Treasury Prices Sale of Citigroup Subordinated Notes for Proceeds of $894 Million, Providing an Additional Profit for Taxpayers on TARP Citigroup Investment," 2/5/2013; see Treasury Press Release, "Treasury Sells Final Shares of GM Common Stock," 12/9/2013; see Treasury's "Four Year Retrospective Report," March 2013, www.treasury.gov/initiatives/financial-stability/reports/Documents/TARP%20Four%20Year%20Retrospective%20Report.pdf; Treasury, "Remarks by Treasury Secretary Jacob J. Lew on Conference Call Highlighting Treasury Sale of Its Entire Ally Financial Stake and the Wind Down of TARP," 12/19/2014; see Treasury Press Release, "Treasury Sells Entire Ally Financial Stake, Taking Total Recovery to $19.6 Billion and Closing Auto Rescue Program," 12/19/2014.

Homeowners who benefit from TARP housing programs deserve no less from Treasury than the largest TARP recipients, and taxpayers who fund TARP deserve Treasury ensuring the success of TARP programs and the most effective use of taxpayer dollars to achieve success. TARP dollars for homeowners should come with the full support of Treasury to ensure a TARP program's success. In the Home Affordable Modification Program ("HAMP"), Treasury has not waited until the end of the program to measure effectiveness and progress toward the TARP goals of protecting home values and preserving homeownership. Treasury has been actively involved measuring progress toward those goals. Treasury set a target outcome in HAMP of helping 3 million to 4 million at-risk homeowners avoid foreclosure by reducing monthly payments to sustainable levels.[34] Each quarter, Treasury measures and publicly reports on its progress toward that target outcome. This has given insight to Treasury that led to Treasury making changes to HAMP mid-program including, among other things, extending three times the deadline for homeowners to apply for HAMP, Treasury engaging in outreach, and Treasury paying counselors to help homeowners submit HAMP applications. In addition, although there is more Treasury can do as SIGTARP has recommended, Treasury has made many changes to HAMP in an effort to increase its effectiveness.

Unlike what Treasury did in HAMP, Treasury did not set a target outcome with the Hardest Hit Fund, which has led to a lack of accountability, lost opportunities to increase the effectiveness of HHF mid-program, and a significant decrease in the number of homeowners who will receive HHF assistance. SIGTARP reported in April 2012 that HHF faced two years of delays in getting help to homeowners because Treasury did not conduct comprehensive planning, such as setting the target outcome, measuring progress, and then making mid-program changes to ensure success.[35]

Treasury rejected SIGTARP's 2012 recommendation that Treasury set measurable program goals, measure progress against those goals, and make changes needed to the program to reach those goals. As a result, homeowners have suffered. Treasury required participating states to estimate the number of homeowners to be helped, but did not set a target outcome of how many homeowners Treasury wanted to help. As a result, there is no baseline to measure progress. A lack of a baseline does not allow Treasury to escape accountability. With Treasury not setting a target outcome, such as the aggregate number of homeowners Treasury wants to help with HHF, the 18 states and the District of Columbia ("19 jurisdictions" or "states") have collectively reduced by nearly half

[34] Treasury later clarified that this meant that 3 million to 4 million homeowners will receive offers for a trial modification. See SIGTARP audit report, "Factors Affecting Implementation of the Home Affordable Modification Program," issued March 25, 2010.
[35] See SIGTARP audit report, "Factors Affecting Implementation of the Hardest Hit Fund Program," issued April 12, 2012.

(44%) with the number of homeowners estimated to be helped, with HHF dropping from 546,562 homeowners in 2011 to 303,386 homeowners, as of September 30, 2014.

Treasury has lost opportunities in HHF. Treasury is responsible for HHF not helping as many people as Treasury had expected. If Treasury had worked with each state's housing finance agency ("HFA") to set a realistic target outcome of the number of homeowners to be helped in each state, and rolled the number of homeowners into a Treasury target, Treasury could have measured against that target and gained better insight into which states were not meeting their portion of the target. This insight could have shown Treasury which states needed Treasury's help and resources, or where improvements could have been made.

Treasury's desire to use TARP's Hardest Hit Fund to seek locally tailored solutions administered by 19 state HFAs does not relieve Treasury of its important responsibilities. The two concepts of Federal responsibility and locally tailored solutions are by no means mutually exclusive. As SIGTARP reported in 2012, a senior Treasury official told SIGTARP: "This is not our program. These are their programs."[36] HHF is not a grant program. It is an investment made by taxpayers nationwide for the nationally important interest in the hardest-hit states.[37] Each state has an interest only in its state and has limited resources. Treasury, not each state, has an interest in leveraging each of the 19 state resources with Treasury resources to provide further relief to states that were unable to help homeowners on their own. More is required of Treasury than dollars. Treasury cannot defer its oversight responsibility to anyone to ensure that HHF progresses in the most effective way to achieve the TARP goals of protecting home values and preserving homeownership. Congress put Treasury in charge of TARP, so Treasury must act to fulfill that responsibility. It cannot do that with limited knowledge and limited involvement.

SIGTARP is not expressing an opinion as to whether the use of TARP funds for blight elimination activity is an appropriate use of TARP funds, just as SIGTARP has not expressed an opinion on whether any TARP investment was appropriate. Just as it has done with other TARP programs, Treasury should not wait until the end of HHF in December 2017 to measure success toward the goals set out by Congress for TARP, nor should Treasury leave achievement of the TARP goals to chance. Homeowners in the hardest-hit states chosen by Treasury deserve every chance of success, as do taxpayers who are funding this blight elimination. Treasury should follow the same pattern with HHF that Treasury has taken in other TARP programs to gain insight, be actively involved, and take action beyond initial TARP dollars to ensure the TARP funds are used effectively to

[36] Treasury, however, has the right to review all press on HHF and HHF blight elimination.
[37] Even grant programs need greater Federal oversight. See GAO audit report (GAO-12-34), "Vacant Properties: Growing Number Increases Communities' Costs and Challenges," issued November 2011.

ensure the program's success. This includes every use of TARP dollars in HHF, including for demolition of vacant properties. However, SIGTARP has found that is not what Treasury is doing.

First, SIGTARP found that the Hardest Hit Fund Blight Elimination Program is designed in a way that leaves Treasury in the dark on strategies, decisions, and blight elimination activity conducted under HHF and paid for with TARP dollars.

Treasury has allowed the state HFAs to place much of the decision making and the actual blight elimination activities in the hands of city or county/land bank/non-profit/for-profit partners, whose identities are unknown to Treasury, whose activities using TARP funds are unknown to Treasury, whose strategies and decisions on how to execute blight elimination under HHF are unknown to Treasury, that are not under contract with Treasury or even in contact with Treasury, and over which Treasury conducts no oversight. Treasury has very limited knowledge about blight elimination activity being paid for with TARP dollars and taking place under a TARP program. Treasury is not keeping itself informed or gaining insight of critical activities taking place under HHF blight elimination.

The city or county/land bank/non-profit/for-profit partners, not the HFAs that contract with Treasury, make the following decisions under HHF:

- selection of neighborhoods for demolition;
- selection of how much of the vacant residential properties in those neighborhoods should be demolished;
- selection of specific properties for demolition;
- determination of applicable laws and regulations;
- whether to conduct engineering and environmental studies, and determining the presence of any asbestos to comply with applicable laws and regulations;
- selection of engineering firms and asbestos-removal contractors necessary to comply with applicable laws and regulations and contracting with those firms;
- selection of demolition contractors, greening contractors, maintenance contractors, and contracting with those vendors; and
- completion of work as required under the contract.

Treasury does not know the outcome of these decisions. Treasury does not know the strategies being employed by city or county/land bank/non-profit/for-profit partners to select neighborhoods, the number of homes to be demolished in each neighborhood, or the properties for blight elimination under HHF.

Treasury has very limited knowledge and is not keeping itself informed or gaining insight of critical activities taking place under HHF blight elimination being paid for with TARP dollars. Treasury does not require a detailed accounting on how the TARP funds are spent on blight elimination. Treasury does not know the aggregate number or dollar value of demolition, greening, or other awarded contracts and subcontracts under HHF for blight elimination. Treasury does not know the details of those contracts or subcontracts or even the recipients. SIGTARP found that Treasury does not collect, maintain, or review the contracts for demolition, greening, and maintenance. Treasury's HHF Program Director told SIGTARP that contract awards are "the state's business." However, apparently state HFA officials believe that contract awards are the city or county land bank's business. Officials from the two state HFAs that have reported to Treasury that they started demolitions under HHF (Michigan and Ohio) told SIGTARP that they do not collect the contracts and subcontracts. Officials from Ohio's HFA told SIGTARP that the Ohio HFA "does not collect all documentation pertaining to current and future contracts for the local land banks. We require thorough support documentation, including invoices and proof of payment, for all expenses that are reimbursed with HHF funds." In another example, the Michigan HFA told SIGTARP that it does not monitor or approve the contracts or even have a listing of the contractors that their land banks or other partners have entered into with external entities.

In other words, Treasury does not have or monitor the contracts and subcontracts for which TARP funds are the source of payment, and neither do the states. Treasury and HFA officials told SIGTARP that would require going to each individual partner to obtain the listing of contracts and subcontracts. However, Treasury and the HFAs do not do that.

Unlike other blight demolition funds these states may receive, TARP funds are not grant funds and this is not a grant program. Greater knowledge and insight by Treasury of the participants in HHF demolition activities, strategies, and decisions, blight elimination activity, and expenditures do not take away a state's ability to tailor local solutions.[38] The opposite is true. Treasury's role as a steward of TARP is more than about money. These states that are still struggling from the crisis need Treasury's involvement and full support.

Being in the dark makes it difficult for Treasury to fulfill its important responsibilities as the steward of TARP. Limited knowledge about strategies, decisions, and blight elimination activity decreases Treasury's ability to ensure that HHF in this area is on track to success or that states and cities or counties are proceeding with the most effective use of TARP funds. Limited knowledge about strategies, decisions, and blight elimination activity decreases Treasury's ability

[38] Some of these states, such as Michigan, are already used to providing a detailed accounting and additional information on their partners and expenditures for blight elimination activity in non-TARP blight programs, and making that accounting and information public. Some land banks are putting addresses of properties demolished under HHF on their websites. If there is no harm in the public seeing them, then there is no harm in Treasury seeing them.

to protect against fraud, waste, and abuse, which could diminish the effectiveness of the HHF Blight Elimination Program.
Treasury can defer administration of a TARP program to another entity, but Treasury cannot defer its responsibility and oversight under the TARP law to ensure that a TARP program is successful, nor should it because these are the hardest-hit states that Treasury selected to help. Responsibility requires knowledge. Treasury cannot improve what it does not know. Treasury cannot protect what it does not know. Treasury cannot bring transparency to what it does not know.

Second, SIGTARP found that Treasury takes a hands-off approach to the HHF Blight Elimination Program and has very limited involvement in the planning or execution of the program.

Treasury has not conducted comprehensive planning that could ensure the success of blight elimination under HHF, ensure that TARP funds are spent in the most effective manner, and protect HHF against the risk of fraud, waste, and abuse. Treasury has left much of the planning to the HFAs, which have left much of the planning to the city or county/land bank/non-profit/for-profit partners. Treasury's only goal is a high-level goal to stabilize neighborhoods and decrease foreclosures, which tie to the goals in the TARP law.

SIGTARP recognizes the challenge of using a Federal program to offer local solutions administered by state agencies and Treasury's desire to give states flexibility because HFAs know best about the problems in their states. However, flexibility should not mean free rein. This challenge can be mitigated by comprehensive planning to ensure that Federal interests and state interests align. The first part of mitigating this challenge is for Treasury to identify its Federal interests to the states in the form of Treasury-defined target outcomes as it has for other TARP programs, rather than let the HFAs or anyone else set the desired outcome for a TARP program.

SIGTARP found that, unlike other TARP programs, Treasury has not set target outcomes that it wants the HHF Blight Elimination Program to achieve in order for Treasury to ensure that it will meet the high-level goals of stabilized neighborhoods and decreased foreclosures, instead deferring to each HFA to set the target outcome. Treasury's HHF Program Director told SIGTARP that Treasury left it up to the states to tell Treasury what the states would point to as showing that TARP funds went to stabilize neighborhoods and decrease foreclosures. Treasury's HHF Program Director told SIGTARP that it is incumbent on the states "to develop their own means or metrics that will point to success of the program." Treasury asking states to measure progress toward success is not the same thing as asking states to define success.

SIGTARP found that HHF Blight Elimination Program is designed so that the city or county/land bank/non-profit/for-profit partners are responsible for defining the target outcome and measuring their own progress toward that outcome. Treasury's contracts with state HFAs on blight specifically reference the states will develop performance indicators in connection with the city- or county-level partners. Performance indicators measuring progress are not the same thing as defining what targeted outcome is necessary to ensure that the HHF Blight Elimination Program successfully achieves stabilized home prices and decreased foreclosures. Treasury is relying on the states to set target outcomes. However, the HFAs are not actually setting target outcomes, but instead deferring to the city or county/land bank/non-profit/for-profit partners. Two state HFAs told SIGTARP that they do not have target outcomes, but are deferring to the city or county land banks.

Flexibility of states to offer locally tailored solutions should not mean that states or city or county/land bank/non-profit/for-profit partners set the target outcome of a Federal TARP program. It is one thing to have the states and the city and county land banks measure their own success against Treasury's target outcome, but states, cities, and counties should not define what level of success is expected for a TARP program to achieve its high-level TARP goals. That is Treasury's responsibility under TARP law and as the Federal agency administering TARP. Treasury did not ask mortgage servicers to define how many homeowners would receive affordable and sustainable help from HAMP. Treasury did not ask banks to define what level of capital they thought they should hold. Treasury did not ask GM to define how it would be restructured. These were all target outcomes that Treasury set. If Treasury does not set a target outcome for HHF blight elimination, it is leaving the success of a TARP program to chance. This leads to a lack of accountability at the city or county level, state level, and Treasury level.

Treasury-defined target outcomes that Treasury expects to achieve does not take away the flexibility of states, but instead gives insight for Treasury and the states into whether improvements can be made to make the HHF Blight Elimination Program more effective as the program progresses. Treasury has an opportunity right now to increase the effectiveness of the program. However, that opportunity will diminish with time, given the fast pace of demolition activity.[39] If Treasury sets target outcomes now, Treasury and the states would then have something to measure progress against to determine if each state is on track. State HFA officials from Michigan and Ohio told SIGTARP that the only goal Treasury has given them is to have the HHF blight money spent by December 31, 2017.[40]

[39] For example, in the second quarter of 2014, Michigan reported cumulative demolitions of 315 properties, which had increased to 816 the next quarter, and further increased to 1,887 the following quarter.

[40] The only other targeted impact that Treasury wants the states to report on and achieve is to spend a maximum of either $25,000 or $35,000 per property for demolition and greening.

Spending the available TARP money should not be Treasury's end goal. Just as the high-level goals of each of Treasury's largest TARP investments were not met upon Treasury investing TARP funds (for example, in banks, auto companies, and AIG), Treasury's high-level goals to stabilize neighborhoods and decrease foreclosures is not met upon Treasury investing funds for blight elimination.

This type of comprehensive planning is not new to Treasury and is a recognized best practice for the Federal Government that does not harm a state's ability to tailor local solutions that are aligned with Treasury's target outcomes. Knowing the target outcomes that Treasury is trying to achieve provides a framework for states and cities or counties to make choices that are locally tailored, and are also consistent with Federal objectives. Just as Treasury has worked with regulators and others before to develop target outcomes for TARP programs, Treasury could use its own resources and expertise on economic outcomes in consultation with each of the six participating states to set Treasury-defined target outcomes it wants that are realistic for that state.

Some potential target outcomes that Treasury could set using its own expertise and resources and after consultation with states to gain insight as to whether HHF blight elimination is on track for success in each city or county or whether improvements could be made are:

- target level of decrease in foreclosures overall for cities and states;
- target decrease in vacancy rates in targeted neighborhoods, cities and states;
- target level of increases in home values in targeted neighborhoods, cities and states;
- target reduction in the percentage of properties with negative equity in targeted neighborhoods, cities and states; and
- target reduction in crime rates in targeted neighborhoods, cities and states.[41]

Treasury cannot assume that any amount of demolition of vacant properties in any area of the city or county will result in stabilized home prices and decreased foreclosures. For example, prior to agreeing to allow Michigan to use HHF funds for blight elimination, Treasury's Economic Policy group conducted an economic analysis to estimate the stabilization of home prices and decrease in foreclosures that would come from demolitions in the City of Detroit, and that analysis assumed that the impact would only be felt within a 200-foot radius of the demolished property. Additionally, the Government Accountability Office ("GAO") reported that officials in Las Vegas, Nevada, and the surrounding areas told GAO that they were able to acquire a few hundred properties with

[41] Treasury may have other targeted outcomes it wants to achieve such as one, a certain number of contracts awarded with best value or low cost, timeliness of the demolition and greening work, demolition in low-income or middle-income neighborhoods, demolition in neighborhoods with senior citizens, and demolition in certain areas with high crime or drug rates.

U.S. Department of Housing and Urban Development ("HUD") grant funds for blight elimination, as of June 2011, but that this number was not enough to stabilize the neighborhood.[42]

Without establishing target outcomes for each state (in consultation with each state), Treasury will not be able to see which states need Treasury's help or additional oversight to ensure that the HHF Blight Elimination Program is on track for success. The state HFAs do not have the level of expertise and resources of Treasury on economic outcomes. Officials from three state HFAs told SIGTARP that they do not have an economic analysis to serve as a baseline by which they make demolition decisions. For example, a Michigan HFA official told SIGTARP that Treasury has not shared its economic analysis on the impact of demolitions in Detroit with Michigan's HFA. This is a perfect example of where Treasury could use its significant resources and expertise in consultation with the states to ensure the success of the program.

If Treasury through its Economic Policy group can conduct an economic analysis to determine the target outcome of HHF demolition for one city, it can conduct them for others. Treasury could combine its expertise and resources with the states to conduct economic analysis that leads to Treasury setting realistic target outcomes that the states can work towards achieving.

The economic analysis that Treasury already conducted for Detroit provides a baseline for Treasury to develop its target outcome. Treasury estimated that demolishing a vacant house and greening the lot in Detroit would lower the default probability of nearby properties by between 0.7 and 1.7 percentage points on average with likely impact on foreclosure rates toward the 1.7 percentage point end. Just as it did for Detroit, Treasury could estimate a decrease in foreclosure rates that it expects to see in each city or county with the HHF Blight Elimination Program and use that to set its target outcome. A Treasury-defined outcome would give Treasury and the states immediate and ongoing insight into ways to improve the effectiveness of the HHF Blight Elimination Program as the program progresses.

Treasury has not waited until the end of other TARP programs to measure progress and success toward the goals set out by Congress for TARP, but that is what Treasury is doing with HHF blight elimination. With blight elimination, Treasury is only requiring reporting on the number of properties demolished, and the average cost. Demolition is not the end that Treasury should have in mind. It is the outcome of that demolition, not the demolition itself.

[42] See GAO audit report (GAO-12-34), "Vacant Properties: Growing Number Increases Communities' Costs and Challenges," issued November 2011.

Neither Treasury nor the HFAs have developed performance indicators or are measuring the impact of demolition, which decreases Treasury's ability to see areas for improvement to ensure effective use of TARP dollars and success in TARP goals. Treasury's contract provides that the HFAs will develop performance indicators and measure progress; however, states are deferring to city or county/land bank/non-profit/for-profit partners.

The states can and should develop performance indicators at the start of the program so that performance can be measured as the program progresses, but that has not happened. Michigan, Ohio, and Indiana HFA officials told SIGTARP that the program is too new to identify metrics and performance indicators to measure program effectiveness. For example, one state HFA official told SIGTARP that "it is something that we are set up to do once we're further into the program." Officials from Treasury and the HFAs told SIGTARP that progress cannot be measured for a long time, possibly until after the program closes. A Michigan HFA official told SIGTARP that measurement of the progress would be conducted post program.

Treasury is aware that the states have not established performance indicators and are not measuring progress of the impact of HHF blight elimination activities. Treasury does not require that the HFAs currently report on progress toward target outcomes or Treasury's high-level goal of stabilizing neighborhoods and decreasing foreclosures. Treasury does not know when they would require states to develop performance indicators or report on those performance indicators. A Treasury official told SIGTARP that the states will design their own reports to Treasury and will not provide those to Treasury "until the program is further seasoned." Treasury's HHF Program Director told SIGTARP that she did not know in the time that Treasury's HHF program was around that Treasury would see increases in property values. If this is a target outcome that Treasury considers important, then it should make that apparent to the states and set a target for the increase. Treasury is a permanent department and will continue to be around to measure progress. Treasury's oversight can and should continue well past the expenditure of the HHF funds. Federal funds require steps be taken to ensure program success and protect taxpayers' investment. It is Treasury's responsibility to conduct oversight over a TARP program.

The best way for Treasury to ensure that these TARP funds are used in the most effective way to stabilize home prices and decrease foreclosures caused by vacant homes is by measuring with short-term feedback. This will allow Treasury to make decisions based on what the HHF Blight Elimination Program is actually doing, not based on a high-level goal Treasury projects about the future with no specificity or targeted approach. It will help Treasury make decisions about how much TARP funding to put toward blight elimination and help decide whether to expand to other states and other cities within states already participating.

Measuring backward with short-term feedback can lead to improvements. Treasury decreases its ability to conduct effective oversight without this feedback. While certain indicators of the impact of HHF blight elimination (in combination with other factors) may take time to measure the progress, others do not. For example, if Treasury set a target decrease in foreclosures, two performance indicators that could measure progress could be a specified decrease in mortgage defaults and foreclosure filings in each targeted city or county where HHF blight elimination is conducted, aggregated by state. A zero or very low decrease in the default rate of foreclosure filings of cities or counties that had HHF demolition might indicate that the city or county land bank's strategy in choosing properties or neighborhoods may not be as effective as it should be. If Treasury set a target increase in home values, states could set performance indicators including measuring the price of home sales on an ongoing basis, measuring home values as determined by local tax authorities annually, and by measuring the number of short sales. No improvement in these indicators within a set period of time might indicate that the city or county land bank's strategy in choosing properties or neighborhoods may not be effective as it should be.

Tracking the impact of HHF blight elimination on a periodic basis would allow Treasury and the HFAs to give guidance to the city and county land banks that could allow for a greater economic impact. By keeping itself in the dark, and having little involvement in strategic decisions on blight elimination, Treasury misses an opportunity to help states and cities or counties develop a strategy that has the most effective use of HHF dollars and the best chance for success.[43]

SIGTARP found that the HHF Blight Elimination Program is designed so that the city or county/land bank/non-profit/for-profit partners are responsible for measuring progress. In other words, Treasury is allowing the city and county land banks to measure their own success. As currently envisioned, that may not be until the program ends. In addition to concerns over how this leads to a lack of accountability at a Federal, state, and local level, without that measurement, Treasury could lose opportunities to ensure the success of the program through improvements.

Although Treasury should have developed its target outcomes at the beginning of the program in 2013, it is not too late for Treasury to do so now, and it is also not too early for states to develop performance indicators. The source of TARP funds is the Federal Government, with Treasury as the steward over TARP funds. Congress and the public rightfully expect Treasury to administer the program and

[43] Treasury is also missing an opportunity as it oversees blight elimination in all six states to provide guidance on best practices or lessons learned to ensure the most effective use of HHF for blight elimination. Treasury should be proactive in providing this program and each state all of its resources. Treasury guidance including best practices would not take away a state's ability to create locally tailored approaches.

ensure that TARP funds are appropriately spent and are achieving the desired goals.

Treasury has not taken a risk-based approach to identify and mitigate risks that could form barriers to the most effective use of TARP funds for demolition activity or could lead to fraud, waste, and abuse.

The design of the HHF Blight Elimination Program that places much of the control and decision making in the hands of city and county land banks far removed from Treasury, which conduct work through contractors removed even farther from Treasury, produces certain risks that Treasury should assess and mitigate through comprehensive planning. Treasury does not have or monitor the contracts and subcontracts for blight elimination activity for which TARP funds are the source of payment, and neither do the two state HFAs that have started demolitions (Ohio and Michigan). A Michigan HFA official told SIGTARP that the HFA does not monitor or approve the contracts or even have a listing of the entities that the city- or county-level partners contract with to undertake blight elimination activities under HHF.

Treasury has an oversight responsibility to ensure that the HFAs, and their city or county local partners, are ready for, and can effectively handle, any increase in demolition and other activities under HHF. One of the risks that Treasury has already experienced with HHF is that the HFAs did not have the resources, staffing, training, and knowledge to implement HHF, which led to significant delays in getting help to homeowners. Even if some of these six state HFAs (Alabama, Ohio, Illinois, Indiana, Michigan, and South Carolina) have experience with blight elimination, the TARP funds allocated for blight elimination will likely result in a significant increase in the amount of blight elimination activities these states and cities have conducted. An Indiana HFA official told SIGTARP that there has never been a program like this in Indiana.

Treasury should learn the identities of the city or county/land bank/non-profit/for-profit partners, and conduct oversight to ensure that they have the staffing, knowledge, experience, and training to handle the level of contracting and demolition and other blight activities required under this TARP program. HUD Office of Inspector General has issued several reports on blight elimination using a HUD grant program including a January 2014 report on weaknesses for the City of Detroit because the city department was without the necessary knowledge, experience, and training to handle the increase in demolition jobs that came with HUD grant funds. It is unknown whether this same entity is involved with the TARP-funded demolitions; however, the problem could reside with any entity. Treasury will not know that if it has no insight.

By allowing itself to be in the dark, Treasury has created a TARP program with very limited transparency to Treasury and the public, which impacts risk. Greater transparency would not hurt HHF's approach to find locally tailored solutions. Greater transparency to the public builds trust and empowers taxpayers who fund TARP programs and have a right to transparency in how those funds are spent. Greater transparency allows taxpayers to hold Treasury accountable for how Federal dollars are used and what results they achieve. Greater transparency is required for oversight. As a result of the lack of transparency, it is difficult for Treasury and taxpayers to understand details of HHF Blight Elimination Program decisions, strategies, and activities, making oversight difficult and impacting risk.

Given that Treasury decided to make a TARP investment in eliminating vacant properties, Treasury should do much more to fulfill its oversight responsibilities and ensure success, including setting target outcomes, providing guidance, conducting oversight, and monitoring activities while still allowing states to have flexibility in execution. Treasury should bring all that it can to leverage its own resources, knowledge, and experience with those of the states. Federal oversight and support are not mutually exclusive from a state's flexibility to tailor a program to local problems. Federal dollars must come with some Federal involvement, guidance, assistance, transparency, and oversight. Homeowners deserve the same extraordinary Treasury action and support that Treasury gave the largest TARP institutions. Treasury cannot do that if it continues to be in the dark, with a hands-off approach and limited involvement that limits transparency, oversight, and can impact risk. As it has done with other TARP programs, Treasury needs to be able to ensure that blight elimination is operating in the way to most effectively use TARP dollars. It is Treasury, not the individual six states, that is responsible for reporting on an interim basis that the HHF Blight Elimination Program is on track to achieve the protection of home values and preservation of homeownership as required by TARP, just as Treasury has done with other TARP programs. When HHF ends in December 2017, it is Treasury, not the individual six states, that is responsible for reporting whether Treasury's use of those TARP funds successfully achieved TARP goals.

Recommendations

1. Treasury should ensure that state housing finance agencies and all of their city or county/land bank/non-profit/ for-profit partners have the resources, staffing, training, and knowledge, and are ready for, and can effectively handle the increase in contracting, demolition, and other blight elimination activities contemplated under HHF.

2. Treasury should keep itself informed and gain insight of critical activities taking place under HHF blight elimination by knowing the identities of all who will participate in blight elimination activity under HHF or receive TARP funds including city or county/land bank/non-profit/ for-profit partners and their subcontractors through required reporting by state HFAs to Treasury on an ongoing basis.

3. Treasury should keep itself informed and gain insight of critical activities taking place under HHF blight elimination by requiring reporting by state HFAs on: (1) the neighborhoods selected for HHF blight elimination and the strategy for choosing that neighborhood; and (2) property address including zip codes for any property demolished or removed under HHF.

4. Treasury should increase transparency by publicizing on its website: (1) a list of all city or county/land bank/non-profit/ for-profit partners that will participate in blight elimination activity under HHF on a state by state basis; (2) a list of addresses including zip code where a property has been demolished or removed under HHF on a city and state basis; (3) Treasury's expected target outcomes by city and state; and (4) performance indicators to measure progress by city and state.

5. Treasury should engage in comprehensive planning to ensure that blight elimination under HHF progresses in the most effective way by, within 60 days, setting target outcomes for HHF blight elimination of how much Treasury expects blight elimination under TARP to increase home values and decrease foreclosures by city and state. Treasury can consult with the state HFAs as to set realistic target outcomes, but should not defer to state HFAs to define success. Treasury should share its target outcome with each state HFA.

6. Treasury should engage in comprehensive planning to ensure that blight elimination under HHF progresses in the most effective way by, within 60 days, requiring state HFAs participating in blight elimination activities under TARP to develop performance indicators such as decreases in default rates or foreclosure filings, or increases in home values through home sales and annual tax assessments to measure progress towards Treasury's target reduction in foreclosures and target increase in home values. Treasury should use its

expertise and resources to help the state HFAs develop performance indicators. Treasury should require reporting by state HFAs on a periodic basis no less than bi-annually on chosen performance indicators and use that reporting to monitor which cities and states are on track to achieve successfully Treasury's goal and to identify improvements to increase effectiveness.

7. Treasury should require quarterly detailed accounting by state HFAs of how TARP funds are spent reimbursing local partners for blight elimination activities under HHF that lists actual TARP reimbursed expenditures for each local partner by each category of blight elimination activity, including demolition, acquisition, greening, maintenance, asbestos removal, engineering studies, environmental studies, or any other category of expenditures.

8. Treasury should require state HFAs to develop a system of internal controls targeted specifically at blight elimination.

9. Treasury should increase the effectiveness of oversight at both the Treasury and state HFA levels by (1) collecting all contracts and subcontracts for HHF blight elimination activities; and (2) requiring the state HFAs to collect all contracts and subcontracts for HHF blight elimination activities.

Management Comments and SIGTARP's Response

Treasury provided comments to the draft report. SIGTARP addressed those comments where applicable. Treasury generally disagreed with SIGTARP's findings citing to the expertise of states and need for states' flexibility, an issue that SIGTARP has addressed in the audit. Treasury did not agree to implement SIGTARP's recommendations, but said they would consider them.

Appendix A – Objectives, Scope, and Methodology

SIGTARP performed this audit 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. We initiated this audit as part of our continuing oversight of TARP. The specific objectives of this audit were to determine:

- the status of HHF's Blight Elimination Program;
- Treasury's role in the program; and
- factors affecting the implementation of the HHF Blight Elimination Program.

The scope of the audit covered the six state HFAs.[44] Treasury approved to reallocate approximately $372 million in TARP funds for blight elimination activities under HHF and covers the period from June 2013 through March 2015. We conducted our audit work from October 2014 through March 2015 in Washington, D.C.

SIGTARP interviewed officials from Treasury's Office of Financial Stability ("OFS") and three state HFAs, Michigan, Ohio, and Indiana. We reviewed and analyzed requested data from OFS and the state HFAs, including (but not limited to) the state HFAs' proposals and Housing Participation Agreements, the HFAs' quarterly performance reports, the HFAs' program guidelines, Treasury's aggregate quarterly performance reports, and Treasury's Program Change Committee meeting minutes. In addition, SIGTARP reviewed press releases related to blight elimination and Treasury's and the state HFAs' websites for information related to the HHF Blight Elimination Program. SIGTARP also reviewed testimony and books by Treasury officials and performed internet searches for information related to city or county/land bank/non-profit/for-profit partners and performed best practices research related to blight elimination activities.

SIGTARP conducted the audit in accordance with generally accepted government auditing standards established by the GAO. Those standards require that SIGTARP plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. SIGTARP believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Limitations on Data

SIGTARP relied upon OFS and the state HFAs to identify and provide email communication and documentation related to the HHF Blight Elimination Program. It is possible that the documentation provided did not reflect a comprehensive response to SIGTARP's documentation requests, potentially limiting SIGTARP's review.

[44] The six states include Michigan, Ohio, Indiana, Illinois, South Carolina, and Alabama.

Use of Computer-Processed Data

SIGTARP relied upon computer-processed data from the state HFAs (quarterly performance reports) and Treasury (aggregate quarterly performance reports) to report the number of structures demolished, denied, withdrawn, and in process; total assistance provided; and median assistance spent on acquisition, demolition, and greening. We did not validate the accuracy of the data because we did not have access to the underlying HFA or Treasury data.

Internal Controls

To address the reporting objectives in this audit, SIGTARP performed a limited review interviewing Treasury and state HFA officials, and reviewing selected Federal and state laws and regulations, and Treasury and state policies and procedures to determine the extent to which policies and procedures existed.

Prior Coverage

SIGTARP reviewed its April 2012 audit of the HHF program as it relates to Treasury's role in overseeing and implementing the HHF program and providing TARP assistance to state HFAs, and its February 2009 initial report to Congress, relating to Treasury advancing economic stability through transparency, coordinated oversight and robust enforcement. In addition, SIGTARP reviewed audit work performed by GAO and HUD OIG related to blight elimination activities.

Appendix B – Acronyms and Abbreviations

19 jurisdictions or states	18 states and the District of Columbia
AIG	American International Group
Ally	Ally Financial Inc.
Chrysler	Chrysler Group LLC
Citigroup	Citigroup Inc.
CPP	Capital Purchase Program
Fannie Mae	Federal National Mortgage Association
Freddie Mac	Federal Home Loan Mortgage Corporation
GAO	Government Accountability Office
GM	General Motors Corporation
GMAC Inc.	General Motors Acceptance Corp.
GSE	Government-sponsored enterprise
HAMP	Home Affordable Modification Program
HFA	housing finance agency
HHF	Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (also “Hardest Hit Fund”)
HUD	U.S. Department of Housing and Urban Development
HUD OIG	Department of Housing and Urban Development Office of Inspector General
NSP	Neighborhood Stabilization Program
OFS	Office of Financial Stability
RFPs	Requests for Proposals
SIGTARP	Office of the Special Inspector General for the Troubled Asset Relief Program
TARP	Troubled Asset Relief Program
Treasury	U.S. Department of the Treasury

Appendix C – Audit Team Members

This audit was conducted and the report was prepared under the direction of Bruce S. Gimbel, Deputy Special Inspector General for Audit and Evaluation, and Jenniffer F. Wilson, 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 audit and contributed to the report include Vonda Batts, Yusuf House, William Saunders, Katherine McCall, and Cynthia Broome.

Appendix D – Management Comments

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

April 20, 2015

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

Re: Treasury Response to SIGTARP Report

Dear Ms. Romero:

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

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

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

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

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

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

By way of background, the HHF program was created in February 2010 under the Emergency Economic Stabilization Act of 2008 (EESA) to provide aid to the District of Columbia and 18 states designated "hardest hit" because they had experienced the nation's steepest home price declines and most severe unemployment. The objective of HHF is to allow the participating state housing finance agencies (HFAs) to develop creative, effective approaches to help prevent foreclosures and stabilize their local housing markets. HHF is designed to allow the maximum possible flexibility to eligible HFAs to use HHF funds to develop and implement innovative foreclosure prevention initiatives responsive to the needs of their specific state. Each proposed program must be approved by Treasury.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IV. Hardest Hit Fund Programs are Transparent

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

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

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

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

Sincerely,

Mark McArdle
Chief Homeownership Preservation Officer
Office of Financial Stability

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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, D.C. 20220

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