



# SIGTARP

Office of the Special Inspector General  
For The Troubled Asset Relief Program

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## **GEORGIA'S STATE HOUSING FINANCE AGENCY HAS MISMANAGED THE HARDEST HIT FUND PROGRAM**

*Audit Finds Strong Need in Hard-Hit Neighborhoods Surrounding Atlanta; State Agency Withheld Funds Despite Repeated Warnings of Overly Strict Homeowner Criteria, Unnecessary Red Tape, and a Difficult and Burdensome Application Process*

The Hardest Hit Fund (HHF) was created in 2010 with the goal of preserving homeownership by providing targeted aid in states hit hard by the economic and housing market downturn, including Georgia. HHF primarily acts as a temporary safety net disbursing TARP dollars to mortgage servicers so that unemployed or underemployed Americans continue to own their homes. In this audit, initiated upon request from U.S. Representative John Lewis and focused on Georgia's 5<sup>th</sup> Congressional district and surrounding areas, SIGTARP found that HHF does not meet the urgent, local needs of Georgian homeowners. SIGTARP found that the problem was neither lack of need nor lack of interest, but statewide mismanagement by Georgia's Department of Community Affairs (DCA), the state's housing finance agency and Treasury's HHF contractor.

"We found that it was extremely difficult for any Georgian to receive these funds due to DCA's decision to create an overly strict and burdensome application process compared to what homeowners in other states face," said Christy Goldsmith Romero, Special Inspector General for the Troubled Asset Relief Program. "It was a bait and switch for DCA to apply to Treasury for HHF promising to distribute these funds to 18,500 people in the first two years, and then miss every target because it turned away two of every three people. In DCA's words, it was 'guarding' the funds. The agency 'guarded' the funds from Georgians who within 30 days, could not get the IRS to issue and stamp a tax transcript, or their mortgage servicer to provide two years of payment history, or their employer to issue a letter saying the unemployment was not the homeowner's fault. The agency 'guarded' the funds from veterans even though Georgia has one of the largest military populations. They even 'guarded' the funds from one woman who could not continue in her job while undergoing chemotherapy for breast cancer. However, DCA's 'guarding' of funds stopped at its doorstep: it paid itself more than \$30 million in administrative fees. But when alerted that too few applicants were receiving funds, DCA dug their heels in instead of making significant changes. All this has jeopardized HHF's mission. Taxpayers should not pay for mismanagement. My hope for hard-hit Georgians and taxpayers is that DCA is not defensive to our findings, and Treasury implements our 30 recommendations designed to stop mismanagement."

DCA has consistently ranked among the least effective state agencies in the nation in disbursing HHF dollars. Less than half of the available \$370.1 million were disbursed to 9,061 homeowners. DCA has turned away two thirds of Georgians (20,051 applicants) who sought assistance, one of the worst rates

nationwide. Of those turned away, 2,310 were veterans (71% of veterans who applied), despite Georgia having one of the largest military and veteran populations in the country.

SIGTARP found that it was very difficult for people living in DeKalb, Clayton and Fulton counties to obtain Hardest Hit Funds. Neither lack of need nor lack of interest drove this low disbursement rate. In those counties nearly 100,000 Georgians have lost their homes to foreclosure since September 2008. Another 22,000 homeowners are behind on their mortgage payments as of March 2017. In Clayton County, 81% of people turned away made less than \$30,000 a year, with most earning less than \$20,000. Denial rates for DeKalb and Fulton counties are similar.

SIGTARP's audit found statewide mismanagement by DCA, including that the state agency has withheld funds, set overly strict eligibility criteria that gutted program participation, and put so much red tape between federal dollars and their intended recipients that one housing counselor only suggested HHF only as a last resort.

### **Failing to Respond to Urgent Needs and Withholding HHF Dollars**

When HHF was announced in 2010, Treasury said this aid was coming to struggling homeowners "as soon as possible." DCA promised Treasury that it would distribute almost all of the funds to 18,500 homeowners in the first two years. But DCA slow walked the federal aid, only disbursing the funds to ten percent of the target or 1,708 homeowners by September 2012. Treasury never held DCA to these and later targets, leading SIGTARP to conclude that Treasury also mismanaged HHF in Georgia. It took DCA until 2016 to distribute funds to 9,601 homeowners. In that time, seven other state agencies closed their HHF programs after making use of all funds. TARP's other housing program, the Home Affordable Modification Program (HAMP), has provided assistance to 80,026 Georgians.

DCA's low performance recently caused Georgia homeowners to lose access to an additional \$33.5 million in funding, with Treasury citing the state agency's poor track record. But instead of fixing its main HHF program, the Mortgage Assistance Program, DCA shut it down—eliminating the ability of unemployed or underemployed Georgians to benefit from HHF.

### **Overly Strict Criteria Did Not Reflect the Local Conditions of Most Georgians and Was Neither Required by Treasury Nor Used by Other State Agencies**

DCA designed overly strict conditions for the Mortgage Payment Program that made it extremely difficult for homeowners to receive the funds. These conditions were neither required by Treasury nor exist in many other HHF programs, and do not reflect the reality of many Georgians.

For example, DCA refused to consider common hardships, such as military orders, divorce, illness or death of a spouse, all which can impact unemployment or underemployment and can make it difficult to pay a mortgage on time. The lack of a qualifying hardship was the top reason why DCA denied homeowners for HHF.

Applicants to the Mortgage Payment Program weren't eligible if they lost their job more than three years ago, despite the long-term unemployment that marked the recession. They had to be current on their mortgage when they lost their job or saw a pay cut, and couldn't receive assistance from HAMP, even though the programs provide different, complimentary benefits. Applications plummeted when in May 2012, DCA required that applicants be no more than six months behind on their mortgage.

Despite repeated recommendations to eliminate or lessen these overly strict conditions by U.S. Representatives, Treasury, SIGTARP, and non-profits, DCA failed to eliminate the overly strict criteria.

### **Difficult and Burdensome Application Process**

The HHF application process in Georgia is designed for failure. Homeowners apply online with limited walk-in assistance at DCA's Atlanta office—despite the fact many Georgians who could benefit from the program have limited knowledge or access to the internet and do not live near Atlanta. SIGTARP officials who tried to fill out the application had problems at every stage of the process and were routed to error pages. As one homeowner told SIGTARP, the message from DCA was “we can't help you.”

There is unnecessary red tape not required in other states, such as four years of IRS stamped tax transcripts, two years of mortgage payment history provided by the mortgage servicer, and a letter from the former employer saying that the unemployment was not the fault of the homeowner. There was little time to get the documents, usually only 30 days. Homeowners turned away by DCA explained their frustrations in getting these documents to SIGTARP, particularly given the short time frame.

Despite setting a high bar for homeowners to receive assistance, DCA set a low bar for itself to obtain HHF dollars for administrative expenses: it spent \$32 million to distribute \$173.8 million. That's about 70% of its administrative expense budget, despite DCA having distributed less than half of HHF dollars to homeowners.

The mismanagement represents a significant lost opportunity. There is still an opportunity with \$164 million available: funds that are urgently need in DeKalb, Clayton, Fulton and other counties across the state. This opportunity should not be lost. It will take wholesale changes at DCA, and in Treasury's oversight, to stop the mismanagement and change course. SIGTARP makes 30 recommendations for improvement, and implores the DCA and Treasury to adopt these recommendations fully and immediately.

### **About SIGTARP**

The Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) is a federal law enforcement agency that targets financial institution crime and is an independent watchdog protecting taxpayer dollars. SIGTARP investigations have resulted in the recovery of \$10 billion and 237 defendants sentenced to prison.

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