OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM
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AUG 13 2019

Secretary Steven Mnuchin
Office of the Secretary
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Mnuchin:

I am writing you to recommend that Treasury take corrective action to require an important fraud and waste prevention control for homeowners in California, and other states, that receive thousands of dollars of Hardest Hit Fund monthly mortgage assistance, for as long as two years. We recommend:

> *To prevent fraud and waste of Hardest Hit Fund mortgage assistance that can pay for up to two years, Treasury should require state agencies to require all HHF program participants to prove their current program eligibility on at least a quarterly basis before receiving future TARP payments. This should include at a minimum, that program participants certify under penalty of perjury of each requirement for program eligibility, and certify that they have not subsequently experienced a disqualifying event (for example, an active bankruptcy or conviction of felony larceny, theft, fraud or forgery, money laundering or tax evasion in connection with a mortgage or real estate transaction).*

Our recommendation is borne out of SIGTARP's investigations that have found California homeowners who, after receiving initial HHF payments, subsequently became ineligible for the program but continued receiving an aggregate $437,631 in TARP dollars. These homeowners became re-employed or increased their income to a level that made them ineligible, but they did not disclose those facts.[1]

[1]The Hardest Hit Fund in California has allocated more than $1 billion in TARP dollars to prevent foreclosures for unemployed and underemployed Californians by providing up to $3,000 per month in mortgage assistance per homeowner for their primary residence for as long as 18 months (up to $54,000). While this HHF unemployment program in California recently closed to new applicants, existing participants will continue to receive TARP

There is an inherent risk of fraud or waste if homeowners subsequently become ineligible for further HHF assistance but continue to receive payments. State agencies should have an effective fraud and waste prevention control to mitigate this risk. California HHF relies on homeowner self-reporting, and state officials performing a "Re-Validation Review" every three months, using state employment data, rather than requiring the homeowner to provide current information.

While these measures have led to ending assistance for some California homeowners, other state agencies in the Hardest Hit Fund program do not rely on voluntary self-reporting and state employment data, but instead have stronger controls that require the homeowner to prove their continued eligibility in order to continue receiving payments. For example, each quarter, the Florida agency requires the homeowner to supply new documentation including the most recent mortgage statement, homeowner association dues statement, and income documentation including the last 30 days of pay stubs, bank statements, unemployment eligibility, and other sources of income, as well as statements related to any other assets, which the Florida officials use to recalculate eligibility. The Florida agency requires homeowners to certify each quarter that the information they supplied is true, correct, accurate and complete and that they are still in need of HHF benefits.

Other state agencies request that homeowners certify periodically under penalty of law as to program eligibility requirements. For example, the Oregon agency requires homeowners to certify quarterly under penalty of perjury:

- That the house is still their primary residence;
- That they are still receiving unemployment benefits or they did not work more than a set number of hours per week;[2]
- That the property is being maintained in good condition;
- That no program participant is in active bankruptcy;
- That no program participant owns other residential real property; and
- That no program participant has been convicted of felony larceny, theft, fraud or forgery, money laundering or tax evasion in connection with a mortgage or real estate transaction (a requirement of the Dodd-Frank Act).

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payments. Additionally, Treasury allows state agencies to increase or decrease allocations between HHF programs, or reopen HHF programs that have closed.

[2] The Oregon agency's 2012 verification form contains this specific language. The agency's 2018 verification form requires homeowners to certify that combined gross income of program participants does not exceed specific income limits.

The Washington, D.C. agency requires homeowners to certify quarterly: (1) that the house is their primary residence; (2) that they are either unemployed or if employed list their employer, title, salary and whether they are full or part time; (3) whether they are currently receiving unemployment benefits, and if not answer why not; and (4) to attest that they are actively seeking employment. The homeowner must sign the statement that all information provided is true and accurate.

The Indiana agency requires homeowners to certify on a semi-annual basis that the house is still the principal residence, and requires statements about the homeowner's current status of financial hardship.

The South Carolina agency only requires 10% of homeowners to recertify each quarter under penalty of perjury about whether they are residing in the property, if they become re-employed, and their current financial hardship (receiving unemployment benefits, income not improved, disability or other income). The South Carolina agency requires documentation to support the statements in the recertification such as bank statements, pay stubs, tax returns, unemployment benefit payment history, etc.

These examples show state agencies putting the burden on at least some program participants before providing additional federal payments. Requiring periodic certifications under penalty of perjury for every program participant prevents waste as it deters those not willing to lie, and it promotes ease in prosecution for fraud of those willing to lie. Despite the measures that the California agency has in place, without subsequent certifications by the homeowner under penalty of perjury, it is difficult to prosecute individuals for fraud. SIGTARP's findings demonstrate the need for additional taxpayer protections in HHF to prevent fraud and waste. I am happy to discuss this, or any of SIGTARP's work, further with you.

Respectfully,

CHRISTY GOLDSMITH ROMERO
Special Inspector General