Factors Affecting Implementation of the Hardest Hit Fund Program

Special Inspector General for the Troubled Asset Relief Program

April 12, 2012

SIGTARP 12-002

OFFICE OF THE SPECIAL INSPECTOR GENERAL

FOR THE TROUBLED ASSET RELIEF PROGRAM

1801 L STREET, NW, 4TH FLOOR

WASHINGTON, D.C. 20220

April 12, 2012

MEMORANDUM FOR: Mr. Timothy Massad – Assistant Secretary for Financial Stability, Department of the Treasury

FROM: Ms. Christy L. Romero – Special Inspector General for the Troubled Asset Relief Program

SUBJECT: Factors Affecting Implementation of the Hardest Hit Fund Program (SIGTARP 12-002)

We are providing this report for your information and use. It discusses the Factors Affecting Implementation of the Hardest Hit Fund Program.

The Office of the Special Inspector General for the Troubled Asset Relief Program conducted this audit (engagement code 022), under the 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 considered comments from the Department of the Treasury when preparing the report. Treasury's comments are addressed in the report, where applicable, and a copy of Treasury's response is included in Appendix L.

We appreciate the courtesies extended to our staff. For additional information on this report, please contact Mr. Kurt Hyde, Deputy Special Inspector General for Audit and Evaluation (Kurt.Hyde@treasury.gov / 202-622-4633), or Ms. Kimberley A. Caprio, Assistant Deputy Special Inspector General for Audit and Evaluation (Kim.Caprio@treasury.gov / 202-927-8978).

Summary

In authorizing the Troubled Asset Relief Program ("TARP"), Congress explicitly stated that one purpose of TARP was to preserve homeownership. In early 2010, despite U.S. Government programs to address the foreclosure crisis such as TARP's Home Affordable Modification Program ("HAMP"), homeowners still faced a housing market under significant stress. On February 19, 2010, the Administration announced the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (the "Hardest Hit Fund," or "HHF"). Under HHF, TARP dollars would fund "innovative measures" developed by state housing finance agencies ("HFAs") and approved by Treasury to help families in the states that have been hit the hardest by the aftermath of the housing bubble.

Originally announced as a $1.5 billion TARP program for five states with home price declines greater than 20%, HHF grew to $7.6 billion to 18 states and the District of Columbia through four rounds of funding. 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 or underemployment assistance; or (5) transition assistance such as a short sale, deed-in-lieu of foreclosure, or relocation assistance.

As part of the Office of the Special Inspector General for the Troubled Asset Relief Program's ("SIGTARP") continuing oversight of TARP and in response to a request from Congressman Darrell Issa, SIGTARP performed a review of Treasury's decision making related to HHF. SIGTARP assessed whether Treasury applied consistent and transparent criteria in selecting the states and programs, assessed the extent to which Treasury determined that the programs were innovative and not duplicative of existing programs, and identified Treasury goals and metrics for the program.

What SIGTARP Found

A senior Treasury official told SIGTARP that the idea of the Hardest Hit Fund came from an overall examination of options to tackle home foreclosure economic challenges such as negative equity and unemployment not being addressed by TARP's housing program HAMP. The Treasury official told SIGTARP that at the end of 2009 (when HHF was being developed), unemployment was hovering around 9% and one in four homes was underwater. After two years, the Hardest Hit Fund has experienced significant delay in providing help to homeowners due to several factors including a lack of comprehensive planning by Treasury and a delay and limitation in participation in the program by large servicers and the Government-sponsored enterprises ("GSEs") (Fannie Mae and Freddie Mac). As of December 31, 2011, the latest data available, the Hardest Hit Fund has spent only $217.4 million to provide assistance to 30,640 homeowners – approximately 3% of the TARP funds allocated to HHF and approximately 7% of the minimum number of homeowners whom the state HFAs estimate helping over the life of the program, which ends in 2017.

Nearly all (98%) of the help provided to homeowners under the Hardest Hit Fund has been related to unemployment assistance or reinstatement of past due amounts, the only types of assistance for which the GSEs directed servicers to participate. The great bulk (78%) of the HHF help to homeowners has been for unemployment assistance. Unless there is a drastic change in the assistance the GSEs and their conservator, the Federal Housing Finance Agency, will support, the Hardest Hit Fund may be much narrower in scope and scale than what was originally expected due to the lack of servicer and GSE support for certain programs. Without significant change, while the Hardest Hit Fund may be able to reach unemployed homeowners as was originally intended, it is likely to be limited in addressing negative equity for homeowners who are underwater.

April 12, 2012

SIGTARP found that Treasury consistently applied its criteria to choose states to participate in the first three rounds of funding for HHF. However, in the second round, it was unclear why Treasury determined that states with high percentages of their population in counties with an unemployment rate greater than 12% were economically distressed, but that states with 11% unemployment were not. The cutoff for Treasury's selection of states in Round Two was not transparent because one percentage point divided Ohio (with 22% of its population living in counties with a greater than 12% unemployment rate), which was selected, versus Tennessee (with 21%), which was not selected until five months later, when Treasury made another round of funding to all states with above-average unemployment. For the fourth round, no new states were selected. Rather, Treasury nearly doubled the funds four days before the expiration of Treasury's TARP investment authority.

Treasury determined that the five categories of assistance it approved were compliant with TARP's requirement that programs prevent avoidable foreclosures and rejected other proposed programs for not having a sufficient link to this requirement. Treasury did not define "innovative" or perform an analysis of whether the proposed programs were innovative or duplicative of other programs, instead considering the program design to be innovative because it provides for locally tailored solutions.

Treasury has not set measurable goals and metrics that would allow Treasury, the public, and Congress to measure the progress and success of HHF. Treasury set a single goal for HHF: to help prevent foreclosures and preserve homeownership. Treasury does require states to estimate the number of households to be assisted by their HHF programs, but this number has limited usefulness because states can, and have, changed estimates, creating a shifting baseline that makes it difficult to measure performance against expectations. The states' estimated number of homeowners to be assisted by the Hardest Hit Fund has steadily decreased over the last year.

As of December 31, 2011, the 19 HFAs collectively estimate helping between 458,632 and 486,536 homeowners over the lifetime of HHF, which will end in 2017. Treasury has not adopted this estimate or even reported it. It is not too late for Treasury to set measurable goals, including at a minimum, adopting the HFAs' collective estimate or developing its own goal of how many homeowners Treasury expects HHF to help. Treasury can also do more to improve transparency by publishing aggregate information on the program, and other useful information, so that taxpayers do not have to track performance on 19 HFA websites. Despite Treasury's statement about state HFAs – "This is not our program. These are their programs." – HHF is a TARP program, and Treasury is the steward over TARP.

SIGTARP found that several factors contributed to the Hardest Hit Fund's significant delay in getting assistance to homeowners. HHF lacked comprehensive planning by Treasury, which rushed out the program without appropriate collaboration of key stakeholders. Treasury's decision to give one to two days' notice to states and six to eight weeks to develop programs caught several states off guard. Several states delayed HHF programs because the large mortgage servicers were not participating. Several HFAs told SIGTARP that their primary challenge was the lack of large servicer participation. Without large servicers, the HFAs could not reach a large portion of struggling homeowners. One HFA explained, "Without big servicers, it would take much, much longer to get the funds out, with just community banks and credit unions. It would be a trickle of eligible applicants."

One great shortcoming in HHF's implementation was Treasury's lack of timely action to enlist large servicer support for and participation in state HHF programs while leaving it to the HFAs to negotiate with servicers. Treasury failed to recognize the lack of bargaining power that states had for recruiting servicers. A Florida HFA official explained to SIGTARP, "The one billion dollars has been a nice carrot to use for servicers in Florida, but there is no stick with

the carrot to force servicers to participate." Large servicers did not participate for nine months, citing administrative burden of 50 different programs, lack of program uniformity, and lack of GSE guidance. Servicers cited the need for GSE guidance before they could begin participating in the program. Treasury did not gain GSE support for HHF programs for eight months. Treasury, responsible for HHF oversight and accountable for HHF results, should have been, and still should be, the driving force to ensure that the GSEs and large servicers support the HFAs' programs.

In order to reach the number of homeowners whom the HFAs collectively estimate helping through HHF, there needs to be a dramatic increase in the number of homeowners helped. As was clear in the beginning of HHF, states need Treasury's help and support to increase the number of homeowners helped, and Treasury should do everything it can to ensure the program's success. Treasury should set measurable goals, measure progress against those goals, and develop an action plan to ensure that the next five years result in the Hardest Hit Fund fulfilling TARP's goal to preserve homeownership.

What SIGTARP Recommends

SIGTARP recommends that Treasury: (a) set meaningful and measurable performance goals for HHF including at a minimum the number of homeowners to be helped and measure progress against those goals; (b) instruct state housing finance agencies in the Hardest Hit Fund to set meaningful and measurable overarching and interim performance goals; (c) set milestones at which the state housing finance agencies in the Hardest Hit Fund must review the progress of individual state programs and make program adjustments from the review; (d) publish on its website and in the Housing Scorecard on a quarterly basis the total number of homeowners assisted, amounts drawn down by states, and dollars expended for assistance provided to homeowners, assistance committed to homeowners, and cash on hand; (e) and develop an action plan for the Hardest Hit Fund that includes steps to increase the numbers of homeowners assisted and to gain industry support for Treasury-approved HHF programs. If Treasury cannot achieve the desired level of homeowners assisted in any one program area in the defined time period, Treasury should put the funds to better use toward programs that are reaching homeowners.

In commenting on a draft of this report, Treasury stated that it will address SIGTARP's recommendations at a later date. A lengthier discussion of Treasury's response is contained in the Management Comments section of this report.

Table of Contents

Introduction....1

Background....3

Deteriorating Market Conditions and Increasing Unemployment Led to the Development of HHF.....3

Treasury Held Four Rounds of Funding and Approved Five Categories of Programs....4

Treasury Announced the Selection of States at the Same Time It Announced the Program. In the Fourth Round, Treasury Nearly Doubled the Funds Available for HHF Four Days Before Treasury's Spending Authority Under TARP Ended....6

Round One Targeted States with Home Price Declines Exceeding 20%....6

In Round Two, Treasury Expanded HHF to Five Additional States with High Unemployment....7

Round Three Used New Criteria To Target States with High Unemployment and Focus on Programs for the Unemployed....8

In Round Four, Treasury Added No New States, but Allocated an Additional $3.5 Billion to Previously Funded HFAs....9

Treasury Rejected Programs as Noncompliant with EESA....9

Treasury Considered the Design of the Program To Be Innovative and Did Not Evaluate Whether State HHF Programs Were Duplicative of Other Programs....11

The Hardest Hit Fund Has Experienced Significant Delay in Providing Help to Homeowners; Assistance Must Dramatically Increase To Meet the Number of Homeowners Whom HFAs Intend To Help....13

Treasury's One to Two Days of Notice to States Selected in the First Two Rounds Caught the States Off Guard....17

The Primary Challenge for HFAs Was Lack of Participation by Large Servicers....19

Administrative Burden, Lack of Program Uniformity, and Lack of GSE Guidance Made Servicers Hesitant To Participate in HHF....21

Treasury Did Not Gain GSE Support for HHF Before Approving State Programs....23

Treasury Convened a Servicer Summit with Key Stakeholders Seven Months After Program Launch....24

Once GSE Guidance Was Issued, Large Servicer Participation in Unemployment and Reinstatement Programs Greatly Increased....25

GSEs and Servicers Rejected Some HHF Programs, Leading States To Focus on Other Programs....26

Treasury's Goals and Metrics Fall Short and Make Effective Evaluation Difficult....32

Treasury and Most HFAs Did Not Set Numeric Goals....32

HFAs Publish Quarterly Numeric Data on Their Own Websites, but Without Stated Numeric Goals, It Is Difficult To Assess Performance 34

Estimates of the Number of Participating Households That Change Each Quarter Have Limited Value for Assessing Performance 35

Best Practices Call for Setting Goals and Measuring Program Performance 35

Conclusions........38

Recommendations........45

Management Comments and SIGTARP's Response........46

Appendix A – Objectives, Scope, and Methodology........47

Appendix B – Acronyms and Abbreviations........50

Appendix C – Timeline of Key HHF Events........51

Appendix D – HHF State Selection and Funding Allocation Methodology 52

Appendix E – HHF Funding Allocations and Amounts Obligated by State, Total Finalized September 29, 2010 53

Appendix F – HHF Programmatic Expenses and Homeowners Assisted, by State, as of December 31, 2011 54

Appendix G – HHF Funding Allocations and Amount Drawdown by HFAs, by State, as of February 2012 55

Appendix H – HFAs' Timeline of Pilot and Statewide Program Launches, and Date First Large Servicer Participates, as of August 1, 2011........56

Appendix I – State Selection Rankings for Rounds One, Two, and Three 57

Appendix J – HFA Quarterly Performance Report Template/Data Dictionary........63

Appendix K – HHF Program Goals by State and Program, as of December 31, 2011 68

Appendix L – Management Comments 73

Appendix M – Audit Team Members........76

Introduction

When Congress authorized the creation of the Troubled Asset Relief Program ("TARP") in 2008, the nation was in the midst of a housing crisis with a record number of foreclosures. Congress explicitly stated in the TARP legislation that one purpose of TARP was to preserve homeownership and specifically required the Secretary of the U.S. Department of the Treasury ("Treasury") to take into consideration "the need to help families keep their homes and to stabilize communities" when exercising authority.

The U.S. Government took several actions in response to the housing crisis that included rolling out in February 2009 the Making Home Affordable ("MHA") Program, which contained TARP's signature housing program, the Home Affordable Modification Program ("HAMP"). Treasury intended for HAMP to help as many as three to four million financially struggling homeowners avoid foreclosure by modifying loans to a level that is affordable for homeowners now and sustainable over the long term.

Despite these Government programs, in 2009 and early 2010, homeowners faced a housing market still under significant stress, with nearly 2.8 million foreclosures initiated in 2009, and 932,000 foreclosure filings in the first quarter of 2010. At the end of 2009, 66,465 homeowners were in permanent mortgage modifications under HAMP. In the first quarter of 2010, Treasury announced the expansion of MHA through several new efforts and program revisions.

In addition, on February 19, 2010, the Administration announced a new foreclosure prevention program under TARP called the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("Hardest Hit Fund," or "HHF"). Phyllis Caldwell, former Chief of Treasury's Homeownership Preservation Office ("HPO"), told the Office of the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") that the idea of the Hardest Hit Fund came from an overall examination of options to tackle home foreclosure economic challenges such as negative equity and unemployment not being addressed by HAMP. According to the program announcement, TARP dollars would fund "innovative measures to help families in the states that have been hit the hardest by the aftermath of the housing bubble." Two years have passed since HHF was announced, and 30,640 homeowners have received assistance as of December 31, 2011.

In a letter to SIGTARP dated June 23, 2010, Chairman Darrell Issa of the House Committee on Oversight and Government Reform requested that SIGTARP initiate a review of HHF, stating, "First, Treasury has not revealed, in a fully transparent manner, the scope and objectives of the state programs that will receive Hardest Hit Fund monies. … Second, the details of Hardest Hit Fund programs that have so far emerged suggest that they will not effectively address

the national foreclosure crisis … ." Consequently, SIGTARP began a review to meet the following objectives:

- assess the extent to which Treasury applied consistent and transparent criteria, including applicable provisions of the Emergency Economic Stabilization Act of 2008 ("EESA"), in selecting the states and programs to receive money from HHF;
- assess the extent to which Treasury determined that the programs to be funded by HHF are innovative and not duplicative of existing state and Federal programs; and
- identify the goals and metrics that Treasury adopted and reported to the public for the operation of HHF.

SIGTARP will address a fourth objective, to determine whether Treasury put sufficient mechanisms in place to prevent waste, fraud, and abuse of HHF, in a future audit report.

In conducting this audit, SIGTARP gathered information from officials from Treasury, Government-sponsored enterprises ("GSEs") – the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") – the Federal Housing Finance Agency ("FHFA"), state housing finance agencies ("HFAs") participating in the program, and the largest mortgage servicers. For discussion of the audit scope and methodology, see Appendix A.

Background

HHF is one of three TARP-funded housing programs, along with MHA programs and a Federal Housing Administration ("FHA") refinancing program.[1] Treasury has allocated $45.6 billion to these programs. MHA includes subprograms such as Treasury's principal housing program, HAMP. HAMP focuses on loan modifications and is intended to use incentive payments to encourage loan servicers ("servicers") and investors to modify eligible first-lien mortgages so that the monthly payments of homeowners who are currently in default or at imminent risk of default will be reduced to affordable and sustainable levels.

Deteriorating Market Conditions and Increasing Unemployment Led to the Development of HHF

Treasury officials told SIGTARP that HHF program development began around the end of 2009, when the housing crisis had grown worse and encompassed more of the housing market. At that time, home prices declined and unemployment rose to 9.9%. As part of the program development, the Administration, the National Economic Council, the Council of Economic Advisers, the U.S. Department of Housing and Urban Development ("HUD"), and Treasury officials discussed how to address the evolving housing crisis. Housing and mortgage sector participants, including the Mortgage Bankers Association, the National Council of State Housing Agencies, and HOPE NOW,[2] also advised Treasury on the development of HHF.

Former HPO Chief Caldwell told SIGTARP that Treasury wanted to do more regarding home foreclosure prevention. She told SIGTARP that the idea of HHF came from an overall examination of options to tackle foreclosure challenges, such as negative equity and unemployment, which were not addressed by HAMP or other MHA programs, and that at the end of 2009, unemployment was hovering around 9%, and one in four homes was underwater.[3] Treasury stated that HHF's goals are to help families in states hit the hardest by the burst of the housing bubble, allow for "locally focused" programs, support "innovative" foreclosure prevention efforts, prevent foreclosures, and stabilize the housing market. Treasury designed the HHF program to provide TARP funding for foreclosure prevention programs designed and run by HFAs. HFAs are authorities created by state law that help provide affordable housing. One Treasury official noted that HHF offered locally tailored solutions, something that

[1] FHA in the U.S. Department of Housing and Urban Development ("HUD") provides mortgage insurance on loans made by FHA-approved lenders.
[2] HOPE NOW is an alliance of mortgage counselors, mortgage companies, investors, and other mortgage market participants that aims to maximize outreach efforts to homeowners in distress.
[3] Declining home prices may result in "negative equity," when the value of the home is less than the mortgage loan balance. Being "underwater" is a term also used to describe negative equity.

nationally focused HAMP did not. The Administration noted in announcing HHF that HFAs were "already familiar with the urgent challenges facing their communities and have demonstrated the ability to address these challenges."

Treasury Held Four Rounds of Funding and Approved Five Categories of Programs

Initially, Treasury announced that TARP funds would be allocated to states where home prices had declined more than 20%. Former HPO Chief Caldwell told SIGTARP that there were differences in the housing crisis at the state level, citing the example of the "sand states" of Arizona, California, Nevada, and Florida, which had substantial negative equity. Although Treasury had not specifically contemplated a total funding amount for HHF, Treasury later expanded the program in four rounds of funding in 2010. Treasury allocated $7.6 billion in TARP funds for HHF programs at 18 Treasury-selected states and the District of Columbia. The funds remain available until December 31, 2017. Treasury announced the four rounds as follows:[4]

- Round One: Announced February 19, 2010, $1.5 billion for five states with home price declines greater than 20% (Arizona, California, Florida, Michigan, and Nevada);
- Round Two: Announced March 29, 2010, $600 million for five states with high concentrations of people living in economically distressed areas defined by Treasury as counties with unemployment rates that exceeded 12% (North Carolina, Ohio, Oregon, Rhode Island, and South Carolina);
- Round Three: Announced August 11, 2010, $2 billion for states with unemployment above the then-national average of 9.8% (17 states and the District of Columbia); and
- Round Four: Announced September 29, 2010, $3.5 billion for states already in HHF.

Treasury subsequently 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 such as a short sale (in which the home is sold for less than the mortgage loan balance), deed-in-lieu of foreclosure (in which the homeowner transfers ownership to the lender or investor), or relocation

[4] For a timeline of key HHF events, see Appendix C, and for the amount of HHF funding obligated to each state by round, see Appendix E.

assistance. Each HFA could offer multiple programs under HHF, with Treasury approval.[5]

[5] For all HHF participation agreements and amendments by HFAs containing program descriptions, the estimated number of households served, and the funds allocated to each program, see the Contracts & Agreements tab at http://www.treasury.gov/initiatives/financial-stability/programs/housing-programs/hhf/Pages/default.aspx.

Treasury Announced the Selection of States at the Same Time It Announced the Program. In the Fourth Round, Treasury Nearly Doubled the Funds Available for HHF Four Days Before Treasury's Spending Authority Under TARP Ended

For each round, Treasury internally decided on criteria for that round, applied the criteria to all states and the District of Columbia, decided the states and the amount of funds to distribute among the states, and then publicly announced the decisions. Treasury used a different method and criteria for selecting states for each round. Treasury consistently applied its announced criteria in the first three rounds, but in Round Two, the choice of the cutoff for its selection of states was not transparent. Four days before Treasury's TARP investment authority expired, Treasury nearly doubled the funds for the program, giving the funds to the participating states without expanding the program to additional states.

Round One Targeted States with Home Price Declines Exceeding 20%

As first announced, HHF would fund states where the average home price had declined more than 20%. In the first round, Treasury selected five states, applying the 20% criteria. Former HPO Chief Caldwell told SIGTARP, "We focused on price declines, which were expected to include the 'sand states' since they had homes that were greater than 20% underwater. We thought about principal reduction and negative equity to address that in places where homeowners had put down 20% or more and were still underwater." Caldwell explained that Treasury thought it "could capture the responsible borrower caught in the bubble and then price declines."

Treasury used the FHFA seasonally adjusted purchase-only house price index to calculate the statewide percentage decline from each state's home price peak (which most frequently occurred in 2007).[6] Former HPO Chief Caldwell told SIGTARP the breakpoint for the first five states selected made sense, and that after the first five, there was a big gap. Michigan, the fifth state selected for

[6] The FHFA seasonally adjusted purchase-only house price index measures changes in single-family house prices. It is a repeat-sales index, using price changes from repeat sales of the same properties. The index is based on sale prices of detached houses with mortgages that were conventional, were conforming, and were securitized or purchased by Fannie Mae or Freddie Mac. A conventional mortgage is one that is not insured by FHA or guaranteed by the U.S. Department of Veterans Affairs. A conforming mortgage is one that has a loan balance no greater than that allowed by GSEs, and meets minimum underwriting standards.

Round One, had a price decline of 24.1%, whereas Maryland – which was not selected for Round One – had a price decline of 19%. She explained that for the next five states, "there was not a good breakpoint, and the next five in the first criteria list did not meet our objectives."[7] After the five states Treasury selected, the remaining states fell under 20% in home price decline.[8]

In Round Two, Treasury Expanded HHF to Five Additional States with High Unemployment

On March 29, 2010, Treasury announced the expansion of HHF to states with high concentrations of people living in economically distressed counties in which the unemployment rate exceeded 12% in 2009. Treasury selected five states: North Carolina, Ohio, Oregon, Rhode Island, and South Carolina. Former HPO Chief Caldwell told SIGTARP that home foreclosures caused by concentrated unemployment were not being addressed by HAMP, and Treasury wanted to use HFAs to address the issue. Former Treasury Assistant Secretary for Financial Stability Herbert Allison told SIGTARP, "We heard from lots of other states after the first round. … Members of Congress and community groups spoke out." Treasury received letters from elected officials of Ohio and Pennsylvania, expressing concern as to why their states were not funded through the program and urging Treasury to expand the program to other states.

Unlike for Round One, Treasury was unable to clearly explain how it selected the criteria of a greater than 12% unemployment rate other than to call it a "policy decision," and explain how it drew a cutoff line for the five states that received funding when there was not a clear statistical cutoff point. Treasury's press release stated, "Less than 15 percent of the U.S. population lives in such high unemployment rate counties." In Round Two, Treasury selected North Carolina, Ohio, Oregon, Rhode Island, and South Carolina, states that had a range of 22% to 60% of their population living in counties with concentrated unemployment.[9] Unlike Round One, Round Two did not have a clear statistical cutoff point for state eligibility. There was a small gap between states included and excluded for the second round, with Ohio included at 22% of state population in high unemployment counties and Tennessee excluded at 21%. Treasury's

[7] The state price decline percentages as calculated from the FHFA's seasonally adjusted purchase-only house price index are identified in Appendix I.

[8] Treasury allocated the $1.5 billion in TARP funds among the states using a Treasury-created formula that included housing price declines calculated from the FHFA seasonally adjusted purchase-only house price index, unemployment data from the U.S. Department of Labor's Bureau of Labor Statistics ("BLS"), and the number of delinquent loans in the state. The methodology was based on the sum of two ratios. The ratio of a state's unemployment rate compared to the highest unemployment rate in any state and the ratio of a state's price decline compared to the largest price decline in any state were summed. Then, the sum of the ratios was multiplied by the number of delinquent loans in each state, and funding was allocated based on the "weighted share" of delinquencies. Treasury used the number of loans that were at least 60 days delinquent but not in foreclosure, from the Mortgage Bankers Association, fourth quarter of 2009.

[9] California and Michigan met the statistical requirements for Round Two, but Treasury disqualified them because they had already been selected for Round One.

Frequently Asked Questions stated, "In order to help significant quantities of borrowers and test the effectiveness of these efforts, funding levels need to be high enough to make a significant impact. For this reason, HFAs in the five states most severely impacted will be allocated funding." After selecting the states, Treasury allocated funds among the states in proportion to the number of people in each state living in counties with high unemployment.

Treasury selected the states based on the greater than 12% unemployment rate in specific counties, but allowed the states to spend HHF dollars throughout the state, even if other areas of the state had unemployment of 12% or less because, according to a senior Treasury official, the White House wanted to provide states more flexibility and not be seen as being prescriptive.

Round Three Used New Criteria To Target States with High Unemployment and Focus on Programs for the Unemployed

On August 11, 2010, Treasury announced Round Three and an additional $2 billion. Although all states were eligible, even if already participating in HHF, Treasury selected states with unemployment at or above 9.8%, the national average at the time, using the U.S. Department of Labor's Bureau of Labor Statistics ("BLS") data.[10] Applying these criteria, Treasury selected 17 states and the District of Columbia for Round Three and allocated funds based on the population size of eligible states. For detailed state selection rankings and allocations for Rounds One, Two, and Three, see Appendix I.

A Treasury press release announcing Round Three said the funds had to be used for "targeted unemployment programs that provide temporary assistance to eligible homeowners to help them pay for their mortgage while they seek re-employment, additional employment or undertake job training." Half of the states eligible for Round Three had previously received HHF funds and were allowed to amend their approved plans to create or modify programs to target unemployment.[11] One HFA pointed out to SIGTARP the need for a targeted unemployment program building on HAMP, which focused on loan modification. The HFA official said, "HAMP is a loan modification program – this is not effective if people are unemployed – they need a targeted unemployment program."

[10] Treasury used the BLS seasonally adjusted monthly unemployment rates (by state) and took the average for each state from July 2009 through June 2010.

[11] The only state that had previously received funds but was not included in Round Three was Arizona because Arizona's 12-month average unemployment rate was not equal to or greater than the national average.

In Round Four, Treasury Added No New States, but Allocated an Additional $3.5 Billion to Previously Funded HFAs

On September 29, 2010, Treasury announced that in Round Four, an additional $3.5 billion would be provided to all states already approved for HHF, bringing total TARP funding for the program to $7.6 billion. Treasury officials told SIGTARP that the decision to provide a fourth round of funding was based on the belief that a state-driven solution could address the ongoing housing crisis and mentioned the impending October 3, 2010, expiration of Treasury's investment authority under TARP.[12]

For the first three rounds, SIGTARP found that Treasury consistently applied the announced criteria to all states. Round Four provided more money to the states already in HHF. According to Treasury, in the first three rounds it assessed states' capacity to implement HHF programs and funded the states according to what it thought the HFAs could use effectively. However, in Round Four, Treasury nearly doubled the program's funding and allocated the funds to the participating states by population. Treasury officials told SIGTARP that Treasury called the HFAs and inquired as to their capacity before obligating additional funds. Despite a SIGTARP request, Treasury provided SIGTARP no documentation showing evaluation of each state's ability to effectively absorb additional funding. Therefore, it is not clear how Treasury assessed the HFAs' needs and requirements for receiving nearly double the TARP funding. For an overview of the funding, state selection criteria, states funded, and funding allocation method, see Appendix D.

Treasury Rejected Programs as Noncompliant with EESA

In announcing HHF on February 19, 2010, the Administration specifically stated that programs must meet funding requirements under EESA, which included "that the recipient of funds must be an eligible financial institution and that the funds must be used to pay for mortgage modifications or for other permitted uses under EESA." Treasury determined which of the 19 HFAs were eligible financial institutions, and required each HFA that was not an eligible financial institution to establish one to receive the Government funds.[13]

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[12] The funds were allocated based on each of the participating state's population. For detail on funding allocations among Round Four states, see Appendix E.

[13] Treasury may only purchase a "troubled asset" from a "financial institution" as defined in EESA, and Treasury may use its authority under Section 109(a) to use loan guarantees and credit enhancements to facilitate loan modifications to prevent avoidable foreclosures. Treasury required each HFA to designate or create an entity ("Eligible Entity") that complied with the definition of a "financial institution" under Section 3(5) of EESA, and Treasury entered into participation agreements – which it determined were "financial instruments" and therefore "troubled assets" under Section 3(9) of EESA – with the Eligible Entities, requiring the Eligible Entities to implement locally tailored programs to help prevent foreclosures and stabilize the housing markets in their respective states.

Treasury also reviewed and approved or rejected state HFAs' programs, focusing largely on whether the proposed program complied with EESA. Treasury's HFA-Hardest Hit Fund Review Committee ("Review Committee") was responsible for evaluating the proposed programs for compliance with EESA and in accordance with Treasury's guidelines.[14]

Treasury determined that programs in the following five categories were authorized by Section 109(a) of EESA as "credit enhancements" to facilitate loan modifications for preventing avoidable foreclosures:

- unemployment programs;
- mortgage modification/principal reduction;
- second-lien reduction;
- reinstatement or short-term loan; and
- relocation, short sale, or deed-in-lieu.

SIGTARP has reviewed Treasury's contracts with HFAs detailing each of the 49 programs initially approved through the first three HHF rounds. SIGTARP found that all of the programs fall within one of the five categories set forth above.

Treasury consistently rejected proposed programs for legal aid and foreclosure counseling. Treasury conducted a legal analysis that determined that proposals for legal aid services were not specifically authorized by EESA. In addition, Treasury determined that certain proposed legal aid services and broad-based foreclosure counseling were not necessary and incidental, as a matter of law, to the implementation of the HHF because Congress had provided other specific appropriations that fund similar services provided by the HFAs and because legal aid services were not "necessary" or "essential" to the implementation of a loan modification program. Treasury rejected some proposals because the programs did not establish enough of a link between the assistance offered and the prevention of avoidable foreclosures and therefore did not comply with EESA. According to HFAs, Treasury rejected proposed programs for down payment assistance, mediation, job training, job creation, and a program for the elderly with flood-damaged homes who qualified for reverse mortgages. However, beyond stating that the HFA-proposed programs did not establish enough of a link between the assistance offered and the prevention of avoidable foreclosures, Treasury has not provided additional explanation or documentation for the rejection of those particular programs. Treasury provided documentation such as Review Committee minutes showing decisions on proposed programs, and emails from a contracted law firm conveying Treasury guidance to the states on some types of assistance that were not permissible. However, this documentation was

[14] The Review Committee included seven voting representatives from Treasury's Office of Financial Stability ("OFS") and Treasury's Office of Domestic Finance, and four non-voting participants including two attorneys from the Office of Chief Counsel, a Budget Officer, and a Financial Analyst.

not sufficient for SIGTARP to analyze the basis for Treasury's rejection of these programs or to form an opinion as to whether Treasury consistently applied that basis in rejecting these programs.

Treasury Considered the Design of the Program To Be Innovative and Did Not Evaluate Whether State HHF Programs Were Duplicative of Other Programs

Treasury officials, the GSEs, FHA, and some servicers considered the design of the HHF program to be innovative. Treasury officials stated that HHF is innovative in general by providing "locally tailored" solutions. The HHF Program Director told SIGTARP, "There was no definition of innovation required by Treasury. Treasury did not ask states to reinvent the wheel; states used their discretion and developed their own delivery mechanisms that Treasury considers to be innovative in general. There are only so many ways to implement foreclosure mitigation programs." Former HPO Chief Caldwell said, "Innovation means different things to different people. HHF was innovative in that it's different from HAMP. HAMP is a one-size-fits-all program." She also said, "There was no litmus test for innovation." Caldwell also noted that HHF could be considered innovative in the context of traditional mortgage modifications because HHF programs were different, and states have the flexibility to choose the type of program and set the amount of funding and the number of homeowners they wish to help.

SIGTARP consulted Fannie Mae, Freddie Mac, FHA, three of the largest servicers, and an academic about whether HHF had innovative aspects. They told SIGTARP that they generally agreed that HHF programs have innovative aspects compared to existing Government programs because they provide different types of assistance at a local level or help borrowers for longer periods of time. Some mortgage industry stakeholders considered HHF unique in targeting the unemployed and second liens. Another mortgage industry stakeholder considered assistance to unemployed homeowners with no income to be innovative. Mortgage industry stakeholders also said that the HHF programs provide deeper relief to homeowners than before the housing crisis because previous programs were generally funded at too low a level to respond effectively to the housing crisis, were not designed to address negative equity or issues with second liens, or had eligibility requirements that excluded many current struggling homeowners such as the unemployed.

Treasury told SIGTARP that it did not perform an analysis to determine whether HHF programs were duplicative of existing Federal and state programs. Treasury officials told SIGTARP that they did not require HFAs to design programs that had never before been implemented. Treasury encouraged states to borrow other

states' effective programs,[15] and told the states that their HHF proposals could complement existing foreclosure programs, including HAMP.[16]

[15] For example, Treasury referred HFAs to existing programs that could serve as models for HHF programs. One such model program was Pennsylvania's Homeowners' Emergency Mortgage Assistance Program, which assists unemployed borrowers. Other existing foreclosure prevention programs used as models include the Delaware Emergency Mortgage Assistance Program, North Carolina's Home Protection Pilot Program, and the Ohio Home Rescue Fund.

[16] For example, HHF assistance can be used either to make a borrower eligible to participate in a HAMP program, or to assist a borrower who has already received a permanent HAMP loan modification. Treasury also issued guidance on how HHF programs should interact with MHA foreclosure prevention programs.

The Hardest Hit Fund Has Experienced Significant Delay in Providing Help to Homeowners; Assistance Must Dramatically Increase To Meet the Number of Homeowners Whom HFAs Intend To Help

This section describes how Treasury's planning and oversight created implementation issues that delayed participation by Fannie Mae, Freddie Mac, and the largest servicers. The delay in participation by these major stakeholders had a ripple effect on preventing the state HFAs from getting assistance to homeowners.

State HFAs experienced delays in rolling out their programs and getting assistance to homeowners. Treasury reported that all 19 HFAs in the HHF program had begun offering assistance statewide by July 2011. According to the most recently available performance results data as of December 31, 2011, the HFAs had offered 55 HHF programs.[17]

As of February 2012, two years after the launch of HHF, the HFAs had drawn down $828.6 million. The majority of these funds had been identified for administrative expenses and cash on hand.[18] As of December 31, 2011, HFAs had spent $217.4 million (or 3% of $7.6 billion) to assist 30,640 homeowners, only 7% of the 458,632 to 486,536 homeowners whom HFAs plan to assist by December 31, 2017, when the program's funding expires.[19] See Table 1 for estimates of the number of homeowners to be assisted, and actual numbers for the applications approved, homeowners served, and the amount of funds spent on programs through December 31, 2011.

[17] HFAs had 55 programs as of December 31, 2011. Since then, HFAs added or eliminated programs with a net result of 54 programs as of January 25, 2012. However, the most recent available quarterly performance results data analyzed for this report are from December 31, 2011. As a result, for many purposes in this report, SIGTARP uses data as of December 31, 2011.

[18] Treasury monthly reports refer to funds paid to HFAs for HHF as "drawdowns," or disbursements. "Cash on hand" refers to funds that the states have received from Treasury but not spent. According to Treasury, 16 of the 19 HFAs hold the funds in interest-bearing accounts. Any interest earned can be used only for HHF. For the amount drawn down by each HFA, see Appendix G.

[19] SIGTARP aggregated the HFAs' estimated number of homeowners to be assisted through December 2017 for all HHF programs to arrive at a single range of numbers the program plans to assist overall (see Table 1 note). The range is from 458,632 to 486,536 homeowners.

TABLE 1

ESTIMATED AND ACTUAL HHF USAGE

Date	Estimated Number of Homeowners to Assist Through 2017[a]	Applications Approved (cumulative)[b]	Homeowners Assisted (cumulative)	Assistance Spent on Programs (cumulative)
As of September 30, 2010	244,703-262,170	262	n/a[c]	$1,060,390
As of December 31, 2010	434,472-475,054	757	n/a[c]	$3,819,129
As of March 31, 2011	507,619-549,094	2,598	2,328	$10,949,749
As of June 30, 2011	501,506-538,206	8,422	7,389	$40,726,410
As of September 30, 2011	480,929-510,797	20,695	19,025	$112,494,322
As of December 31, 2011	458,632-486,536	33,542	30,640	$217,427,372

Note: Treasury allocated Round Four funds by September 30, 2010, but the HFAs did not reflect this in estimates of the numbers they would serve until December 2010. As a result, the estimated number of participating households increased substantially from September 30, 2010, to December 31, 2010.

[a] This column shows the totals of the individual program estimates. According to Treasury, these totals do not necessarily translate into the number of unique homeowners whom the states expect to assist because some homeowners may participate in more than one HHF program.

[b] In some states, homeowners may apply to more than one program, so the number of applications approved may be higher than the number of borrowers assisted.

[c] HFA quarterly reports did not include data for Homeowners Assisted until the March 31, 2011, report.

Sources: HFA Participation Agreements, amendments through 12/31/2011, and Quarterly Performance Data reports, third and fourth quarters 2010, first, second, third, and fourth quarters 2011, reporting states. Some figures have changed from those previously published in SIGTARP Quarterly Reports as some HFAs revised previously reported numbers.

The initial months of the HHF program involved a ramp-up period – HFAs developed proposals for programs, Treasury reviewed and approved proposed programs, and HFAs established infrastructure for administering their programs. The rollout of HHF was also staggered – Treasury approved Round One HFAs' programs in June 2010, Round Two HFAs' programs in August 2010, and Round Three HFAs' programs in September 2010. As is evidenced in Table 1, the estimated number of homeowners to be assisted by HHF has been steadily decreasing over the last year. There will have to be a dramatic increase in the number of homeowners served to reach the most recent minimum estimate of 459,000 homeowners assisted.[20]

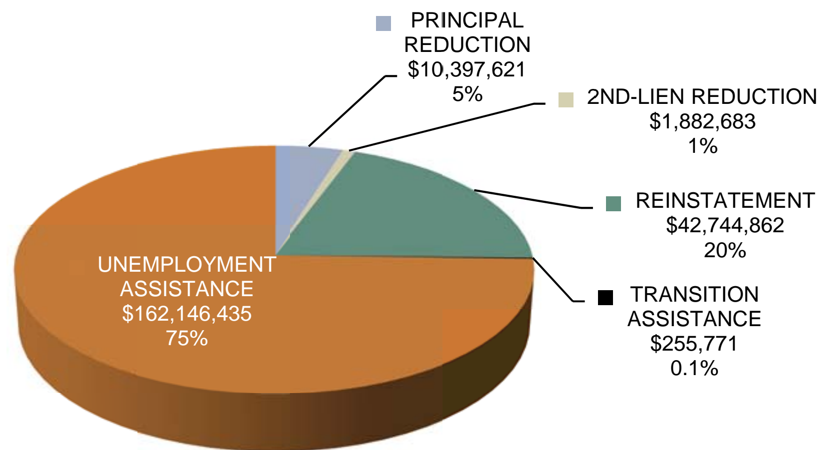
Three-fourths of the HHF assistance provided to homeowners so far was for unemployment assistance. The remaining assistance provided to homeowners can be broken down to 20% for reinstatement through payment of past due amounts, 5% for principal reduction, 1% for second-lien reduction, and 0.1% for transition assistance (see Figure 1). This assistance ranged from approximately $3,000 to $50,000 per homeowner.[21]

[20] For the programmatic expenses and homeowners assisted by HFAs through December 31, 2011, see Appendix F.

[21] Treasury told SIGTARP that for two HHF loan purchase programs in Illinois and Oregon, the per-household assistance could be calculated when the programs are completed because all of the information would not be available until assistance is concluded. SIGTARP eliminated these two programs from the per-household assistance calculation.

FIGURE 1

ASSISTANCE PROVIDED UNDER HHF PROGRAMS BY TYPE OF ASSISTANCE THROUGH DECEMBER 31, 2011



Total HHF Program Expenses = $217,427,372

Source: HFA quarterly performance reports through December 31, 2011. Totals do not add to 100% due to rounding.

The Government Performance and Results Act of 1993 guidance related to program planning in Federal agencies offers best practices for Government programs. These include: (1) involving stakeholders early on, which can determine whether a Federal program succeeds or fails, and (2) assessing the external environment because forces outside an organization's control can powerfully affect chances for success. The Congressional Oversight Panel ("COP") has also opined on best practices in the area of Treasury housing programs by emphasizing the importance of determining whether Federal foreclosure prevention programs can be ramped up quickly to handle large loan volumes, and whether the program will have widespread participation by lenders and servicers.

Using these best practices, Treasury could have improved its planning and execution for HHF and increased participation in HHF by:

- bringing all key stakeholders such as HFAs, servicers, and GSEs together significantly earlier than seven months after program launch to ensure that stakeholder needs would be addressed;
- gaining broad industry acceptance for the state programs it approved, such as principal reduction or second-lien reduction;

- taking a stronger role in securing early participation of the largest servicers – Round One and Two states told SIGTARP that without large servicers on board, they would not be able to help a significant portion of homeowners whom they originally estimated;
- anticipating common implementation issues early on and resolving them in a timely manner; and
- supplying critical guidance, information, and support to GSEs and other stakeholders earlier than they did.

The former Assistant Secretary for Financial Stability, Herbert Allison, told SIGTARP that at the time Treasury announced the first round, Treasury did not expect to have a second or third round for the HHF program. However, in order to ensure that this initial $1.5 billion would be distributed efficiently and effectively to homeowners, Treasury should have brought all key stakeholders together early on to mitigate any barriers to participation. Even if the program had remained at the $1.5 billion or $2.1 billion funding level, early collaborative involvement of key stakeholders could have helped provide this assistance to homeowners more quickly than the program has done.

Treasury did not use its influence with key stakeholders for effective implementation of the program. Treasury involved some key stakeholders individually in planning HHF late in 2009 and contacted the GSEs and FHFA on the day before the program was announced. A working group of FHFA, Fannie Mae, and Freddie Mac officials discussed HHF in the early months. The working group met several times in April, May, and June of 2010. A Treasury official said Treasury had monthly one-on-one calls with HFAs that began in the summer of 2010; one-time visits to each state when its HHF programs opened statewide; calls with states explaining interaction between HAMP and HHF, and other issues; quarterly conference calls with HFAs; biweekly calls with more than 100 servicers and states; and biweekly calls with large servicers.

Despite Treasury's contacts with these stakeholders, Treasury did not use its influence to enlist servicers' support for and participation in state HHF programs, instead largely leaving that to the states. By July 2010, only one HFA (Michigan) had launched its pilot program and no large servicers were participating in HHF. Servicers cited the need for GSE guidance to begin participating in HHF. One GSE stated it had little direct contact with Treasury. This may have been a result of FHFA's guidance. In June 2010, FHFA issued an email to Treasury, Fannie Mae, and Freddie Mac, stating:

> "FHFA's OGC [Office of General Counsel] has determined that the GSEs should not work directly with Treasury on the design of HHF programs. If the GSEs work with Treasury directly on program terms, the GSEs could be perceived as having undue influence in the design of the HFA

> programs. Given Treasury's substantial investment in the GSEs, we don't think that perception can be completely eliminated. However, we think it can be minimized by having the GSEs work directly with the affected HFAs on any program issues, rather than with Treasury staff."

An FHFA official later clarified that GSEs could work in general with Treasury but could not ask Treasury to review or approve proposed "partnership proposals" to HFAs.

Key stakeholders stated that Treasury's decision to make states responsible for negotiating with servicers without Treasury first using its influence to resolve common issues may have impeded progress in the early months of HHF. Nine of the 10 HFAs funded in Round One and Round Two launched their initial HHF programs without large servicer participation. One HFA told SIGTARP that getting national banks to participate would have "required lots of coaxing and planning on the part of Treasury" and it would have been helpful to bring potential participants together before the program was announced. One large servicer told SIGTARP, "Anytime all the parties can be involved in a program, the more success you will have. I think that if Treasury, the states, and the servicers were involved earlier on, that the program would be more successful and further along."

FHFA informed Treasury as early as April 2010 that the GSEs needed an official determination from Treasury that they were allowed to accept TARP funds, and Treasury provided that in August 2010. Despite these communication efforts, GSEs' support for HHF was not finalized until after Treasury gathered the FHFA, HFAs, large servicers, and GSEs for a collaborative effort in September 2010. That meeting led to GSE guidance, which in turn led to large servicer participation in HHF. If Treasury had taken earlier efforts to collaborate with these key stakeholders, all may have been able to better anticipate barriers to participation in the program.

Several issues delayed HHF's implementation. What follows is a discussion of the most significant issues.

Treasury's One to Two Days of Notice to States Selected in the First Two Rounds Caught the States Off Guard

Treasury gave the five states selected for Round One a single day's notice before the announcement of the program on February 19, 2010. Until that time, four of the five states had no knowledge that they were under consideration to receive TARP funds or that the HHF program was being developed.[22] On

[22] One state HFA's representative was involved in discussions with Treasury on the development of HHF in the two weeks before the program announcement.

February 18, 2010, Treasury held a conference call with the five states in which Treasury notified them about the program, their selection to receive TARP funds, and a "walk-through" of the application process. In Round Two, three of the five states told SIGTARP that Treasury provided one to two days' advance notice that they were selected. Representatives from two state HFAs in Round Two told SIGTARP they did not know they were selected for the program until March 29, 2010, the day of Treasury's announcement, when they received phone calls from the media. Treasury told SIGTARP that it did not provide HFAs in the first two rounds more than one day's notice because "giving notice too early could lead to the premature release of information that is incomplete or inaccurate."

Treasury's decision to give one to two business days' notice to HFAs that they were selected for various rounds of HHF funding caught several HFAs off guard and did not allow them enough time to prepare to respond to the public's inquiries about the program. One HFA official told SIGTARP that 10 minutes after the announcement, the HFA began receiving phone calls from the public about the program, and the HFA received 200 phone calls that day from people asking when the money would be available.

HFAs had a matter of weeks to develop their programs after their selection was announced. On March 5, 2010, two weeks after announcing the Round One HHF program, Treasury told the states that they were required to submit proposals for their HHF programs by April 16, 2010,[23] which had to comply with new Treasury guidelines.[24] The HFAs gathered public input in developing proposed programs.

In addition to developing proposed programs, the HFAs had to change their processes and hire and train staff to implement the programs. One HFA official told SIGTARP that the HFA "was not prepared to deal with the tsunami of the HHF. … We had to build business processes." A second HFA said that it had to "scramble and get a network in place." One HFA had to add more staff assigned to HHF, going from seven employees to 42 employees, a sixfold increase. If Treasury had informed the HFAs before the announcement, the HFAs may have been able to identify their ramp-up requirements and been better prepared to handle inquiries from the public.

[23] On April 12, 2010, Treasury told the Round Two states that they were required to submit proposals for HHF programs by June 1, 2010.

[24] The guidance stated that the states' proposals could include innovative housing initiatives tailored to their local conditions to help prevent foreclosures and stabilize housing markets, including individual programs targeting unemployed borrowers, underwater borrowers, and second-lien relief. Treasury's guidance limited any assistance to borrowers with loans that had an unpaid principal balance of $729,750 or less. This amount was the GSE conforming loan limit in effect from the start of HHF through October 1, 2011. The guidelines also emphasized that the programs must meet EESA requirements for funding, purpose, and accountability. Treasury also provided a list of foreclosure prevention tools or foreclosure alternatives that would meet EESA requirements.

The Primary Challenge for HFAs Was Lack of Participation by Large Servicers

Several HFAs told SIGTARP that their primary challenge with the implementation of HHF was the lack of participation by large servicers. In regard to the lack of servicer participation, one HFA told SIGTARP that on a scale of one to 10, "this was a 10." Another HFA told SIGTARP, "Our biggest complaint is we were provided these funds, and we have such a need here, but we weren't able to handle the mass numbers because of no participation from the large lenders."

SIGTARP found that Treasury's delay in securing support from large servicers and the GSEs in Round One, and even in Round Two, was a planning and execution error. There was a very low volume of homeowners assisted until after the GSEs came on board, which in turn led to large servicer participation. A Treasury official told SIGTARP that the program was purposefully designed to have the HFAs negotiate with the servicers, but several HFAs reported being rebuffed by large servicers when seeking their participation for the Treasury-approved programs. One HFA told SIGTARP that large lenders said that with the number of homeowners who would receive assistance and the lenders' capacity, implementing the HHF program without a consistent process from the states would have been difficult for them. Another HFA told SIGTARP that servicers responded by saying that all of the HHF states with different programs would be too many different programs to handle. In designing the program this way, according to two HFAs, Treasury did not address the lack of bargaining power that smaller state HFAs had to recruit large servicers. A Florida HFA official explained to SIGTARP, "The one billion dollars has been a nice carrot to use for servicers in Florida, but there is no stick with the carrot to force servicers to participate." Another HFA told SIGTARP that it would have been helpful if Treasury had been more aggressive in getting large lenders to participate.

Treasury was aware of the HFAs' lack of progress in recruiting large servicers. One HFA official said that at the time Round One states signed their HHF contracts, one question was unanswered – would large servicers participate in HHF? He said that Treasury did not have an answer but Treasury realized the large banks "were late to the table."

Prior to receiving crucial guidance from the GSEs in October 2010, none of the four largest servicers had agreed to participate with any of the 19 HFAs in HHF. Several HFAs launched pilot programs with local community banks, and credit unions signed up to participate – though these institutions held a relatively small number of loans. Several HFAs praised Treasury for encouraging HFAs to pilot their programs before a full rollout.

Nine of the 10 HFAs funded in Round One and Round Two launched their initial HHF programs without large servicer participation, and one delayed its initial launch because large servicers were not participating. For example:

- Michigan's HFA signed up 136 local banks and launched its pilot program in July 2010 without major servicers. Michigan rolled out three HHF programs statewide in October 2010 without any of the four largest servicers participating.
- Florida's HFA said it delayed its pilot launch from August 2010 to October 2010 because large servicers were not participating. Florida launched with one large servicer.
- Arizona's HFA had planned to launch its pilot programs in July 2010, but instead launched in September 2010 with mostly community banks participating. Large servicers and the GSEs were not participating at that time; they were reluctant to join.
- Nevada's HFA took nearly a year to come to an agreement with Bank of America Corporation ("Bank of America") for the bank's participation in Nevada's principal reduction program. Nevada stated that it had started working with Bank of America in April 2010. Nevada's HFA and Bank of America reached agreement in January 2011, and Nevada's HFA launched its pilot program in March 2011, one year after Nevada was selected for the program.
- Ohio's HFA launched all four of its programs in September 2010 without major servicers participating.
- HFAs from California, Rhode Island, North Carolina, and South Carolina also cited issues with the lack of large servicer participation.

For a timeline of HFAs' pilot and statewide program launches between July 2010 and July 2011, with the date the first large servicer signed up to participate with each HHF program, see Appendix H.

HFAs launched their program without large servicer participation, and as a result, they could not reach all intended applicants. The HHF Program Director said that the Office of Financial Stability ("OFS") thought that the first two HHF rounds would work with either community banks and credit unions alone, or one large servicer in some states, and that they did not need to have all the large servicers and the GSEs participating until the third round expanded the program to 19 states and $4.1 billion. However, as stated above, the HFAs in the first two rounds cited issues with the lack of large servicer participation. The largest mortgage servicers account for a substantial percentage of loans and dollar volumes serviced, making their participation key if HHF programs are to reach as many homeowners as was intended. The four largest servicers – Bank of America, Wells Fargo and

Company ("Wells Fargo"), JPMorgan Chase & Co. ("JPMorgan"), and CitiMortgage, Inc. ("CitiMortgage") – together account for 53.9% of the top 50 firms' dollars serviced.[25] Several HFAs said participation by the largest servicers would be necessary to assist a significant share of the struggling homeowners in their states.

One HFA told SIGTARP that applicants were frustrated and wanted to know why ramping up the programs took so long, and the reason was that the national banks were not ready to jump in. Florida's HFA explained, "Without big servicers, it would take much, much longer to get the funds out, with just community banks and credit unions. It would be a trickle of eligible applicants. Without the big servicers, we would only be able to help about 50%" of the applicants the HFA had originally estimated. Arizona's HFA told SIGTARP that it could serve only 20% of the original estimate of applicants without the big servicers. North Carolina's HFA said if the big servicers are not on board, the HFA could help only 25% of its estimate. Michigan's HFA said that because the large servicers were not involved, it was able to assist only a small percentage of the applicants in its state. One HFA told SIGTARP that "without the servicers' participation, it would have been disastrous."

Administrative Burden, Lack of Program Uniformity, and Lack of GSE Guidance Made Servicers Hesitant To Participate in HHF

Treasury's decision to decentralize program development resulted in more than 50 non-uniform programs, which created implementation issues for servicers. Some of the large servicers said that without uniformity it was difficult to operate in the more than 50 unique HHF programs offered by 19 different HFAs. One servicer said its experience with HAMP, a single national program with one set of rules, was less complex than HHF. Servicers said the large number of HHF programs and their complexity posed an operational challenge for servicers to develop and implement HHF infrastructure and properly train staff. Large servicers said HHF would greatly tax their resources, given the number of programs and their lack of uniformity. Servicers voiced concern over their capacity to implement required systems and changes and asked for standardized information and a process for each program. One large servicer explained that states were creating and rolling out different programs and there was no standardization of programs. The servicer explained that its staff had to learn each state's different eligibility and coding requirements and that "the volume was unprecedented."

Treasury contacted large servicers after the program's announcement, but until November 2010, none of the four largest servicers had signed on to participate.

[25] According to analysis by *Inside Mortgage Finance*, the servicer arms of Bank of America, JPMorgan, CitiMortgage, and Wells Fargo are the largest servicers by total dollar volume serviced nationally for 1-4 family mortgages in 2011. Market share data were compiled by *Inside Mortgage Finance*, "Top Mortgage Servicers in 2011."

Treasury emailed the largest servicers in April 2010 suggesting a working group on the HHF program that included representatives from the largest servicers and FHFA. The HHF working group met in May 2010. Bank of America also liaised with Treasury and FHFA on the HHF program. One servicer explained that the states designed their own programs "in a vacuum," without knowing whether the servicers would be able to execute the programs.

Servicers also cited the need for GSE guidance to begin participating in HHF programs so they could ensure that they obeyed investor rules and acted correctly in processing loans and applying funds received from state HFAs. HFAs confirmed that large servicers identified the lack of GSE guidance as an obstacle to their participation in HHF programs. One HFA told SIGTARP that there was "no hint" of the big servicers' participation until Fannie Mae and Freddie Mac put out guidance.

Treasury told SIGTARP that after HHF expanded from $2.1 billion for 10 HFAs to $4.1 billion for 19 HFAs in August of 2010, "it became clear that servicer and GSE support would be critical to the full utilization of program funds." However, HFAs in the first two rounds told SIGTARP that because the large servicers were not involved, they were able to assist only a small percentage of the applicants in their states. The HHF Program Director told SIGTARP that OFS wanted states to have an opportunity to innovate and develop their programs before involving servicers, which might have pushed for too much uniformity early on. In fact, servicers said they demanded and received uniformity and standardization because the variety of programs was unworkable. SIGTARP found that Treasury's early experience in HAMP should have provided it a better understanding of servicers' needs and the effect that servicers' participation would have on a program's success. SIGTARP found that, given Treasury experience with HAMP and the sheer volume of mortgages held or guaranteed by the GSEs, it should have been clear before HHF was announced that large servicers and GSE support would be critical.

The GSEs exert considerable influence over the number of homeowners that the HHF programs can reach because the GSEs own or guarantee 56% of the 53 million outstanding first-lien mortgages in the United States, according to a June 2011 Freddie Mac analysis, the latest available. Moreover, the GSEs own or guarantee 28% (18% Fannie Mae, plus 10% Freddie Mac) of the 4 million seriously delinquent mortgages. Because Fannie Mae and Freddie Mac directly control policy for more than half of the residential mortgage market, their support for the HHF program is critical for the state programs to have a widespread effect.

Treasury Did Not Gain GSE Support for HHF Before Approving State Programs

Treasury opened discussions with the GSEs early on, but Treasury did not secure support for some HHF categories of programs that it had approved, delayed key approvals for GSEs to accept TARP funds, and did not use its influence to obtain GSE guidance critical for servicer participation until eight months after the program launch.

Treasury met with the GSEs and FHFA in planning the rollout of HHF, but Treasury did not determine what categories of programs the GSEs would support before the state HFAs designed their programs. The GSEs and their regulator/conservator FHFA told SIGTARP that Treasury contacted the GSEs in early 2010 to discuss HHF and how to get the GSEs involved with HHF programs. At that time, FHFA formed a working team with Fannie Mae and Freddie Mac to discuss HHF participation and the guidance to be issued to servicers. On April 1, 2010, two months after Round One of the HHF program was announced and one month after Round Two was announced, FHFA directed the GSEs "to discuss under FHFA auspices existing and possible new practices to mitigate losses," including "partnering with HFAs participating in the HFA Hardest Hit Fund."

A senior Treasury official told SIGTARP that Treasury's role was to work with the GSEs and gain their support for the types of assistance under HHF. However, in the first six months of the program, Treasury approved HFA program proposals without getting the buy-in of the GSEs. A Treasury official told SIGTARP that HHF programs are voluntary and that Treasury cannot compel GSEs to participate. The effect was very real on state HFAs. One HFA told SIGTARP that it did not limit applications to its HHF program, but that it happened on its own, explaining that when it rolled out its program, Fannie Mae and Freddie Mac were not on board.

In addition, Treasury did not provide the GSEs with documentation needed to issue HHF guidance to servicers until August 2010, six months after the program was announced. Treasury became aware of the GSEs' need for documented authority for the GSEs to accept borrower payments from TARP funds in April 2010. Treasury did not resolve the issue early on and therefore missed an opportunity to resolve it before program rollout.

Treasury Convened a Servicer Summit with Key Stakeholders Seven Months After Program Launch

Treasury organized a Servicer Summit in Washington, D.C., on September 21, 2010, seven months after the announcement of the HHF program, inviting major participants and stakeholders. At the time of the summit, Round Three had already been announced, the announcement of Round Four was seven days away, none of the largest servicers had signed on to any of the HHF programs, and the GSEs had not issued any HHF program guidance. The Servicer Summit was a turning point for HHF as the state HFA programs prior to that were hobbled by lack of servicer participation and GSE support. One HFA called the Servicer Summit "the first big step," explaining that FHFA, the GSEs, the big servicers, and the states looked to Treasury to instigate these improvements. One large servicer told SIGTARP that prior to the Servicer Summit, the interaction was fairly minimal, but after the summit, the large servicers began to meet as a group on state-level issues.

At the Servicer Summit, servicers discussed a standard agreement between HFAs and servicers and guidance from investors including the GSEs on how to treat their loans under the HHF program. Treasury also communicated with the guarantors – such as FHA, the U.S. Department of Veterans Affairs ("VA"), and the U.S. Department of Agriculture-Rural Development – to obtain their participation in HHF. The GSEs and FHFA prepared for the summit by outlining the general terms under which the GSEs would participate in the HHF unemployment program, providing what they called a broad set of expectations for their participation. Some issues the servicers raised were resolved after the summit, such as developing an HFA "common data file" format, which would give the servicers standardized information from the HFAs, and obtaining guidance on how to report mortgage interest payments to the IRS when states cover any portion of mortgage payments.

The outcome of the Servicer Summit was the resolution of several issues that had prevented GSEs and many servicers from participating in HHF. One large servicer said that participants at the summit worked on standardization of programs for HHF. The servicers agreed on a way to communicate with the HFAs and on a participation agreement between servicers and HFAs. Treasury finalized term sheets as a part of the participation agreements between Treasury and each HFA that describe each HHF program. The GSEs and FHFA met regularly following the summit to develop written guidance for servicers on participating in HHF programs.[26]

[26] Treasury held a second summit on November 15, 2011, for states, servicers, and GSEs, and other stakeholders to discuss the status of the HHF program, issues that should be addressed, and opportunities to expand program participation.

After the process and uniformity issues were addressed in the September 2010 Servicer Summit, Fannie Mae and Freddie Mac issued guidance to servicers on October 29, 2010, directing them to accept funds from HFAs for mortgage loans owned or guaranteed by the GSEs for only the HHF unemployment and reinstatement programs.[27] Neither guidance document provided an explanation of why the GSEs supported the HHF unemployment and reinstatement programs, but not other HHF programs; however, it may have been because the GSEs do not have to fund any costs associated with these programs. For unemployment and reinstatement programs, Treasury, rather than the homeowner, pays all or part of the monthly mortgage payment or reinstatement payment without changing the terms of the mortgage. The servicers, investors, and GSEs make no financial sacrifices in the unemployment and reinstatement programs because the mortgages are essentially paid by the Government in whole or in part.

Once GSE Guidance Was Issued, Large Servicer Participation in Unemployment and Reinstatement Programs Greatly Increased

After the GSEs issued guidance, large servicer participation began and swiftly rose, but only in the two types of HHF programs approved by the GSEs – unemployment and reinstatement. One HFA told SIGTARP that Fannie Mae's and Freddie Mac's direction in October 2010 "opened up HHF for the larger lenders." For two types of HHF programs approved by Treasury – unemployment and reinstatement programs – the largest servicers are participating actively in the 19 states, and the GSEs, the Government insurer (FHA), and guarantors (U.S. Department of Agriculture and VA) have issued servicer guidance or encouraged servicer participation. Large servicers also indicated that other investors and private mortgage insurers were generally willing to participate in HHF unemployment and reinstatement programs.

According to the largest servicers, as of August 1, 2011, all 20 of the HHF unemployment programs had at least three of the largest servicers participating, and all seven HHF reinstatement programs had at least two participating. As of December 31, 2011, unemployment and reinstatement programs accounted for 27 of the 55 HHF programs in place and 69% of the total $7.6 billion in HHF program funding.

[27] Freddie Mac's guidance was silent on the three other types of HHF programs approved by Treasury – principal reduction, second lien, and transition assistance. Fannie Mae's guidance said it would not support principal reduction and was silent on the other two.

GSEs and Servicers Rejected Some HHF Programs, Leading States To Focus on Other Programs

This section discusses Treasury's inability to obtain GSE and servicer support for all of the HHF programs offered. This affected participation levels in the programs.

The GSEs rejected principal reduction programs, citing primarily moral hazard[28] and execution issues. "Principal reduction could increase the incentive for homeowners to become delinquent on their mortgage (*i.e.*, increased 'moral hazard' leading to more 'strategic defaults')," according to one GSE's analysis of HHF principal reduction supplied to FHFA. Freddie Mac officials told SIGTARP that the moral hazard impact could affect the whole market, ultimately ending in losses for the GSEs if homeowners able to pay their loan stopped paying in order to get their principal reduced.

As the GSEs' conservator, FHFA refused to have the GSEs participate in HHF principal reduction programs. FHFA Executive Advisor David Pearl told SIGTARP: "We have regular conversations with Fannie Mae and Freddie Mac as their regulator and conservator. With any new policy action, FHFA has to give them the green light." FHFA did not "give [GSEs] the green light" and the GSEs therefore have not participated in HHF principal reduction programs.[29]

Despite the GSEs' stance on principal reduction, Treasury encouraged HFAs to pursue principal reduction programs with individual lenders. "Principal reduction is difficult. We have spent a lot of time with Fannie, Freddie, and FHFA, …" former HPO Chief Caldwell told SIGTARP. "The GSEs were crystal clear in their objections to principal reduction, which was not a secret to the HFAs. That's why we encouraged the HFAs to work on principal reduction programs within servicers' non-GSE book," she said. "The overall message from Treasury on principal reduction has been consistent in its guidance on tools for foreclosure prevention – it makes sense for certain HFAs. We have some initial servicer support and can encourage more with or without the GSEs." Officials of three HFAs – Arizona, California, and Nevada – told SIGTARP that they worked

[28] Moral hazard occurs when a party is insulated against a risk (such as in the context of a Government assistance program) and may behave differently than if it bore the full risk. The Government Accountability Office ("GAO") defines moral hazard related to principal reduction as the risk that borrowers would default on their mortgages to receive principal reduction when they otherwise would not have.

[29] Fannie Mae on October 26, 2011, and Freddie Mac on December 13, 2011, issued guidance to their servicers that require servicers to accept funds from HFAs that are assisting borrowers in qualifying for mortgage modifications as long as the GSEs and the servicer are not required to match the HFA assistance and certain other criteria are met. This guidance extends Fannie Mae's and Freddie Mac's October 2010 guidance beyond unemployment and reinstatement programs to include some modification assistance programs that Treasury classifies as principal reduction programs.

together to focus on principal reduction and other issues they shared. Subsequently Bank of America became the first large servicer to participate in HHF first-lien principal reduction. It remains the only one as of the drafting of this report.

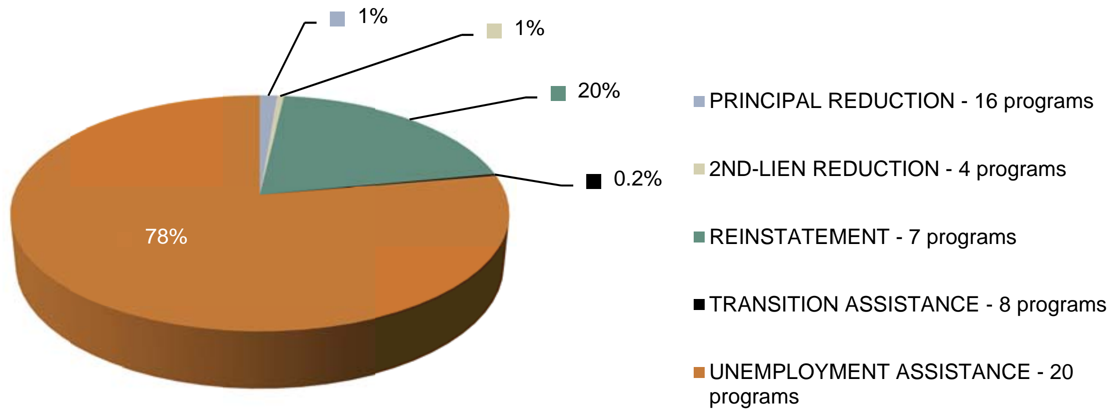
FHFA, which determines whether Freddie Mac and Fannie Mae can participate in HHF, told SIGTARP in February 2011 that GSE analysis showed that the target population for HHF principal reduction was so small that operational costs would offset any gains. The GSE analysis also cited concerns about the diverting of resources from other projects. An FHFA official told SIGTARP it was a "systems nightmare" for servicers to change their accounting and information systems to accommodate HHF principal reduction terms. Guidance from Fannie Mae and Freddie Mac was silent on second-lien and transition assistance programs. Without GSE buy-in, large servicers generally would not agree to participate in state HFA programs on principal reduction and transition assistance. Although some lenders have signed on to HHF second-lien programs, participation has been very low. One large servicer told SIGTARP that 80% of its portfolio is with Fannie and Freddie, and said, "…We had to hold up on certain programs, waiting for Fannie and Freddie." Another large servicer told SIGTARP that "principal reduction programs could have a big impact" on home foreclosures, but that 60% to 80% of the loans the company services are GSE loans, and because the GSEs will not participate in principal reduction, the servicer cannot process GSE loans in HHF principal reduction programs.[30]

The GSEs, with their large market share, directed servicers to participate in the unemployment and reinstatement programs, and these programs account for nearly all (98%) of the HHF assistance provided to date. As of December 31, 2011, the latest data available, according to Treasury only approximately 436 homeowners had received principal reductions under HHF and only approximately 72 homeowners had received transition assistance. According to Treasury, there may be a delay between when HFAs approve homeowners' applications for HHF assistance and when homeowners actually receive funding. Therefore, the number of homeowners receiving assistance is approximate due to this lag time between approval and funding. (See Figure 2 on the following page and Table 2 on page 31.)

[30] Bank of America was the first and only large servicer to sign on to participate in HHF principal reduction programs, beginning with Nevada in January 2011, and later with Arizona, California, and Rhode Island, only for loans in its portfolio or third-party investor loans with appropriate authority delegations.

FIGURE 2

NEARLY ALL OF HHF-APPROVED APPLICATIONS ARE FOR UNEMPLOYMENT OR REINSTATEMENT PROGRAMS, AS OF DECEMBER 31, 2011



Total HHF Applications Approved = 33,542

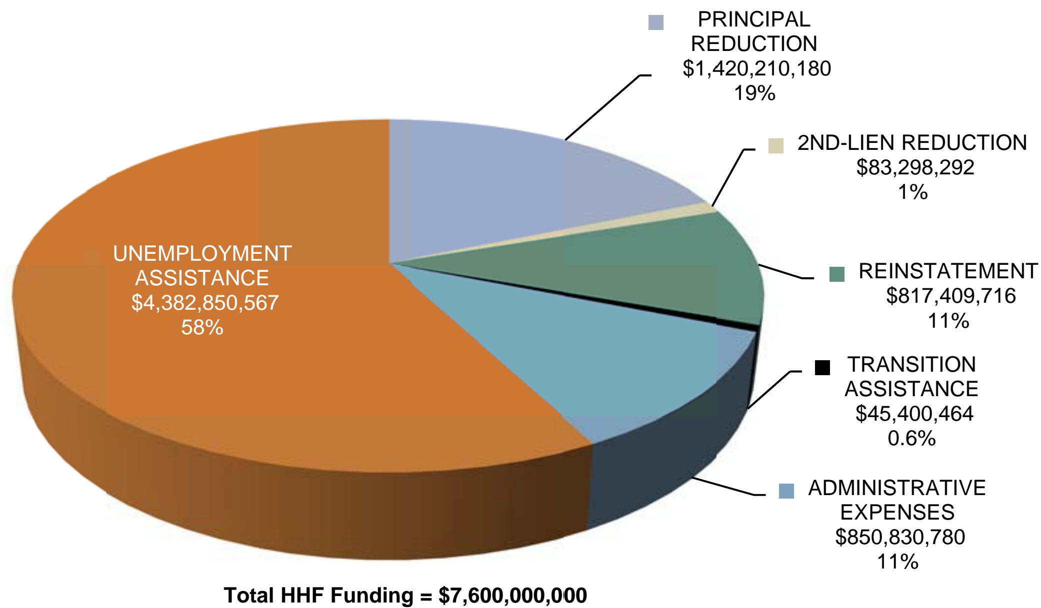
Source: HFA quarterly performance reports through December 31, 2011, and OFS program classifications. Totals may not add to 100% due to rounding.

Given the lack of significant participation by the GSEs and servicers in principal reduction and transition assistance programs, the HFAs, with Treasury's approval, focused their allocations on unemployment and reinstatement programs. In the third round, Treasury directed the 18 states receiving funding to develop only unemployment and reinstatement programs, in part to facilitate servicer participation in HHF.

With Treasury approval, an HFA may reallocate funds among its programs. As of December 31, 2011, HFAs allocated 58% of the $7.6 billion in total HHF funds to unemployment assistance programs, 19% to principal reduction programs, 11% to reinstatement programs, and 1% each to second-lien reduction and transition assistance. The HFAs allocated 11% of total HHF funds to administrative expenses, and administrative expenses among the states ranged from 7% to 18% of allocated funds as of December 31, 2011. The funding for the 55 HHF programs falls in the five program categories shown in Figure 3 on the following page.

FIGURE 3

FUNDING FOR HHF PROGRAMS BY TYPE OF ASSISTANCE THROUGH DECEMBER 31, 2011



Source: HFA participation agreements through December 31, 2011. Totals may not add to 100% due to rounding.

As of December 31, 2011, HHF has reached only 30,640 (7%) of the HFAs' estimated range of the number of homeowners to be assisted through 2017 (458,632-486,536). To reach the estimated number of homeowners, there must be a dramatic increase over the number of homeowners helped during the program's first two years.

Two years into the Hardest Hit Fund program, Treasury has provided nominal assistance to homeowners:[31]

- $10 million (0.7%) of the $1.4 billion allocated for principal reduction;
- $43 million (5.2%) of the $817 million for reinstatement;
- $2 million (2.3%) of the $83 million for second lien;
- $256,000 (0.6%) of the $45.4 million for transition assistance; and
- $162 million (3.7%) of the $4.4 billion for unemployment assistance.

Treasury stated that it took time for Treasury and the HFAs to stand up a new program, and this took the better part of a year to do. Treasury could have mitigated the risks involved in increasing the infrastructure for the HHF program

[31] Amounts as of December 31, 2011.

at 19 state HFAs by ensuring that the key stakeholders in the mortgage industry were on board and actively participating early on. However, the HFAs should be out of their ramp-up period and into full execution of the programs. Because HHF's assistance to homeowners has been nominal, the HFAs will have to dramatically increase assistance to meet their own estimates for the number of homeowners they intend to help by the end of 2017, when the program ends. In the next section, SIGTARP discusses how Treasury needs to set appropriate numeric goals and metrics to ensure that the expected number of homeowners assisted is met.

However, as was clear in the beginning of HHF, the HFAs need Treasury's help and support to increase the number of homeowners helped. Treasury approved HHF programs knowing that the GSEs did not support principal reduction assistance. In October 2010, the GSE guidance issued for HHF was silent on supporting transition assistance programs.[32] These programs continue in HHF – with limited participation. Treasury also has these very same types of assistance in other TARP-funded housing support programs, including HAMP. Participation in HHF principal reduction programs has been limited, even though investor incentives were generally double that initially offered in HAMP, and GSEs have opted not to reduce principal on any cost-sharing basis for HHF programs. Because HAMP was having similar issues, Treasury recently took steps to further increase the number of homeowners assisted in HAMP by tripling the incentives paid to investors for HAMP principal reduction and making those incentives available to GSEs without making a corresponding change in HHF.

After nearly two years,[33] HFAs have assisted 7% of the homeowners they expected to assist over the life of the program. HFAs have spent only approximately $217 million (3% of the funds allocated for the program) for assistance to homeowners. (See Table 2 on the following page.) To expedite assistance to homeowners, Treasury should develop an action plan that includes steps that Treasury intends to take to increase dramatically the numbers of homeowners assisted in all the programs, including the two known areas Treasury supports but are lacking broad industry support – principal reduction and second-lien reduction. Further, if in a reasonable time Treasury cannot achieve the desired level of homeowners assisted in any one type of assistance – for example, principal reduction, second-lien reduction, or transition assistance – Treasury should put the funds to better use toward programs that are reaching homeowners.

[32] On March 6, 2012, Fannie Mae issued servicer guidance directing servicers to facilitate HHF transition assistance provided to borrowers for loans it owns and for certain securitized loans.
[33] As of December 31, 2011.

TABLE 2

PERCENT OF HHF USAGE AND TIME ELAPSED

HHF Program Categories	Applications Approved by Dec. 31, 2011	Spent by Dec. 31, 2011	Allocated as of Dec. 31, 2011	Percent
Principal Reduction	436	$10,397,621	$1,420,210,180	0.7%
Unemployment Assistance	26,100	$162,146,435	$4,382,850,567	3.7%
Reinstatement	6,764	$42,744,862	$817,409,716	5.2%
Second-Lien Reduction	170	$1,882,683	$83,298,292	2.3%
Transition Assistance	72	$255,771	$45,400,464	0.6%
Administrative Expenses*	–	–	$850,830,780	–
Total	**33,542**	**$217,427,372**	**$7,600,000,000**	**3.2%**

		Homeowners Assisted as of Dec. 31, 2011	Average of Aggregate Number of Homeowners HFAs Plan To Assist Through 2017	
Homeowners		30,640	475,000**	6.5%
		Months Elapsed: February 2010 to December 2011	Total months in program: February 2010 to December 2017	
Months		23	95	24%

Note: *This percentage is the total spent on programs as a percent of the total amount allocated to programs ($7.6 billion less administrative expenses).
** This number is an average of the high and low estimated number of homeowners HFAs plan to assist, rounded up to the nearest 5,000.
Source: SIGTARP analysis of HFA quarterly performance reports and latest state participation amendments as of December 31, 2011.

Treasury's Goals and Metrics Fall Short and Make Effective Evaluation Difficult

This section discusses the goals and metrics for HHF. Treasury set a goal to prevent avoidable foreclosures but did not define measurable targets for this. Treasury required HFAs to set goals for each of their programs, but most HFAs set nonnumeric goals.

Treasury's goals and metrics for the HHF program fall short of those used in best practices and make effective program evaluation difficult. Best practices for results-oriented organizations are to define goals and desired outcomes, set overall and incremental measurable targets to gauge progress, and use performance information as a basis for decision making. Treasury's stated goal for the overall HHF program is to prevent avoidable foreclosures and thereby preserve homeownership, but Treasury did not set a measurable overall target or require states to produce measurable goals. Treasury does require states to estimate the number of households that will participate in the states' HHF programs, but this number has limited usefulness because states can and have changed estimates, creating a shifting baseline. In fact, the aggregate of these estimated ranges has steadily decreased in the last year, from 507,619–549,094 as of March 31, 2011, to 458,632–486,536 as of December 31, 2011.

In addition, Treasury does not publicly report HHF performance information. Treasury's website provides links to performance data on HFAs' websites, but Treasury does not publish aggregate HFA data or connect the data to goals for HHF. Tracking performance of all HHF programs would require a taxpayer to gather pieces of information from 19 separate HFA websites, but it is not clear how the data can be used to assess the program. Treasury totals the number of homeowners assisted and dollars expended by all states on HHF programs, but does not make these aggregate statistics public. As a result, it is difficult for Congress and the public to assess HHF program performance. Therefore, SIGTARP publishes in its Quarterly Report to Congress the total of the HFAs' estimated numbers of homeowners to be served, the actual number of homeowners assisted, and the dollars expended by all states on HHF. Treasury, in its oversight role for $7.6 billion in TARP funds, should publish the HFAs' performance data collectively, in one place, in a format that facilitates comparisons across HFAs, programs, and time.

Treasury and Most HFAs Did Not Set Numeric Goals

In Government and business, goals and metrics are vital tools to clearly measure implementation and progress of programs. However, Treasury did not establish overall goals for HHF that are clear, reliable, objective, measurable, and linked to higher-level goals. Instead, it deferred to the individual HFAs to establish goals

for their individual programs and did not require these goals to be measurable. In addition, Treasury did not require HFAs to establish at least one goal that is consistent across the HFAs, resulting in a single goal for the program. This would allow an assessment of HHF in its entirety. Treasury told SIGTARP that Treasury's goal – instead of setting measurable targets against which to assess performance data – is to continually improve the performance of the program over time, taking into account the context in which the program operates, such as changing market conditions and differing local conditions. Treasury refers to this as its "continuous improvement" model. Treasury says that it uses a "feedback loop" to help HFAs improve the performance of HHF programs. Treasury told SIGTARP that HFAs have made more than 80 changes to HHF programs based on discussions with Treasury.

The former Assistant Secretary for Financial Stability, Herbert Allison, told SIGTARP that Treasury did not want to impose measurable goals on the HFAs but wanted each state to develop its own. Another Treasury official told SIGTARP that the states, not Treasury, should report data that show progress, saying, "This is not our program. These are their programs." However, the source of the funds for all HHF programs is the Federal Government, with Treasury as the steward over TARP funds. 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.

Treasury initially considered requiring HFAs to establish targets and metrics for HHF programs in their agreements with Treasury, but later eliminated this requirement. In April 2010 and May 2010, draft versions of the agreement included a requirement for HFAs to specify "performance metrics" and later "program success metrics." As an example, Oregon initially listed goals in its agreement for 90% of program participants to remain in their homes after one year. One OFS official supported requiring goals to benchmark success. On the other hand, another OFS official preferred not to require measurable targets for new programs, and suggested that stating a target would probably set a program up for failure. Treasury also initially considered and then rejected using performance metrics to determine whether HFAs could continue to draw down HHF funds.

Based on SIGTARP's review of the 19 agreements, most program goals are high level and describe what the HFAs want their programs to achieve in broad terms, with no numeric measurable targets. For example, Florida's Unemployment Mortgage Assistance Program goal is: "preserving homeownership" and "protecting home values." South Carolina's HAMP Assistance Program goal is: "To provide limited funding to help homeowners become eligible for HAMP." However, five of the 19 states did set numeric program goals. Three of those five states (Georgia, Nevada, and North Carolina) used their estimates for the number of households to be served as program goals. Arizona set a goal for one of its

programs to achieve a 90% success rate in modifying loans. California set a numeric goal for one of its programs to have 21% of principal write-downs contributed by a city grant. In addition, the measurable goals the states establish are a moving target – HFAs can change their program goals with Treasury approval in amendments to the original formal agreement. For example, Nevada had a goal for its Principal Reduction Program to serve at least 3,000 homeowners in April 2011. In the sixth amendment to its agreement with Treasury in October 2011, the HFA dropped that numeric goal and reduced the estimated number of households to be served by the program from 3,016 to 1,008, while increasing the maximum per-household assistance. Appendix K lists the HFAs' program goals for the 55 HHF programs, as of December 31, 2011.

HFAs Publish Quarterly Numeric Data on Their Own Websites, but Without Stated Numeric Goals, It Is Difficult To Assess Performance

Treasury's agreements with HFAs require each HFA to report the same performance data elements to Treasury in a standardized format and to post the information on their own websites, but Treasury does not publish the data either by individual HFA or in the aggregate. The quarterly performance reports[34] contain more than 25 data points about each program and more than 15 data points about an HFA's programs in the aggregate. For example, the quarterly performance reports include data such as the number of applications approved and denied, the number of homeowners assisted, the range of borrower incomes, the number of homeowners in each county, the number of homeowners by race and ethnicity, and the number of homeowners who remain in their homes after six months and 12 months.

These data points can be compared from quarter to quarter. Although these measures are helpful for determining whether activity is occurring in each program, Treasury has not established desired outcomes to assess whether these activities are meeting intended targets and whether they can add up to an overall, measurable performance goal. For example, if an HFA reports that 25% of homeowners in an HHF program remained in their homes six months after receiving HHF assistance, this performance could be compared to the performance of other states or programs, but Treasury and HFAs have not established a target to show what performance they intended.

Treasury's HHF Program Director described a three-step process for evaluating HHF programs. He told SIGTARP that to evaluate HHF, one would:

[34] See Appendix J for a template/data dictionary of the quarterly performance report that Treasury provided to HFAs describing each data element.

- look at the HFA's goals for its HHF programs for what HFA officials intended to do (HHF program goals are in agreements posted on Treasury's website);
- look at the HFA's quarterly performance reports for what it did (HFA quarterly performance reports are posted on each of the 19 HFA websites); and
- contact the HFA and other stakeholders for context and explanation of how the program is working.

Estimates of the Number of Participating Households That Change Each Quarter Have Limited Value for Assessing Performance

Treasury requires HFAs to establish in their agreements with Treasury estimates of the number of households that each of their HHF programs will assist through 2017, but Treasury allows HFAs to revise their estimates anytime by amending the agreements. The HFAs' estimates of the numbers of households to be assisted have changed over the life of the HHF program (decreasing since March 31, 2011) and do not provide a consistently measurable target. Evaluating performance against a shifting baseline presents a challenge to assessing program outcomes. If the estimate of the number of households to be assisted changes, consistent performance measurement over the life of the program is not possible, progress is no longer measured based on a goal established at the outset, and opportunities for accountability to the public are diminished. HFAs can change their estimates when they shift funds between programs, change the amount of per-household assistance in a program, or change the amount allocated to administrative expenses. Each type of adjustment can change the number of households that can be helped. As a result, these estimates are of limited value for performance measurement.

Best Practices Call for Setting Goals and Measuring Program Performance

According to an official in the Treasury Office of Strategic Planning and Performance Management, to follow good management practice that in turn would reflect HHF progress toward meeting its goal, Treasury should establish a mix of performance measures for activities the organization can hold itself accountable to and indicators that show the intended effect or outcomes of the program or activity. When asked by SIGTARP whether Treasury's approach of setting one broad operational goal without setting performance measures or indicators allows for measurement of the HHF program, the official said it means that one cannot evaluate, but can only infer the program's performance and

results. The official told SIGTARP that Treasury could report HHF performance in the monthly Housing Scorecard published by HUD and Treasury.[35]

Treasury has not defined desired quantifiable outcomes for HHF. Treasury has resisted measuring performance to gauge progress at the Federal level, saying HHF programs are the states' programs. Treasury required HFAs to estimate the number of households to be served, but these estimates change. Treasury has performance data from individual HFAs, but it does not have measurable performance information that ties to program-wide goals with which to make appropriate decisions.

Rather than follow best practices by establishing performance metrics by which Treasury can be held accountable, Treasury officials expressed several concerns with using numeric targets:

- numeric targets for a new program in an ever-changing housing market will have little or no value, especially across states with different economic conditions;
- numeric goals may lead to a "ceiling effect" (if the goals are too low); and
- numeric goals may create incentives for unwanted actions such as HFAs pursuing a type of foreclosure assistance to meet a goal rather than implementing the right type of assistance for each borrower's situation.

At the start of HHF, Treasury should have set one or more measurable performance goals for the HHF program overall, including, at a minimum, the number of homeowners Treasury hopes to help under HHF, a number that should not change each quarter. However, it is not too late for Treasury to set these goals. For each goal, Treasury should have established metrics to measure the performance of the program against the goal. Additionally, Treasury should have established milestones and a periodic schedule to assess the progress the HHF program is making toward the intended outcome. Finally, Treasury should use this performance information as a basis for working with the state HFAs to make program adjustments as needed to ensure the success of the program at meeting its goals.

Setting measurable performance goals is not difficult. For example, Treasury could at a minimum adopt the HFAs' collective estimates of homeowners to be assisted through 2017. Treasury should set interim goals to target the intended

[35] The Housing Scorecard reports on the status of the nation's housing market, providing key housing market indicators and highlighting Government programs, including HAMP. The scorecard lists HHF as part of the Administration's housing plan, but does not report HHF performance metrics, as it does for HAMP. Treasury also produces a Monthly 105(a) Report for TARP that includes the amount of HHF funds drawn and a narrative update on the HHF program, such as which HFAs have made recent changes to their programs. However, the report does not assess HHF performance based on predetermined measures.

progress of the program. For example, Treasury could set interim goals, such as a number of homeowners that the program should reach each year.

In addition, Treasury should have ensured that states set measurable goals and related metrics to assess performance for each HFA. Treasury should also require states to provide the specific performance data it needs to roll up to any overall and interim goals, and if necessary, the methodology and calculations states should perform to arrive at these data.

Conclusions

The Hardest Hit Fund was announced in February 2010 when the housing market was still under significant stress, despite Government efforts to address record-high foreclosures with programs such as TARP's HAMP. A senior Treasury official told SIGTARP that the idea of the Hardest Hit Fund came from an examination of options to tackle home foreclosure economic challenges such as negative equity and unemployment not being addressed by HAMP. The Treasury official told SIGTARP that at the end of 2009 (when HHF was being developed), unemployment was hovering around 9%, and one in four homes was underwater.

Under HHF, TARP dollars fund "innovative measures" developed by state housing finance agencies ("HFAs") and approved by Treasury to help families in states that had been hardest hit by the economic crisis and the collapse of the housing bubble. HHF expanded from its original announcement of $1.5 billion in TARP funds for five states with 20% home price declines in four iterative rounds of funding. Each round had specific criteria, resulting in Treasury obligating a total of $7.6 billion in TARP funds to 18 states and Washington, D.C. The 19 HFAs could propose multiple programs within categories of assistance for Treasury approval. As of December 31, 2011, Treasury had approved 55 HHF programs, which have through 2017 to use TARP funds.

After two years, the Hardest Hit Fund has experienced significant delay in providing help to homeowners due to several factors, including a lack of comprehensive planning by Treasury and a delay and limitation in participation in the program by large servicers and the GSEs (Fannie Mae and Freddie Mac). As of December 31, 2011, the latest data available, HHF has spent only $217.4 million to provide assistance to 30,640 homeowners – approximately 3% of the TARP funds allocated to HHF and approximately 7% of the minimum number of homeowners whom the state HFAs estimate helping over the life of the program. Nearly all (98%) of the help provided to homeowners under HHF has been related to unemployment assistance or reinstatement through payment of past due amounts, the only types of assistance for which the GSEs directed servicers to participate. The great bulk (78%) of the HHF help to homeowners has been for unemployment assistance. Unless there is a drastic change in the assistance the GSEs and their conservator, FHFA, will support, the Hardest Hit Fund may be much narrower in scope and scale than what was originally expected due to the lack of servicer and GSE support for certain programs. Without significant change, while the Hardest Hit Fund may be able to reach unemployed homeowners as was originally intended, it is likely to be limited in addressing negative equity for homeowners who are underwater.

SIGTARP found that Treasury consistently applied its criteria to choose states to participate in the first three rounds of funding for HHF. However, in the second

round, it was unclear why Treasury determined that states with high percentages of their population in counties with an unemployment rate greater than 12% were economically distressed, but that states with 11% unemployment were not. The cutoff for Treasury's selection of states in Round Two was not transparent because one percentage point divided Ohio (with 22% of its population living in counties with an unemployment rate higher than 12%), which was selected, and Tennessee (with 21%), which was not selected until five months later, when Treasury made another round of funding to all states, including Tennessee, with above-average unemployment. For the fourth round, no new states were selected. Rather, Treasury nearly doubled the funds available for HHF four days before the expiration of Treasury's TARP investment authority. Treasury determined that the five categories of assistance it approved were compliant with TARP's requirement that programs prevent avoidable foreclosures and rejected other proposed programs for not having a sufficient link to this requirement. The five categories Treasury approved are: (1) principal reduction; (2) second lien; (3) reinstatement through payment of past due amounts; (4) unemployment; and (5) transition assistance.

SIGTARP was unable to analyze whether Treasury consistently applied its criteria for rejecting individual state programs because Treasury has not provided additional explanation of the rejection except for its rationale for rejecting legal and housing counseling programs as not being specifically authorized by EESA or necessary for the implementation of HHF. Treasury did not define "innovative" or perform an analysis of whether proposed programs were innovative or duplicative of other programs, instead considering the design of the program to be innovative because it provides locally tailored solutions. The GSEs, FHA, three of the largest servicers, and an academic told SIGTARP that they generally agreed that HHF has innovative aspects because it provides different types of assistance at a local level, helps homeowners for longer periods of time, or provides greater funding to respond to the housing crisis.

Treasury has not set measurable goals and metrics that would allow Treasury, the public, and Congress to measure the progress and success of HHF. Treasury set a single goal for HHF: to prevent avoidable foreclosures and help preserve homeownership. Treasury instead deferred to individual states to set goals but did not require states to set measurable goals. Most states' goals are high-level expectations with no measurable targets, such as Florida's "preserving homeownership" and "protecting home values." Treasury does require states to estimate the number of households to be assisted by their HHF programs, but this number has limited usefulness because states can, and have, changed estimates, creating a shifting baseline that makes it difficult to measure performance against expectations. The states' estimated number of homeowners to be assisted by HHF has steadily decreased over the last year. As of December 31, 2011, the 19 HFAs collectively estimate helping between 458,632 and 486,536 homeowners over the lifetime of HHF, which will end in 2017. Treasury has not adopted this

estimate or even reported it. Consistent with best practices, Treasury should have set meaningful and measurable goals at the start of the program. However, it is not too late for Treasury to set measurable goals, including at a minimum, adopting the HFAs' collective estimate or developing its own goal of how many homeowners Treasury expects HHF to help.

The 19 individual HFAs have provided a significant amount of transparency on their 55 HHF programs on their websites as required by Treasury; however, Treasury can do more to improve transparency. Tracking performance of all HHF programs would require a taxpayer to gather information from 19 separate HFA websites. Treasury aggregates the number of homeowners assisted and dollars expended by all states on HHF programs, but SIGTARP, not Treasury, publishes this information. Treasury should publish this information, along with other useful information on HHF's performance, on its website and in the monthly Housing Scorecard that reports on the Administration's efforts in housing programs, such as HAMP. A Treasury official told SIGTARP that it is appropriate to leave reporting of the data to the states: "This is not our program. These are their programs." However, HHF is a TARP program, the source of the funds is TARP, and Treasury is the steward over TARP. 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 several factors contributed to the Hardest Hit Fund's significant delay in getting assistance to homeowners, some of which have been successfully resolved, and some of which are likely to continue to affect the program:

- HHF lacked comprehensive planning by Treasury, which rushed out the program without appropriate collaboration of key stakeholders, including state HFAs, large mortgage servicers, and the GSEs (Fannie Mae and Freddie Mac). In the creation of HHF, Treasury solicited input from mortgage industry participants, but in planning the program, it did not gather all key stakeholders together to anticipate and assess needs, participation, and barriers for effective implementation of the program. HHF suffered from a rushed rollout of state HHF programs without a comprehensive implementation plan by Treasury that would ensure success. Treasury delegated program development to state HFAs, but generally gave one to two days' notice to state housing officials before announcing that they would receive TARP funds and would have approximately six to eight weeks to develop programs. Despite the fact that the states could not reach a significant amount of homeowners unless large servicers agreed to participate, Treasury did not contact some of the largest servicers to gain their support until April 2010, and did not resolve large servicers' issues sufficiently for them to participate with states until November 2010, after a Treasury-convened Servicer Summit. Treasury opened discussions with the GSEs early on, but did not do enough initially to

secure support for some HHF programs. SIGTARP found in its March 25, 2010, audit of HAMP that "taking more time at the outset to adequately plan" may have resulted in assisting more homeowners more quickly. Similarly, had Treasury taken more time to adequately plan HHF, it may have helped the state HFAs gain support for their programs from large servicers and GSEs, and resulted in more homeowners receiving help during the first two years of the program. One large servicer said it best: "Anytime all the parties can be involved in a program, the more success you will have. I think that if Treasury, the states, and the servicers were involved earlier on, that the program would be more successful and further along."

- Treasury's decision to give one to two days' notice to states and six to eight weeks to develop programs caught several states off guard. One HFA official told SIGTARP that 10 minutes after the program was announced, the HFA began receiving phone calls from the public asking when the money would be available. The office received 200 calls in the first 24 hours. HFAs had six to eight weeks to develop their programs. Treasury provided informal guidance throughout these weeks and the HFAs gathered public input. The HFAs also had to build or change their processes and hire and train staff. One HFA had seven employees dedicated to HHF and had to increase its staff for HHF by 500%. Another state HFA said that it had to scramble and get a network into place. One HFA official explained to SIGTARP that the HFA "was not prepared to deal with the tsunami of the HHF."

- Several states delayed HHF programs because the large mortgage servicers were not participating. One great shortcoming in HHF's implementation was Treasury's lack of timely action to enlist large servicer support for and participation in state HHF programs. Treasury officials told SIGTARP that it was up to the HFAs to negotiate with the servicers. HFAs reported to SIGTARP that they were rebuffed by the large servicers. Several HFAs told SIGTARP that their primary challenge with the implementation of HHF was the lack of participation by the large servicers, with one HFA official explaining that on a scale of one to 10, "this was a 10." Without the participation of the large servicers, the HFAs' programs could not reach a large portion of struggling homeowners. One HFA explained, "Without big servicers, it would take much, much longer to get the funds out, with just community banks and credit unions. It would be a trickle of eligible applicants." Some HFAs told SIGTARP that without the largest servicers, they would have been able to help only 20% to 50% of applicants. Another HFA told SIGTARP, "Our biggest complaint is we were provided these funds, and we have such a need here, but we weren't able to handle the mass numbers because of no participation from the large lenders." One HFA told SIGTARP that "without the servicers' participation, it would have been disastrous."

- Large servicers did not participate for the first nine months of the program citing administrative burden of more than 50 different programs, lack of program uniformity, and lack of GSE guidance. One large servicer said that its experience with HAMP, a national program, was less complex than HHF. Servicers told SIGTARP that the large number of HHF programs and their complexity posed an operational challenge for servicers to develop and implement HHF infrastructure and properly train staff. One servicer explained to SIGTARP that with each state's differing eligibility and coding requirements, "the volume was unprecedented." In addition, servicers cited the need for GSE guidance before they could begin participating in HHF programs so they could ensure that they acted correctly in obeying investor rules, processing loans, and applying funds received from the states. One servicer explained that the states designed their HHF programs "in a vacuum," without knowing whether the servicers would be able to execute the programs.

- Treasury did not initially use its influence on the largest servicers to gain their support. By leaving the responsibility of recruiting large servicers to the states and not taking more aggressive efforts to gain servicer support for the state programs, Treasury failed to recognize the lack of bargaining power that states had for recruiting servicers. Florida's HFA official explained to SIGTARP, "The one billion dollars has been a nice carrot to use for servicers in Florida, but there is no stick with the carrot to force servicers to participate." One HFA told SIGTARP that it would have been helpful if Treasury had been more aggressive in getting large lenders to participate. Treasury officials chose to decentralize program development with the HFAs, but their lack of comprehensive planning, such as involving servicers early on, resulted in Treasury not anticipating and initially not addressing the implementation issues that approximately 50 non-uniform programs created for servicers. SIGTARP found that Treasury's experience with HAMP should have provided a better understanding of servicers' needs and the effect that servicers' participation would have on a program's success. Several state HFAs delayed programs until the large servicers came on board, which did not happen until the GSEs issued guidance on October 29, 2010. One large servicer told SIGTARP that 80% of its portfolio is with the GSEs, explaining, "… We had to hold up on certain programs, waiting for Fannie and Freddie."

- Treasury did not gain GSE support for HHF programs until eight months after the announcement of the program. Treasury, responsible for HHF oversight and accountable for HHF results, should have been the driving force to ensure that the GSEs and large servicers supported the HFAs' programs. Although Treasury sought GSE guidance in creating the program, it did not use its influence to gain GSE support for state HHF programs for the first eight months of the program. One Treasury official told SIGTARP that after HHF expanded from $2.1 billion for 10 HFAs to $4.1 billion for 19 HFAs in August 2010, "it became clear that servicer and GSE support would be critical

> to the full utilization of program funds." However, HFAs in the first two rounds told SIGTARP that because the large servicers were not involved, they were able to assist only a small percentage of applicants. SIGTARP found that, based on Treasury's experience with HAMP and the sheer volume of mortgages held or guaranteed by the GSEs, it should have been clear before the announcement of HHF that large servicers and GSE support would be critical.[36] In addition, Treasury was aware before August that no large servicers had signed on.

The largest servicers did not participate in HHF and the GSEs did not issue guidance to servicers on HHF until Treasury formally interceded by holding a Servicer Summit in September 2010, when it brought all of the key stakeholders together. This summit was a turning point, and out of it came the resolution of several issues such as process standardization and GSE guidance that had prevented GSEs and large servicers from participating in HHF.

The GSEs' guidance issued on October 29, 2010, to servicers stated that the GSEs supported mortgage assistance programs for unemployed or underemployed homeowners and programs to reinstate past due amounts on mortgages. These two programs require no financial sacrifice from the servicers or investors. GSEs examined principal reduction in connection with HHF and concluded that principal reduction could increase moral hazard by incentivizing homeowners to become delinquent on their mortgages. Without GSE buy-in, large servicers generally would not agree to participate in HHF principal reduction, and transition assistance programs for those loans with the GSEs. Although some servicers have signed on to HHF second-lien programs, participation has been very low. One large servicer told SIGTARP that 80% of its portfolio is with the GSEs. Another large servicer told SIGTARP that 60% to 80% of its servicing book is GSE loans, and because the GSEs are not participating in principal reduction, the servicer cannot process GSE loans in HHF principal reduction programs. Treasury approved 16 HHF principal reduction programs, knowing that the GSEs did not support principal reduction. Treasury encouraged HFAs to work on principal reduction programs with servicers' mortgages that were not owned by the GSEs, but so far the results of those efforts have been minimal. As of December 31, 2011, the latest data available, approximately 436 homeowners have received principal reductions under HHF.

HHF eventually may be effective in the areas where there is broad GSE and large servicer support such as unemployment and reinstatement through payment of past due amounts. Unless there is a drastic change in the assistance the GSEs and their conservator, FHFA, will support, HHF may be limited in the types of homeowners it can reach. While it may be able to reach homeowners who are

[36] The GSEs own or guarantee 56% of the 53 million outstanding first-lien mortgages in the United States as of June 2011, according to Freddie Mac.

unemployed, underemployed, or have past due amounts that can be reinstated, without a significant change by the GSEs or servicers, it is likely to be limited in reaching homeowners who are underwater, have mortgages with second liens, or need transition assistance, including a short sale or deed-in-lieu of foreclosure.

Because Treasury does not set performance metrics for the various programs under HHF, it is not clear whether providing approximately 436 homeowners with principal reduction assistance meets performance expectations for the first two years of the program. However, at this rate it is unlikely that Treasury will spend the $1.4 billion allocated to HHF principal reduction without taking other actions. Treasury should seek to apply lessons learned from HAMP to give state HFAs the support that they need. For example, Treasury recently announced that it will triple its incentives for principal reduction in HAMP. Treasury should work with the state HFAs to determine whether a change is appropriate in any of the 16 state HHF principal reduction programs.

In order to reach the number of homeowners that the HFAs collectively estimate helping over the life of HHF, there needs to be a dramatic increase in the number of homeowners helped. As was clear in the beginning of HHF, states need Treasury's help and support to increase the number of homeowners helped. Treasury should do all that it can to ensure the program's success. Treasury should set measurable goals, measure progress against those goals, and develop an action plan to ensure that the next five years result in the HHF program fulfilling TARP's goal to preserve homeownership.

Recommendations

1. Treasury should set meaningful and measurable performance goals for the Hardest Hit Fund program including, at a minimum, the number of homeowners Treasury estimates will be helped by the program, and measure the program's progress against those goals.

2. Treasury should instruct state housing finance agencies in the Hardest Hit Fund to set meaningful and measurable overarching and interim performance goals with appropriate metrics to measure progress for their individual state programs.

3. Treasury should set milestones at which the state housing finance agencies in the Hardest Hit Fund must review the progress of individual state programs and make program adjustments from this review.

4. Treasury should publish on its website and in the Housing Scorecard on a quarterly basis the total number of homeowners assisted, funds drawn down by states, and dollars expended for assistance to homeowners, assistance committed to homeowners, and cash on hand, aggregated by all state Hardest Hit Fund programs.

5. Treasury should develop an action plan for the Hardest Hit Fund that includes steps to increase the numbers of homeowners assisted and to gain industry support for Treasury-approved HHF programs. Treasury should set interim metrics for how many homeowners it intends to assist in a Treasury-defined time period in each particular program (such as principal reduction, second-lien reduction, or reinstatement). If Treasury cannot achieve the desired level of homeowners assisted in any one program area in the defined time period, Treasury should put the funds to better use toward programs that are reaching homeowners.

Management Comments and SIGTARP's Response

Treasury provided an official written response to this report in a letter dated March 28, 2012, which is reproduced in full in Appendix L. The letter states that "we appreciate the findings of the report with respect to the three stated objectives of the audit," but Treasury did not address in detail the five recommendations in the report.

Treasury disagreed that the time it took for states to build infrastructure should be characterized as delay. Treasury said that state programs are gaining traction and focused on the fact that there was growth last quarter in the number of homeowners assisted and the amount of dollars going to assist those homeowners.

Treasury stated that it will address each of SIGTARP's recommendations in detail at a later date, but "generally believes that measures that would erode the fundamental character of the HHF program – which empowers the states rather than dictates a one-size fits all approach – would not be appropriate." In response to SIGTARP's recommendation that Treasury set meaningful and measurable goals for HHF, Treasury said that it believes establishing static numeric targets is not well suited to HHF.

SIGTARP requested that within 30 days of the date of this report, Treasury provide its rationale for nonconcurrence on each of the recommendations.

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 and to respond to a request from House Committee on Oversight and Government Reform Chairman Darrell Issa.[37] The audit's objectives were to:[38]

- assess the extent to which Treasury applied consistent and transparent criteria, including applicable provisions of the Emergency Economic Stabilization Act of 2008 ("EESA"), in selecting the states and programs to receive money from HHF;
- assess the extent to which Treasury determined that the programs to be funded by HHF are innovative and not duplicative of existing state and Federal programs; and
- identify the goals and metrics that Treasury adopted and reported to the public for the operation of HHF.

HHF funds foreclosure prevention programs run by state HFAs in states hardest hit by decreases in home prices and high unemployment rates. The scope of this audit covered the four rounds of Treasury funding of HHF and HHF program activity through December 31, 2011. Treasury provided $7.6 billion for HHF in four increments: $1.5 billion made available on June 23, 2010; $600 million made available on August 3, 2010; $2 billion made available on September 23, 2010; and $3.5 billion made available on September 29, 2010. We conducted our audit work from August 2010 through March 2012 in Washington, D.C., and New York, N.Y. (engagement code 022).

SIGTARP interviewed the 10 HFAs that participated in Round One or Round Two of HHF, and conducted an email survey of the nine HFAs that joined HHF in Round Three. SIGTARP judgmentally selected to interview the first 10 HFAs because they entered the program earlier and had more experience to convey, and had a variety of program types. The HFAs that joined in Round Three had fewer months of experience and at the time of the interviews offered unemployment programs only. Treasury did not add any HFAs to HHF in Round Four. SIGTARP also surveyed all 19 HFAs about the goals for their programs (one HFA did not respond). In addition, SIGTARP interviewed and sent a written survey on their participation in the HHF program to officials from the nation's four largest mortgage servicers.

To determine whether Treasury applied consistent and transparent criteria, including applicable provisions of EESA used in selecting states and programs, SIGTARP interviewed officials from Treasury's Office of Financial Stability; officials from the 10 state housing finance agencies first selected for the HHF program out of the 19 HFAs participating; and mortgage industry stakeholders. We analyzed the criteria and data used by Treasury when making its state selection

[37] Chairman Issa was the ranking member of the committee when he made the request.
[38] A fourth question, whether Treasury has put sufficient mechanisms in place to prevent waste, fraud, and abuse of the Hardest Hit Fund, will be addressed in a future audit report.

decisions and reviewed available documentation, including Treasury's HHF proposal guidelines, written methodologies, emails, selection criteria such as unemployment rates and house price declines, Review Committee meeting minutes, and decision memoranda regarding the HHF program.

To determine whether Treasury's HHF programs are innovative and not duplicative of existing state and Federal programs, we synthesized Treasury guidance and testimonial evidence to determine what definition or criteria for innovation Treasury established, and what processes Treasury established and used to determine whether HFA programs for HHF are "innovative" and not duplicative of existing state and Federal programs. We also synthesized testimonial evidence from mortgage industry stakeholders and professionals on the extent to which HHF programs are innovative. For this objective, SIGTARP interviewed officials from Treasury's Office of Financial Stability and officials from the 10 state housing finance agencies first selected for the HHF program, out of the 19 HFAs participating. We also conducted email surveys with the nine additional HFAs selected for the third round of HHF funding. We also interviewed officials from the four largest servicers (Bank of America, CitiMortgage, JPMorgan Chase, and Wells Fargo) and the GSEs (Freddie Mac and Fannie Mae) and their regulator and conservator, FHFA.

To address the goals and metrics of the HHF program, we interviewed Treasury officials including a former Assistant Secretary for Financial Institutions, current and former OFS officials, and the Director for Strategic Planning and Performance Management. We conducted a written survey of the 19 state HFAs participating in HHF. We reviewed Treasury's proposal guidelines, the proposals state HFAs submitted to Treasury, the Participation Agreements between Treasury and state HFAs, and the reports Treasury required state HFAs to publish quarterly about their HHF program activity. We analyzed the estimates state HFAs made of the number of households their HHF programs would serve. We reviewed statements made by the Government Accountability Office ("GAO") and COP about performance measurement of other TARP-funded housing programs, and reviewed GAO reports on best practices for performance measurement. We reviewed other documents provided by Treasury, including emails among Treasury officials related to HHF, as well as documents that Treasury and HUD made available to the public.

SIGTARP conducted this performance audit in accordance with generally accepted government auditing standards prescribed by the Comptroller General of the United States. Those standards require that we 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Limitations on Data

SIGTARP relied upon Treasury to identify and provide email communication and documents related to the Hardest Hit Fund. It is possible that the documentation provided did not reflect a comprehensive response to SIGTARP's documentation requests, potentially limiting the review.

Use of Computer-Processed Data

SIGTARP relied upon computer-processed data from each of the 19 HFAs (quarterly performance reports) and OFS (aggregate quarterly performance reports) to report the number of applications approved, the number of homeowners assisted, and the amount spent on the program from the quarter ending September 30, 2010, through the quarter ending December 31, 2011. We did not validate the accuracy of these data because we did not have access to the underlying HFA or OFS data. We were able to cross-reference data from the 19 HFA quarterly performance reports to the OFS aggregate quarterly report to check the internal validity of the figures. Further, we relied upon monthly statements from OFS on the amount the 19 HFAs drew down, by month and cumulatively, for HHF program and administrative expenses and cash on hand. We did not validate the accuracy of these data because we did not have access to the HFA data that appeared in the OFS reports. Finally, we were able to assess the validity of the 19 HFA quarterly performance reports from quarter to quarter by checking whether the program expenses and figures of homeowners assisted to date plus the latest quarter's data equaled the current cumulative figure.

Internal Controls

To address the reporting objectives in this audit, consideration of internal controls was not necessary. SIGTARP plans to conduct an assessment of OFS' internal controls for the HHF program in follow-on work.

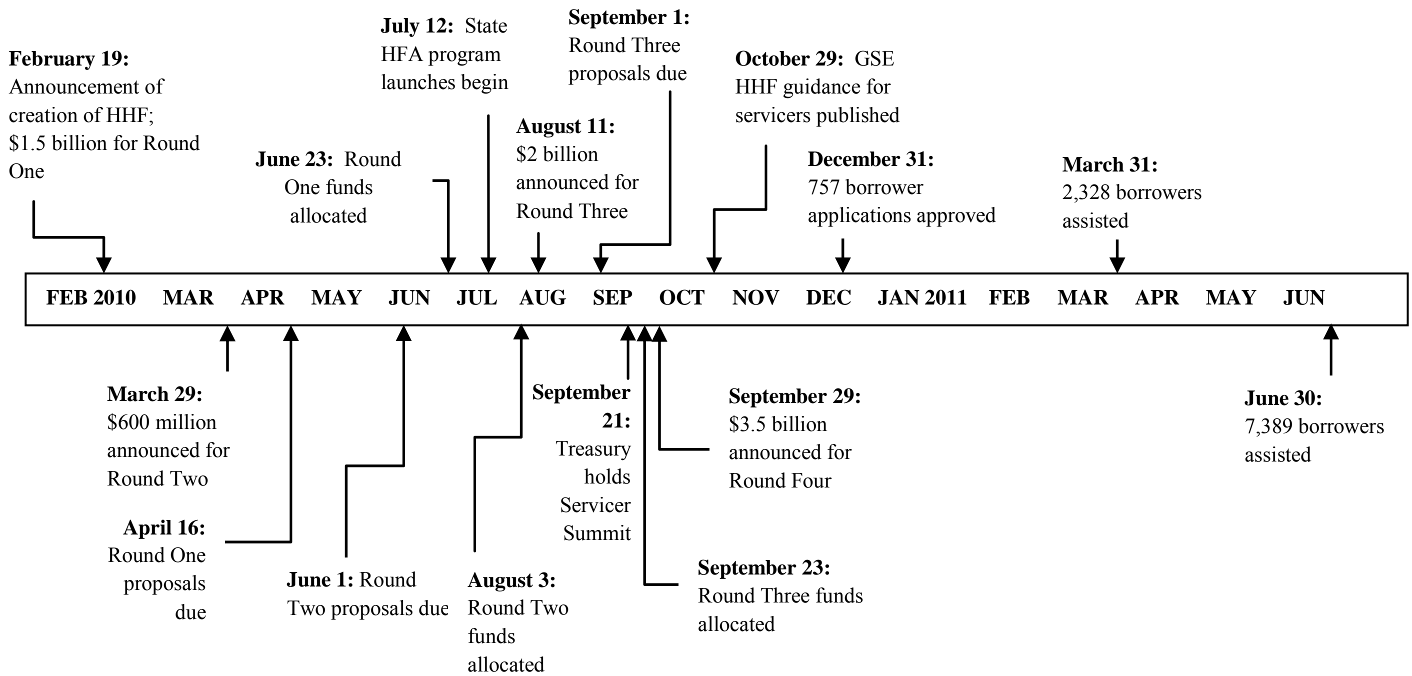
Prior Coverage

SIGTARP, GAO, and COP have provided information about HHF and updates on its status but have not performed other audits related to HHF with the same or similar audit objectives.

Appendix B – Acronyms and Abbreviations

Acronym or Abbreviation	Definition
BLS	U.S. Department of Labor – Bureau of Labor Statistics
COP	Congressional Oversight Panel
EESA	Emergency Economic Stabilization Act of 2008
Fannie Mae	Federal National Mortgage Association
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
Freddie Mac	Federal Home Loan Mortgage Corporation
GAO	Government Accountability Office
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 ("Hardest Hit Fund")
HPO	Homeownership Preservation Office
HUD	U.S. Department of Housing and Urban Development
MHA	Making Home Affordable Program
OFS	Office of Financial Stability
SIGTARP	Office of the Special Inspector General for the Troubled Asset Relief Program
TARP	Troubled Asset Relief Program
VA	U.S. Department of Veterans Affairs

Appendix C – Timeline of Key HHF Events



Source: SIGTARP analysis of Treasury data.

Appendix D – HHF State Selection and Funding Allocation Methodology

A LOOK AT THE FUNDING ALLOCATION METHODOLOGY

HHF Funding Round	Funding ($ billions) Total Funding – $7.6 billion	State Selection Criteria Statistic	States Funded and Criteria Statistic	Funding Allocation Method to States
Round 1 February 2010	1.5	Greater than 20% house price decline (from peak to 4Q 2009)[a]	Nevada -49.9% California -38.9% Florida -37.4% Michigan -24.1% Arizona -36.8%	Weighting based on: ▪ House price decline ▪ State's unemployment rate ▪ State's number of delinquent loans
Round 2 March 2010	0.6	Not funded in Round 1 and highest percentage of state's population residing in counties exceeding 12% unemployment for 2009	Rhode Island 60% South Carolina 44% Oregon 34% North Carolina 25% Ohio 22%	Allocated[b] based on state's population residing in Distressed counties, where Distressed = over 12% unemployment for 2009
Round 3 August 2010	2.0	Unemployment rate at or above national average for prior 12 months (July 2009-June 2010)	District of Columbia, Tennessee, New Jersey, Illinois, Kentucky, Alabama, Georgia, Mississippi, Indiana, and all Round 1 and Round 2 states except Arizona	Allocated[c] based on state's population
Round 4 September 2010	3.5	All states funded in Rounds 1, 2, or 3	All states funded in Rounds 1, 2, or 3	Allocated based on state's population

a Index utilized was the FHFA seasonally adjusted purchase-only house price index.
b Allocation formula: (State's population in high-unemployment counties / sum of states' populations in high-unemployment counties in states funded in that round).
c Allocation formula: (State's population / sum of populations in states funded in that round).
Source: Treasury.

Appendix E – HHF Funding Allocations and Amounts Obligated by State, Total Finalized September 29, 2010

FUNDING ALLOCATIONS AND AMOUNTS OBLIGATED

State	Round One	Round Two	Round Three	Round Four	Amount Obligated
Alabama	–	–	$60,672,471	$101,848,874	$162,521,345
Arizona	$125,100,000	–	–	$142,666,006	$267,766,006
California	$699,600,000	–	$476,257,070	$799,477,026	$1,975,334,096
Florida	$418,000,000	–	$238,864,755	$400,974,381	$1,057,839,136
Georgia	–	–	$126,650,987	$212,604,832	$339,255,819
Illinois	–	–	$166,352,726	$279,250,831	$445,603,557
Indiana	–	–	$82,762,859	$138,931,280	$221,694,139
Kentucky	–	–	$55,588,050	$93,313,825	$148,901,875
Michigan	$154,500,000	–	$128,461,559	$215,644,179	$498,605,738
Mississippi	–	–	$38,036,950	$63,851,373	$101,888,323
Nevada	$102,800,000	–	$34,056,581	$57,169,659	$194,026,240
New Jersey	–	–	$112,200,637	$188,347,507	$300,548,144
North Carolina	–	$159,000,000	$120,874,221	$202,907,565	$482,781,786
Ohio	–	$172,000,000	$148,728,864	$249,666,235	$570,395,099
Oregon	–	$88,000,000	$49,294,215	$82,748,571	$220,042,786
Rhode Island	–	$43,000,000	$13,570,770	$22,780,803	$79,351,573
South Carolina	–	$138,000,000	$58,772,347	$98,659,200	$295,431,547
Tennessee	–	–	$81,128,260	$136,187,333	$217,315,593
Washington, D.C.	–	–	$7,726,678	$12,970,520	$20,697,198
Total	$1,500,000,000	$600,000,000	$2,000,000,000	$3,500,000,000	$7,600,000,000

Note: Treasury announced Round One funding on February 19, 2010, Round Two funding on March 29, 2010, Round Three funding on August 11, 2010, and Round Four funding on September 29, 2010.

Source: Treasury *Transactions Report* for period ending 9/30/2010.

Appendix F – HHF Programmatic Expenses and Homeowners Assisted, by State, as of December 31, 2011

PROGRAMMATIC EXPENSES, HOMEOWNERS ASSISTED

State	Programmatic Expenses	Homeowners Assisted
Alabama	$7,506,166	1,299
Arizona	$1,011,154	325
California	$38,630,554	4,357
Florida	$15,156,356	3,302
Georgia	$1,795,447	524
Illinois	$4,804,262	539
Indiana	$1,510,656	226
Kentucky	$7,003,585	1,045
Michigan	$10,485,488	2,897
Mississippi	$1,332,799	193
Nevada	$3,404,243	682
New Jersey	$218,032	54
North Carolina	$31,718,521	3,685
Ohio	$34,169,125	3,924
Oregon	$36,140,389	4,426
Rhode Island	$6,429,243	1,031
South Carolina	$9,146,929	1,207
Tennessee	$5,259,731	752
Washington, D.C.	$1,704,691	172
Total	**$217,427,372**	**30,640**

Note: Numbers affected by rounding.
Source: Quarterly performance data reports, fourth quarter 2011.

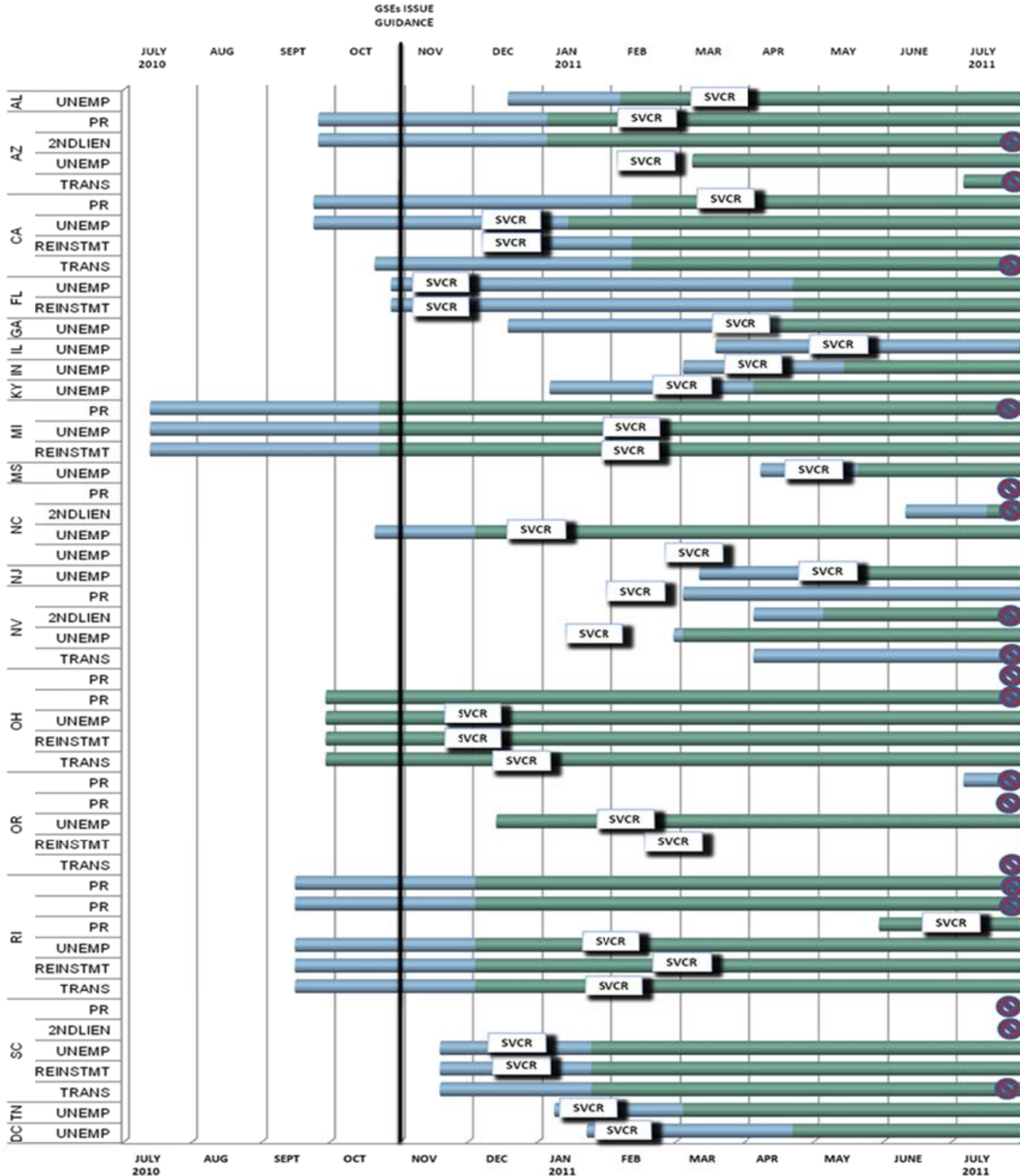
Appendix G – HHF Funding Allocations and Amount Drawdown by HFAs, by State, as of February 2012

AMOUNTS OBLIGATED AND DRAWN

State	Amount Obligated	Amount Drawn
Alabama	$162,521,345	$16,000,000
Arizona	$267,766,006	$21,255,000
California	$1,975,334,096	$217,490,000
Florida	$1,057,839,136	$63,350,000
Georgia	$339,255,819	$38,200,000
Illinois	$445,603,557	$46,500,000
Indiana	$221,694,139	$22,000,000
Kentucky	$148,901,875	$24,000,000
Michigan	$498,605,738	$30,166,175
Mississippi	$101,888,323	$5,094,416
Nevada	$194,026,240	$12,302,000
New Jersey	$300,548,144	$7,513,704
North Carolina	$482,781,786	$78,000,000
Ohio	$570,395,099	$96,100,000
Oregon	$220,042,786	$83,501,070
Rhode Island	$79,351,573	$13,000,000
South Carolina	$295,431,547	$30,000,000
Tennessee	$217,315,593	$20,315,593
Washington, D.C.	$20,697,198	$3,834,860
Total	**$7,600,000,000**	**$828,622,818**

Source: State HFA Invoice, Treasury, February 2012.

Appendix H – HFAs' Timeline of Pilot and Statewide Program Launches, and Date First Large Servicer Participates, as of August 1, 2011



Sources: Surveys of HHF states on pilot and statewide HHF program launch dates, GSE guidance on HHF from October 29, 2010, and surveys of four largest servicers (CitiMortgage, Bank of America, Wells Fargo, and JPMorgan Chase) on when they signed up with individual HHF programs.

Appendix I – State Selection Rankings for Rounds One, Two, and Three

Round One

HOUSING PRICE DECLINE FROM PEAK, MOST FREQUENTLY IN 2007, TO 4TH QUARTER 2009

Rank	State	Home Price Decline	Rank	State	Home Price Decline
1	**Nevada**	-49.9%	27	District of Columbia	-5.5%
2	**California**	-38.9%	28	Missouri	-5.0%
3	**Florida**	-37.4%	29	Alaska	-4.9%
4	**Arizona**	-36.8%	30	Tennessee	-4.7%
5	**Michigan**	-24.1%	31	Wisconsin	-4.5%
6	Maryland	-19.0%	32	New York	-4.3%
7	Rhode Island	-17.2%	33	Pennsylvania	-4.1%
8	Utah	-16.2%	34	Maine	-3.9%
9	Oregon	-15.5%	35	Vermont	-3.9%
10	Hawaii	-14.5%	36	North Carolina	-3.8%
11	Idaho	-13.6%	37	Indiana	-3.2%
12	Washington	-12.9%	38	West Virginia	-3.1%
13	New Hampshire	-12.7%	39	Arkansas	-2.9%
14	Illinois	-12.3%	40	South Carolina	-2.3%
15	New Jersey	-12.3%	41	Colorado	-1.8%
16	Minnesota	-12.1%	42	Louisiana	-1.5%
17	Massachusetts	-11.8%	43	Nebraska	-1.4%
18	Delaware	-11.5%	44	Alabama	-1.2%
19	Georgia	-11.4%	45	Iowa	-0.9%
20	Virginia	-9.7%	46	North Dakota	-0.7%
21	Connecticut	-9.6%	47	Kentucky	-0.1%
22	Ohio	-7.6%	48	Texas	0%
23	New Mexico	-7.2%	49	Kansas	0%
24	Mississippi	-6.4%	50	Oklahoma	0%
25	Wyoming	-6.3%	51	South Dakota	0%
26	Montana	-6.0%			

Source: Treasury. The original array provided by Treasury transposed Michigan and Arizona.

ROUND ONE ALLOCATIONS

	Housing Price Decline		**Unemployment**						
	Housing Price Decline from Peak	Ratio Relative to Largest Decline	December 2009 Unemployment Rate	Ratio Relative to Highest Unemployment Rate	Sum of Ratios (State's Weight)	Number of Delinquent Loans in Q4 2009	Weighted Number of Delinquent Loans	Weighted Share of Delinquent Loans in These States	Allocation ($millions)
Nevada	-49.9%	1.00	13.0%	0.89	1.9	62,622	118,382	6.9%	$102.8
California	-38.9%	0.78	12.4%	0.85	1.6	494,640	805,978	46.6%	699.6
Florida	-37.4%	0.75	11.8%	0.81	1.6	309,022	481,558	27.9%	418.0
Arizona	-36.8%	0.74	9.1%	0.62	1.4	105,853	144,073	8.3%	125.1
Michigan	-24.1%	0.48	14.6%	1.00	1.5	120,030	178,000	10.3%	154.5
Total									**$1,500.0**

Source: Treasury.

Round Two

PERCENTAGE OF STATE POPULATION LIVING IN HIGH-UNEMPLOYMENT COUNTIES					
Ranking	**State**	**% of State Population in High-Unemployment Counties in 2009**	**Ranking**	**State**	**% of State Population in High-Unemployment Counties in 2009**
1	Michigan	79%	27	North Dakota	2%
2	**Rhode Island**	60%	28	New Jersey	2%
3	**South Carolina**	44%	29	New Mexico	1%
4	**Oregon**	34%	30	Missouri	1%
5	California	26%	31	Maine	1%
6	**North Carolina**	25%	32	Louisiana	1%
7	**Ohio**	22%	33	Minnesota	1%
8	Tennessee	21%	34	Texas	1%
9	Kentucky	19%	35	Pennsylvania	0%
10	Mississippi	18%	36	Colorado	0%
11	Alabama	16%	37	Connecticut	0%
12	Indiana	16%	38	Delaware	0%
13	Florida	12%	39	Hawaii	0%
14	Washington	12%	40	Iowa	0%
15	Georgia	10%	41	Kansas	0%
16	Arizona	7%	42	Massachusetts	0%
17	Alaska	7%	43	Maryland	0%
18	Illinois	6%	44	Nebraska	0%
19	West Virginia	4%	45	New Hampshire	0%
20	Nevada	4%	46	New York	0%
21	Idaho	3%	47	Oklahoma	0%
22	Wisconsin	3%	48	Utah	0%
23	Montana	3%	49	Vermont	0%
24	South Dakota	3%	50	Wyoming	0%
25	Virginia	2%	51	District of Columbia	0%
26	Arkansas	2%			

Source: Treasury.

ROUND TWO ALLOCATIONS

	State Totals		Unemployment	Allocation of TARP Funds	
State	**State Population in 2009**	**Population in High-Unemployment* Counties**	**% of State Population in High-Unemployment Counties**	**% of Total Population in High-Unemployment* Counties for Top 5 States**	**Allocation Cap**
Rhode Island	1,053,209	627,690	60%	7%	$43,000,000
South Carolina	4,561,242	2,022,492	44%	23%	$138,000,000
Oregon	3,825,657	1,281,675	34%	15%	$88,000,000
North Carolina	9,380,884	2,332,246	25%	27%	$159,000,000
Ohio	11,542,645	2,514,678	22%	29%	$172,000,000
Total					$600,000,000

Source: Treasury, March 29, 2010, Hardest Hit Fund Frequently Asked Questions.
* Treasury defined “high unemployment” as exceeding 12%.

Round Three

AVERAGE UNEMPLOYMENT RATE					
Rank	**State**	**Average Unemployment Rate, July 2009 through June 2010**	**Rank**	**State**	**Average Unemployment Rate, July 2009 through June 2010**
1	**Michigan**[a]	14.1%	27	Delaware	8.7%
2	**Nevada**[a]	13.2%	28	New York	8.7%
3	**California**[a]	12.3%	29	Wisconsin	8.6%
4	**Rhode Island**[b]	12.3%	30	Alaska	8.3%
5	**South Carolina**[b]	12.0%	31	New Mexico	8.2%
6	**Florida**[a]	11.6%	32	Texas	8.2%
7	**District of Columbia**	11.2%	33	Maine	8.1%
8	**Illinois**	10.9%	34	Colorado	7.7%
9	**North Carolina**[b]	10.8%	35	Arkansas	7.6%
10	**Alabama**	10.8%	36	Minnesota	7.5%
11	**Oregon**[b]	10.8%	37	Maryland	7.4%
12	**Ohio**[b]	10.8%	38	Wyoming	7.2%
13	**Mississippi**	10.7%	39	Louisiana	7.2%
14	**Tennessee**	10.7%	40	Virginia	7.0%
15	**Kentucky**	10.6%	41	Utah	6.9%
16	**Georgia**	10.2%	42	Hawaii	6.8%
17	**Indiana**	10.0%	43	Montana	6.8%
18	**New Jersey**	9.8%	44	Oklahoma	6.8%
19	Missouri	9.5%	45	New Hampshire	6.7%
20	Arizona[a]	9.4%	46	Kansas	6.7%
21	Washington	9.2%	47	Vermont	6.6%
22	Massachusetts	9.2%	48	Iowa	6.6%
23	Idaho	9.0%	49	Nebraska	4.8%
24	West Virginia	8.9%	50	South Dakota	4.7%
25	Connecticut	8.8%	51	North Dakota	4.1%
26	Pennsylvania	8.8%			

Note: States marked with a superscript “a” received funding in Round One. States marked with a superscript “b” received funding in Round Two.
Source: Treasury.

ROUND THREE ALLOCATIONS

Rank	State	Average Unemployment Rate, July 2009 through June 2010	Population	Share of Population	Allocation
1	Michigan	14.1	9,969,727	6%	$128,461,559
2	Nevada	13.2	2,643,085	2%	$34,056,581
3	California	12.3	36,961,664	24%	$476,257,070
4	Rhode Island	12.3	1,053,209	1%	$13,570,770
5	South Carolina	12.0	4,561,242	3%	$58,772,347
6	Florida	11.6	18,537,969	12%	$238,864,755
7	District of Columbia	11.2	599,657	0%	$7,726,678
8	Illinois	10.9	12,910,409	8%	$166,352,726
9	North Carolina	10.8	9,380,884	6%	$120,874,221
10	Alabama	10.8	4,708,708	3%	$60,672,471
11	Oregon	10.8	3,825,657	2%	$49,294,215
12	Ohio	10.8	11,542,645	7%	$148,728,864
13	Mississippi	10.7	2,951,996	2%	$38,036,950
14	Tennessee	10.7	6,296,254	4%	$81,128,260
15	Kentucky	10.6	4,314,113	3%	$55,588,050
16	Georgia	10.2	9,829,211	6%	$126,650,987
17	Indiana	10.0	6,423,113	4%	$82,762,859
18	New Jersey	9.8	8,707,739	6%	$112,200,638
Total				**100%**	**$2,000,000,000**

Note: Totals affected by rounding.
Source: Treasury.

Appendix J – HFA Quarterly Performance Report Template/Data Dictionary

DATA DICTIONARY (FOR QUARTERLY PERFORMANCE REPORT)* MAY 2011 VERSION	
HFA Performance Data Reporting – Borrower Characteristics	
The Following Data Points Are To Be Reported in Aggregate for All Programs:	
Unique Borrower Count	
Number of Unique Borrowers Receiving Assistance	Total number of ***unique*** borrowers having received some form of assistance under any one of the HFA's programs. The number of borrowers represented in the other "Borrower Characteristics" fields should foot to this number.
Number of Unique Borrowers Denied Assistance	Total number of ***unique*** borrowers ***not*** receiving assistance under any of the programs and not withdrawn
Number of Unique Borrowers Withdrawn from Program	Total number of ***unique*** borrowers who ***do not*** receive assistance under any program because of voluntary withdrawal after approval or failure to complete application despite attempts by the HFA
Number of Unique Borrowers in Process	Total number of ***unique*** borrowers who have not been decisioned for any program and are pending review.
Total Number of Unique Applicants	Total number of ***unique*** borrowers. This should be the total of the four above fields.
Borrower Income	
All Categories	At the time of assistance, borrower's annual income ($) rounded to the nearest thousand.
Borrower Income as Percent of Area Median Income (AMI)	
All Categories	At the time of assistance, borrower's annual income as a percentage of area median income.
Geographic Breakdown (by County)	
All Categories	Number of aggregate borrowers assisted in each county listed.
Home Mortgage Disclosure Act (HMDA)	
Borrower	
Race	
All Categories	All totals for the aggregate number of borrowers assisted.
Ethnicity	
All Categories	All totals for the aggregate number of borrowers assisted.
Sex	
All Categories	All totals for the aggregate number of borrowers assisted.
Co-Borrower	
Race	
All Categories	All totals for the aggregate number of borrowers assisted.
Ethnicity	
All Categories	All totals for the aggregate number of borrowers assisted.
Sex	
All Categories	All totals for the aggregate number of borrowers assisted.
Hardship	
All Categories	All totals for the aggregate number of borrowers assisted.
Current Loan to Value Ratio (LTV)	
All Categories	Market loan to value ratio calculated using the unpaid principal balance at the time of assistance divided by the most current valuation at the time of assistance.
Current Combined Loan to Value Ratio (CLTV)	

All Categories	Market combined loan to value ratio calculated using the unpaid principal balance for all first and junior liens at the time of assistance divided by the most current valuation at the time of assistance.
Delinquency Status (%)	
All Categories	Delinquency status at the time of assistance.
Household Size	
All Categories	Household size at the time of assistance.
HFA Performance Data Reporting – Program Performance	
Program Intake/Evaluation	
Approved	
Number of Applications Approved	The total number of applications approved for assistance for the specific program
% of Total Number of Applications	Total number of applications approved for assistance for the specific program divided by the total number of applications received for the specific program.
Denied	
Number of Applications Denied	The total number of applications denied for assistance for the specific program. A borrower that has provided the necessary information for consideration for program assistance, but is not approved for this assistance.
% of Total Number of Applications	Total number of applications denied for assistance for the specific program divided by the total number of applications received for the specific program.
Withdrawn	
Number of Applications Withdrawn	The total number of applications withdrawn from the specific program. A withdrawal is defined as a borrower who was approved but never received funding, or a borrower who drops out of the process despite attempts by the HFA to complete application.
% of Total Number of Applications	Total number of applications for assistance withdrawn for the specific program divided by the total number of applications received for the specific program.
In Process	
Number of Applications In Process	The total number of applications for the specific program that have not been decisioned and are pending review
% of Total Number of Applications	Total number of applications for the specific program that have not been decisioned and are pending review divided by the total number of applications received for the specific program.
Total	
Total Number of Applications Received	Total number of applications received for the specific program (approved, denied, withdrawn and in process).
Number of Borrowers Participating in Other HFA HHF Programs or Program Components	Number of households participating in other HFA sponsored HHF programs or other HHF program components.
Program Characteristics	
General Characteristics	
Median 1st Lien Housing Payment Before Assistance	Median first lien housing payment ***paid by homeowner*** for all approved applicants prior to receiving assistance. In other words, the median contractual borrower payment on their first lien before receiving assistance.
Median 1st Lien Housing Payment After Assistance	Median first lien housing payment ***paid by homeowner*** for after receiving assistance. In other words, the median contractual first lien payment less HFA contribution.
Median 2nd Lien Housing Payment Before Assistance	Median second lien housing payment ***paid by homeowner*** for all approved applicants prior to receiving assistance. In other words, the median contractual borrower payment on their second lien before receiving assistance.
Median 2nd Lien Housing Payment After Assistance	Median second lien housing payment ***paid by homeowner*** for after receiving assistance. In other words, the median contractual second lien payment less HFA contribution.

Median 1st Lien UPB Before Program Entry	Median principal balance of all applicants approved for assistance prior to receiving assistance.
Median 1st Lien UPB After Program Entry	Median principal balance of all applicants approved for assistance after receiving assistance.
Median 2nd Lien UPB Before Program Entry	Median second lien principal balance of all applicants approved for assistance prior to receiving assistance.
Median 2nd Lien UPB After Program Entry	Median second lien principal balance of all applicants approved for assistance after receiving assistance.
Median Principal Forgiveness	Median amount of principal forgiveness granted ($). This should only include extinguished fees in the event that those fees have been capitalized. *Includes second lien extinguishment.
Median Length of Time Borrower Receives Assistance	Median length of time a borrower receives on-going assistance (e.g., unemployment programs). Please report in months (round up to closest integer). This only need be reported in the cumulative column.
Median Assistance Amount	Median amount of assistance ($).
Assistance Characteristics	
Assistance Provided	Total amount of aggregate assistance provided by the HFA (does not include lender matching assistance).
Total Lender/Servicer Assistance Amount	Total amount of aggregate assistance provided by the lenders / servicers (does not include HFA assistance). Lender waiving fees and / or forbearance does not count towards lender / servicer assistance.
Borrowers Receiving Lender/Servicer Match (%)	Percent of borrowers receiving lender/servicer match out of the total number of assisted applicants.
Median Lender/Servicer Assistance per Borrower	Median lender/servicer matching amount (for borrowers receiving matching)
Other Characteristics	
Median Length of Time from Initial Request to Assistance Granted	Median length of time from initial contact with borrower (general eligibility determination) to granted assistance. Please report in days (round up to closest integer).
Current	
Number	Number of households current at the time assistance is received.
%	Percent of current households divided by the total number of approved applicants.
Delinquent (30+)	
Number	Number of households 30+ days delinquent but less than 60 days delinquent at the time assistance is received.
%	Percent of 30+ days delinquent but less than 60 days delinquent households divided by the total number of approved applicants.
Delinquent (60+)	
Number	Number of households 60+ days delinquent but less than 90 days delinquent at the time assistance is received.
%	Percent of 60+ days delinquent but less than 90 Days delinquent households divided by the total number of approved applicants.
Delinquent (90+)	
Number	Number of households 90+ Days delinquent at the time assistance is received.
%	Percent of 90+ days delinquent households divided by the total number of approved applicants.
Program Outcomes	
Borrowers No Longer in the HHF Program (Program Completion/Transition or Alternative Outcome)	Number of households who are no longer in the HFA program and reach an alternative outcome or program completion/transition.
Alternative Outcomes	
Foreclosure Sale	

Number	Number of households transitioned out of the HHF program into a foreclosure sale as an alternative outcome of the program.
%	Percent of transitioned households that resulted in foreclosure.
Cancelled	
Number	Number of borrowers who were ***approved and funded,*** then were disqualified or voluntarily withdrew from the program without re-employment or other intended transition.
%	Percent of transitioned households that were cancelled from the program.
Deed in Lieu	
Number	Number of households transitioned out of the HHF program into a deed in lieu as an alternative outcome of the program.
%	Percent of transitioned households that resulted in deed in lieu.
Short Sale	
Number	Number of households transitioned out of the HHF program into a short sale as an alternative outcome of the program.
%	Percent of transitioned households that resulted in short sale.
Program Completion/Transition	
Loan Modification Program	
Number	Number of households that transitioned into a loan modification program (such as the Making Home Affordable Program)
%	Percent of transitioned households entering a loan modification program.
Re-employed/Regain Appropriate Employment Level	
Number	Number of households transitioned out of the program due to regaining employment and/or appropriate levels of employment.
%	Percent of transitioned households that resulted in re-employment or regained employment levels.
Reinstatement/Current/Payoff	
Number	Number of households transitioned out of the program due to reinstating/bringing loan current or paying off their mortgage loan.
%	Percent of transitioned households that resulted in reinstatement/current or payoff.
Short Sale	
Number	Number of households transitioned out of the HHF program into a short sale as the desired outcome of the program.
%	Percent of transitioned households that resulted in short sale.
Deed in Lieu	
Number	Number of households transitioned out of the HHF program into a deed in lieu as the desired outcome of the program.
%	Percent of transitioned households that resulted in a deed in lieu
Other – Borrower Still Owns Home	
Number	ouseholds transitioned out of the HHF program not falling into one of the transition oove, but still maintaining ownership of the home.
%	Percent of transitioned households in this category.
Homeownership Retention[1]	
Six Months	Number of households assisted by the program in which the borrower retains ownership 6 months post initial assistance.
%	Percent of households assisted by the program in which the borrower retains ownership 6 months post initial assistance divided by the total number of households assisted by the program 6 months prior to reporting period.
Twelve Months	Number of households assisted by the program in which borrower retains ownership 12 months post initial assistance.

%	Percent of households assisted by the program in which the borrower retains ownership 12 months post initial assistance divided by the total number of households assisted by the program 12 months prior to reporting period.
Unreachable	Number of homes assisted by the program that are unable to be verified by any means.
%	Percent of homes assisted by the Program that are unable to be verified by any means.

Note: 1 Borrower still owns home.
* Information should reflect quarterly activity (*e.g.,* borrowers assisted during the reporting quarter)
Source: Treasury.

Appendix K – HHF Program Goals by State and Program, as of December 31, 2011

ALABAMA	
Hardest Hit for Alabama's Unemployed Homeowners	Provide mortgage payment assistance to unemployed or underemployed Alabama homeowners with a chance of sustaining homeownership.
ARIZONA	
Permanent Modifications Component	The central goal of the Permanent Modification Component is to help homeowners avoid foreclosure by permanently modifying a borrower's primary mortgage to achieve a monthly payment that does not exceed 31-32% of the borrower's monthly income, depending on the agreement with the servicer. Loan modifications may include principal reduction (the amount of any principal reduction provided by HHF Program funds must be matched by a borrower's lender/servicer), interest rate reduction, and/or term extension. The Permanent Modification Component aspires to achieve a ninety percent (90%) success rate in modifying loans with the borrowers' lenders/servicers.
Second Mortgage Assistance Component	The goals of the Second Mortgage Assistance Component is to help homeowners avoid foreclosure by eliminating a second mortgage if necessary to modify the terms of the primary loan, and to reduce the likelihood that a borrower will re-default under its primary loan as a result of the burden of a second mortgage.
Unemployment/ Underemployment Mortgage Assistance Component	This program will provide assistance for a set period of time and/or maximum dollar amount so a qualified borrower can search for adequate work or obtain job training without fear of losing their home. The purpose of the program is to assist borrowers until they can obtain sufficient income to resume scheduled mortgage payments, or qualify for a modified mortgage payment. • Sustain the unemployed/underemployed borrower's monthly mortgage payment until they can or the maximum assistance has been provided • Maintain the borrower's contribution towards their monthly mortgage payment at 31% of their current gross monthly income for the duration of the assistance excluding unemployment benefits.
Short Sale Assistance Component	Short sale assistance was designed to help stabilize communities by providing assistance to consumers in unrecoverable situations to transition from homeownership to renting as well as enhance the marketability of short sale properties and accelerate the stabilization of property value.
CALIFORNIA	
Unemployment Mortgage Assistance Program	UMA's goal is to help homeowners remain in their homes and prevent avoidable foreclosures despite loss of income due to unemployment. The UMA program will minimize past due payments, and provide a homeowner with additional time to find alternate employment and replace income needed to make their mortgage payment. UMA was designed to assist homeowners who are currently eligible to receive unemployment benefits. UMA was designed to complement other loss mitigation programs, including increasing a homeowner's eligibility for an extended written forbearance plan and/or loan modification.
Mortgage Reinstatement Assistance Program	The MRAP program will prevent avoidable foreclosures by helping homeowners reinstate their past due first mortgage loans. MRAP will also mitigate the need for large reinstatement dollars to be capitalized with remaining loan balance, and thus, broaden the population of homeowners who otherwise may not qualify for modification.
Principal Reduction Program	The PRP program will, in cooperation with participating lenders, leverage the HHF dollars by reducing the principal balances of underwater mortgages and provide an incentive for qualifying homeowners to remain in their homes during this period of steep declines in value. A reduction in principal through PRP can achieve desired income ratios and affordability for a homeowner on the existing mortgage loan or can be used in conjunction with a loan modification.
The Transition Assistance Program	CalHFA MAC envisions that these monies would be used to complement other federal or lender programs designed specifically to stabilize communities by providing assistance to homeowners who have suffered a financial hardship and as a result are no longer financially able to afford their mortgage payments.

C2MPRP: Community 2nd Mortgage Principal Reduction Program	The goal of this program is to reduce foreclosures by reducing principal balances, on qualified amortizing subordinate debt, to those market levels needed to prevent avoidable foreclosures and promote sustainable homeownership. The C2M PRP thus provides an incentive for qualifying homeowners to remain in their homes during this period of steep declines in value, in situations when existing Making Home Affordable and CalHFA programs are unable to do so.
Los Angeles Housing Department ("LAHD") Principal Reduction Program	Leverage existing neighborhood stabilization efforts in the City by targeting at-risk borrowers in those neighborhoods most impacted by foreclosures and providing sustainable loan modifications with affordable payments that include permanent principal reduction consistent with the guidelines outlined herein. The Program goals include maximizing leverage (City grant/Amount of Principal Write down) at 21%, with a Loan to Value/Combined Loan to Value (LTV, CLTV) ranging from 105% to 125%.
NeighborWorks® Sacramento Short Sale Gateway Program	The Program will, in cooperation with participating lenders, provide an option for borrowers to remain in their homes after efforts to modify loans have been exhausted. The Program goals are to prevent dislocation of households, prevent the creation of vacant units and return borrowers to successful homeownership.
FLORIDA	
Unemployment Mortgage Assistance Program	• Preserving homeownership. • Protecting home values.
Mortgage Loan Reinstatement Program	• Preserving homeownership. • Protecting home values.
GEORGIA	
Mortgage Payment Assistance (MPA)	The goal is to provide assistance over the next 5 years to 18,300 homeowners to prevent foreclosures. Mortgage Payment Assistance (MPA) will be provided as follows: **Short-Term Assistance** Monthly mortgage payments to assist unemployed or substantially under-employed homeowners while they look for a new job. **Reinstatement Assistance** One-time payment for homeowners who have found a new job and can make ongoing payments, but need help to bring their mortgage current and avoid foreclosure due to arrearages accumulated during a period of unemployment or substantial underemployment.
ILLINOIS	
Hardest Hit Fund Homeowner Emergency Loan Program (HHF HELP)	The goal of the Program is to assist homeowners who have experienced an income reduction due to unemployment or underemployment with Monthly Mortgage Payment Assistance and Reinstatement Assistance that will allow them to pursue sustainable income and homeownership without the immediate threat of default or foreclosure.
Mortgage Resolution Fund Program (MRF)	The MRF Program aims to keep families in their homes or provide families with support for an orderly property disposition and transition to new housing, which will help to stabilize neighborhoods and housing markets.
INDIANA	
Hardest Hit Fund Unemployment Bridge Program	The goal of the UBP is to cover a portion of PITI for eligible unemployed homeowners, allowing them to: 1) Secure re-employment in their occupation; or 2) Access training made available through the Indiana Department of Workforce Development that will help them secure employment in a new occupation.
KENTUCKY	
Kentucky Unemployment Bridge Program	To prevent avoidable foreclosure for homeowners who have experienced loss of income due to unemployment or substantial underemployment by providing funds to reinstate, pay the household's mortgage payments during the period of unemployment/underemployment and for two months after reemployment, if needed, up to the maximum dollar threshold for assistance of $25,000.
MICHIGAN	
Principal Curtailment Program	The Principal Curtailment will prevent avoidable foreclosures by helping homeowners who currently cannot refinance or modify their mortgages due to negative equity positions. Homeowners will benefit from both a restructured loan payment and the reduction in principal balance, reducing monthly payments and increasing sustainability.

Loan Rescue Program	This program will prevent avoidable foreclosures by putting homeowners, who otherwise are on the brink of foreclosure, but can now afford to sustain homeownership, back on solid footing without increasing their indebtedness. In so doing, the program will stem the oversupply of foreclosed homes and short sales that dominate many markets and help stabilize the broader housing market in Michigan.
Unemployment Mortgage Subsidy Program	Provide mortgage payment assistance to Michigan unemployed residents, helping them remain successful with homeownership.
MISSISSIPPI	
Home Saver Program	The goal of the HSP is to provide borrowers the time necessary to improve their chances of finding a job that pays them enough to cover their monthly mortgage payments.
NEVADA	
Principal Reduction Program	The primary goal is to reduce first mortgage principal balances such that their loan to value ratios are reduced and correspondingly, the PITI payment reduced to 43% or less of the homeowner's gross income.
Second Mortgage Reduction Plan	The expected outcome of this program is to assist up to 2,200 families remove the impediment of a second lien on their property such that either a short sale, refinancing or first mortgage modification can be carried out and thus prevent a foreclosure.
Short-Sale Acceleration Program	It is expected that at an $8,025 level of average funding per family assisted up to 1,371 families facing imminent foreclosure threat, will have the burden of their home mortgage eliminated and the threats of a default judgment removed.
Mortgage Assistance Program (MAP)	The MAP program's goal is to increase the probability that a borrower and/or recipient's family has a stronger chance of sustaining homeownership with the assistance from the HHF program. The enhanced home ownership through re-employment and job maintenance should decrease both the numbers and probability of foreclosures.
NEW JERSEY	
New Jersey Homekeeper Program (NJHK)	The goal of the NJHK Program is to promote neighborhood stability in New Jersey communities by providing assistance with mortgage arrears and mortgage payments to eligible homeowners who, through no fault of their own, are in danger of foreclosure due to a temporary loss of employment or unexpected substantial underemployment and are in the process of seeking work or job training that will enable them to resume making their mortgage payments in full.
NORTH CAROLINA	
Mortgage Payment Program (MPP-1)	To assist 5,750 homeowners over the next 3 years. The following types of assistance will be provided: **Job Search or Short-term Assistance** To help homeowners while they look for a new job. **Job Training or Long-term Assistance** To help homeowners while they complete a job training/education program to help secure a new job. **Reinstatement Only or One-time Assistance** To help homeowners who have found a new job but need help to bring their mortgage current.
Mortgage Payment Program (MPP-2)	To assist 14,100 homeowners over the next 5 years. The following types of assistance will be provided: **Job Search or Short-term Assistance** To help homeowners while they look for a new job. **Job Training or Long-term Assistance** To help homeowners while they complete a job training/education program to help secure a new job. **Reinstatement Only or One-time Assistance** To help homeowners who have found a new job but need help to bring their mortgage current due to arrearages accumulated during a period of unemployment.
Second Mortgage Refinance Program (SMRP)	To assist 2,000 homeowners facing foreclosure in all 100 North Carolina counties. The goal of this program is to extinguish the existing second mortgage and replace it with a 0%-interest, non-recourse, deferred-payment subordinate loan. This will reduce the borrower's monthly mortgage payment and in some instances may expedite movement of a qualified applicant into a HAMP first mortgage modification process.
Permanent Loan Modification Program (PLMP)	To assist 440 homeowners facing foreclosure. The goal of the program is to decrease the number of home owners losing their homes to foreclosure. Secondary goals include stabilization of neighborhoods and protecting home values of surrounding properties. This program will provide immediate mortgage payment relief and stable long term mortgage payments for the life of the loan.

OHIO	
Rescue Payment Assistance Program	The goal of this program is to prevent avoidable foreclosure for homeowners who have experienced a temporary hardship by reinstating their past due first mortgage loans.
Mortgage Payment Assistance Program	The goal of MPA is to help unemployed and/or underemployed homeowners remain in their homes and make on-time, monthly payments on their mortgages so that they may avoid delinquency and foreclosure while seeking regular employment or applying for a mortgage modification.
Modification with Contribution Assistance Program	The goal of this program is to help stabilize the Ohio housing market by helping homeowners achieve affordable modifications.
Lien Elimination Assistance	The goals of LEA are to: • Help homeowners to achieve an affordable monthly payment; and • Reduce the probability of re-default after the lien elimination.
Transition Assistance Program	The goal of TA is to allow homeowners to achieve a graceful exit from their current situation and avoid foreclosure.
Short Refinance Program	The goals of the Program are to: • Help homeowners obtain mortgage loan refinances to lower their monthly loan payment; • Provide assistance to homeowners who may not be eligible for a traditional modification but cannot refinance due to a decline in their home's value; and • Reduce the number of homeowners with negative equity.
OREGON	
Loan Modification Assistance Program	To provide a quick infusion of funds that will allow for a successful loan modification. Without these additional funds, homeowners would be ineligible for modification.
Mortgage Payment Assistance Program	The assistance provided by the Mortgage Payment Assistance Program will allow qualified borrowers to search for work or obtain job training without fear of losing their home. The purpose of this program is to assist borrowers until they can obtain sufficient income to resume scheduled mortgage payments or qualify for a modified mortgage payment.
Loan Preservation Assistance Program	To provide homeowners experiencing unemployment or financial distress the opportunity to pay arrearages and bring delinquent loans current. The program will preserve and/or maintain an existing loan and reduce risk of imminent foreclosure.
Transition Assistance Program	To provide funds to financially distressed borrowers so they may be able to find affordable housing while avoiding foreclosure. Additionally, funds will serve as an incentive to maintain the home's condition prior to turning it over to a lender/servicer.
Loan Refinancing Assistance Pilot Project	The Loan Refinancing Assistance Pilot Project's goals are to assist homeowners escape acute negative equity situations, help to slow the ongoing decline in property value, and provide approved homeowners with reliable, affordable, sustainable mortgages.
RHODE ISLAND	
Loan Modification Assistance for HAMP Customers (LMA-HAMP)	To help Rhode Island homeowners who cannot qualify for a HAMP modification because they do not have sufficient resources to achieve HAMP requirements.
Loan Modification Assistance for Non-HAMP Customers (LMA-Non-HAMP)	This program is designed to help stabilize Rhode Island homeowners and help them achieve an affordable modification. This assistance will, at a minimum, temporarily adjust a homeowner's payment to an affordable level for a 12 month period.
Temporary and Immediate Homeowner Assistance (TIHA)	To help a homeowner avoid foreclosure when faced with temporary or immediate crisis.
Moving Forward Assistance	Rhode Island Housing envisions that these monies would be used to complement other federal or lender programs designed specifically to stabilize communities by providing assistance to borrowers who have suffered a financial hardship and as a result are no longer financially able to stay in their home.
Mortgage Payment Assistance - Unemployment Program (MPA-UP)	To assist unemployed and substantially underemployed homeowners to remain in their homes and make on-time, monthly payments on their mortgages during their hardship so that they may avoid delinquency and foreclosure; and to help stabilize homeowners so that they can obtain a sustainable loan modification, if necessary, after they have regained full employment.

Principal Reduction Program	Leverage HHF dollars by reducing the principal balances of "underwater mortgages" (specifically mortgages for which the mark-to-market LTV is greater than 115%) and provide financial assistance to qualifying homeowners to remain in their homes during this period of steep declines in value. A reduction in principal can achieve desired income and loan-to-value ratios that result in an affordable payment for a customer on the existing mortgage loan or can be used in conjunction with a loan modification.
SOUTH CAROLINA	
Monthly Payment Assistance Program	To bridge eligible borrowers across a gap in employment or other reduction in income, and allow them to stay current on their mortgages.
Direct Loan Assistance Program	To help borrowers become current on their mortgage during or following a brief interruption or reduction in income and to ensure long-term affordability.
HAMP Assistance Program	To provide limited funding to help borrowers become eligible for HAMP.
Property Disposition Assistance Program	To assist borrowers in unrecoverable situations in transitioning from homeownership to rental housing.
TENNESSEE	
Hardest Hit Fund Program (HHFP)	To assist unemployed, or substantially underemployed, homeowners to remain in their homes and make monthly payments on their mortgages and mortgage related expenses such as property taxes, homeowner insurance, homeowner dues, and/or past-due mortgage payments (arrearages) so that they may avoid delinquency and foreclosure.
WASHINGTON, D.C.	
HomeSaver Program	**Foreclosure prevention** – The primary goal of the HomeSaver Program is to prevent foreclosures that will erode the base of homeowners in the city, which already lags behind the national average in the rate of homeownership. **Synergistic interaction** – The DCHFA will partner with other organizations (i.e. DOES and the Urban Institute) to define the universe of potential candidates for the HomeSaver Program, perform outreach and intake, and ultimately deliver timely assistance to prevent foreclosure. DOES is the District agency that administers the city's UI and job training programs. The Urban Institute (the Institute) has conducted extensive research into housing issues in DC including mortgage delinquencies and foreclosures. The Urban Institute gathers data, conducts research, evaluates programs, offers technical assistance overseas, and educates Americans on social and economic issues – to foster sound public policy and effective government. **Simplicity** – The DCHFA will employ a HomeSaver Program design that seeks to minimize administrative costs thereby maximizing the amount of dollars available for assistance.

Source: HFA Participation Agreements as of December 31, 2011.

Appendix L – Management Comments

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

March 28, 2012

Christy L. Romero
Deputy Special Inspector General
for the Troubled Asset Relief Program
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

RE: Response to SIGTARP's Draft Audit Report: "Factors Affecting Implementation of the Hardest Hit Fund Program"

Dear Ms. Romero:

Thank you for the opportunity to review your draft final audit report entitled *Factors Affecting Implementation of the Hardest Hit Fund Program* (the Report). The Department of the Treasury (Treasury) appreciates SIGTARP's examination of the early stages of the Hardest Hit Fund (HHF) program. This letter provides Treasury's official response to the Report. Treasury previously provided SIGTARP staff with extensive comments and technical corrections.

We appreciate the findings of the Report with respect to the three stated objectives of the audit. That is, the Report found that Treasury consistently applied its criteria in selecting the states and programs for HHF; acknowledges that Treasury used clear, publicly available numeric thresholds to determine which states were eligible for participation; and concludes that each of the 49 initial programs implemented by these states was consistent with the Emergency Economic Stabilization Act of 2008. The Report also concluded that the various stakeholders with whom SIGTARP spoke—the state Housing Finance Agencies (HFAs), servicers, industry experts, and the Government-Sponsored Enterprises (GSEs)—recognized the innovative nature of HHF and the state HHF programs.

As you know, unlike other TARP-funded housing programs that are nationally focused, HHF was designed to address the state-by-state differences in the housing crisis. The program allows HFAs to leverage their unique understanding of the conditions in their communities to create effective, locally-tailored programs. Through this program, states are working to confront some of the most difficult challenges facing struggling homeowners. At present, the 19 participating HFAs have established over 50 programs, with a broad range of assistance types including principal forgiveness, unemployment mortgage assistance, extinguishment of arrearages, and buy-and-modify programs. And the dynamic nature of HHF has paid off—state programs are steadily gaining traction, showing consistent growth both in the number served and dollars spent on behalf of homeowners. The number of homeowners assisted per quarter grew by 60 percent last quarter, and the amount of dollars going to assist those homeowners grew by 93 percent.

However, SIGTARP's suggestions as to how the process might have been accelerated or improved are unworkable in practice. For example, the Report criticizes the "significant delay" in standing up HHF, but neglects that state HFAs had to establish their own program infrastructures from scratch—they did not rely on servicers' existing infrastructures to accept or process applications. HFAs selected and trained networks of housing counselors to assist with applications, created portals to aid homeowners in applying for assistance, and hired underwriters to review applications. Treasury disagrees that the time it took states to build this infrastructure is fairly characterized as "delay." Rather, HHF is creating long-lasting foreclosure prevention capabilities, both within the HFAs and with their partners throughout each state.

It is also disappointing that the Report focuses so much attention on the first few months of the program and so little attention on the progress of the program today. For example, SIGTARP dedicates one entire section to a criticism that states were not given more advance notice of their selection. Because Treasury had not yet publicly announced the program, such notice would have been subject to a confidentiality requirement, putting states in the impossible position of having knowledge of their selection, but being unable to act on that information. Moreover, advance notice was impractical simply because of the need for Treasury to be transparent in its decisions with respect to TARP funding—a principle that SIGTARP strongly supports, not to mention one required by law. Most importantly, SIGTARP does not explain how additional advance notice of the public announcement could have any bearing on implementation of the program, particularly as states would have been unable to begin work.

Likewise, Treasury disagrees with the Report's finding that Treasury failed to "use its influence" with servicers and the GSEs during the initial months of the program. Although Treasury has no regulatory or executive authority to compel participation in HHF, Treasury actively and consistently engaged with servicers and the GSEs from the earliest stages of the program, encouraging support and addressing impediments to participation. This unprecedented level of collaboration with states and stakeholders will be a lasting legacy of the HHF program.

The Report provides five recommendations related to the program's performance goals and metrics. As we have explained, Treasury believes establishing static numeric targets (as the recommendations seem to suggest) is not well suited to the dynamic nature of HHF. Treasury has a rigorous performance management program in place, which requires each HFA to set goals and targets for all of its initiatives. Treasury works with HFAs to identify potential barriers to programs achieving their goals, and also with states to make the changes necessary to overcome them—to date over 80 program changes by the 19 HFAs have been approved.

Furthermore, each HFA publishes its performance report quarterly, and Treasury centrally links to each of these reports on its website. This approach provides the public with the information to observe and evaluate program performance while maintaining a high level of flexibility for state HFAs, and also permits HFAs to provide essential context for their programs along with performance numbers.

Treasury will address each of SIGTARP's recommendations on this issue in detail at a later date, but generally believes that measures that would erode the fundamental character of the HHF program—which empowers the states rather than dictates a one-size fits all approach—would not be appropriate.

Thank you once again for the opportunity to review the Report. Treasury values the role of strong oversight and appreciates SIGTARP's work over the course of this audit.

Sincerely,

Timothy G. Massad
Assistant Secretary for Financial Stability

Appendix M – Audit Team Members

This audit was conducted and the report was prepared under the direction of Kurt Hyde, Deputy Inspector General for Audit and Evaluation, and Kimberley A. Caprio, 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 Anita Visser, Brenda James, Clayton W. Boyce, Sarah Reed, Beth Preiss, Carol Placek, and Adam Tabaka.

SIGTARP Hotline

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

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

Press Inquiries

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

Troy Gravitt
Director of Communications
Troy.Gravitt@treasury.gov
202-927-8940

Legislative Affairs

For Congressional inquiries, please contact our Legislative Affairs Office:

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

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To obtain copies of testimony and reports, please log on to our website at www.SIGTARP.gov.

April 12, 2012