

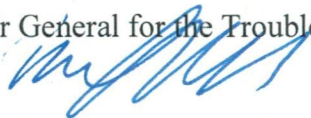


OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM

1801 L STREET, NW, 4TH FLOOR
WASHINGTON, D.C. 20220

AUG - 4 2010

MEMORANDUM FOR: Herbert M. Allison, Jr., Assistant Secretary for Financial Stability,
Department of Treasury

FROM: Neil M. Barofsky, Special Inspector General for the Troubled
Asset Relief Program (SIGTARP) 

SUBJECT: Engagement Memo – Review of Implementation of the Housing
Finance Agency Innovation Fund for the Hardest Hit Housing
Markets

As part of our continuing oversight of the Troubled Asset Relief Program (“TARP”), we are initiating an audit of Treasury’s implementation of the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (“Hardest Hit Fund”), which is intended to provide foreclosure-prevention funding. With \$2.1 billion in Federal funds slated for state housing finance agencies, the Hardest Hit Fund was established to support innovative local initiatives to assist struggling homeowners in 10 states that have been hit hardest by the housing downturn.

Our initial objectives are to (1) assess the extent to which Treasury applied consistent and transparent criteria, including applicable provisions of the Emergency Economic Stabilization Act of 2008, in selecting the states and programs to receive money from the Hardest Hit Fund; (2) assess the extent to which Treasury determined that the programs to be funded by the Hardest Hit Fund are innovative and not duplicative of existing state and Federal programs; (3) determine whether Treasury put sufficient mechanisms in place to prevent waste, fraud, and abuse of the Hardest Hit Fund; and (4) identify the goals and metrics Treasury adopted and reported to the public for the operation of the Hardest Hit Fund. These objectives may change as the audit progresses and we will keep you abreast of any changes.

We plan to start work on this engagement immediately. Our work will be conducted under SIGTARP engagement code 022. We expect to perform audit work at the Department of the Treasury and its Office of Financial Stability, and at selected states receiving money for foreclosure-mitigation programs funded by the Hardest Hit Fund. A member of my staff will contact you shortly to arrange an entrance conference. At that time, we will discuss our scope, methodology, and time frames in more detail. In the meantime, please contact Ms. Brenda James, SIGTARP Director for Audit, at Brenda.James@do.treas.gov, or (202) 927-8957.

cc: Timothy Massad, Chief Counsel, Office of Financial Stability
Jennifer Williams, Oversight Liaison, Office of Financial Stability