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KOLAN L. DAVIS, *Chief Counsel and Staff Director*
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October 12, 2016

Via Electronic Transmission

The Honorable Jacob J. Lew
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Ave NW
Washington, D.C. 20220

Dear Secretary Lew:

According to multiple reports released by the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), concerns were raised about waste, fraud, and abuse regarding the Hardest Hit Fund (HHF) program funding.¹ I am concerned that the Treasury Department's failure to provide proper oversight of this program has also failed vulnerable homeowners and wasted millions of taxpayer dollars.

When the program was introduced in 2010, the Treasury Department stated that "HFAs [state housing finance agencies] will be required to develop and maintain operational and performance metrics, have a detailed financial reporting system and track homeowners helped through its programs."² Even six years later, Treasury appears to be focused more on getting the HHF money out the door instead of ensuring the states are using it effectively.

Data from the July 2016 SIGTARP quarterly report shows that the percentage estimate of homeowners to be helped under the program has decreased by 45 percent³

¹ The Hardest Hit Fund was established by Congress in February 2010 as part of the broader Troubled Asset Relief Program (TARP). The purpose of the Fund was to assist those hardest hit by the 2007 financial crisis. Congress initially allocated \$7.6 billion to the program, and allocated an additional \$2 billion in 2016, bringing the total invested in this program to \$9.6 billion. The Treasury Department, in cooperation with the States, is responsible for ensuring that these funds make their way to those homeowners who need it the most.

² https://www.sig tarp.gov/Audit%20Reports/SIGTARP_HHF_Florida_Report.pdf, at p. 14.

³ Id. at 137.

while the overall admission rate sits at a dismal 42 percent.⁴ Overall, HHF has only provided assistance to 256,361 of the 601,838 homeowners who applied for assistance.

Spending on administrative expenses has been a concern since the program began. In 2012, the Government Accountability Office (GAO) found that the states spent an average of 27 percent on administrative expenses.⁵ GAO stated that “Treasury’s rigorous oversight of spending decisions throughout the life of the program will be critical to helping ensure that funds are spent as intended.”⁶ Treasury appears unconcerned that participating HHF states have spent \$626.4 million⁷ (\$2,500 per homeowner) on administrative expenses since the program’s inception. The participating states have reported low percentages of funding used for administrative expenses, but SIGTARP findings lead me to question the reliability and transparency of these numbers.⁸

In a recent report, SIGTARP found that the employees in a Nevada nonprofit organization charged with distributing HHF funding were living high on the hog.⁹ The administrative expenses charged to HHF included: a \$500 per month car allowance for the CEO who drove a Mercedes Benz; \$20,000 for a CEO’s severance package; over \$15,000 for employee bonuses, gifts, holiday parties, manager outing at a high end cocktail bar, gift cards, and regular staff breakfasts and lunches; over \$160,000 in block-billed legal fees and costs for a private investigator, and nearly \$40,000 for auditors to clean up the books; and, over \$100,000 in moving fees, excessive rent and lawyers’ fees to move to nicer office space only to break the lease to move out less than a year later.¹⁰

The Treasury Department states that oversight is conducted “through regular on-site compliance reviews, which test the effectiveness of internal controls – including the review of administrative expenses on a sample basis.”¹¹ After assistance to Nevada homeowners about to lose their houses “plummeted by 94%,”¹² the Treasury Department’s response was to issue a memo “expressing concern.”¹³ Worse yet, the state non-profit organization administering the program “still had almost \$100 million (\$94.6 million) in unspent TARP funds available for struggling homeowners at the start of 2015, but provided less than 3 percent of that to homeowners.”¹⁴

⁴ Id. at 139.

⁵ <http://www.gao.gov/assets/600/592707.pdf>, p. 26.

⁶ Id. at 27.

⁷ Id. at p. 143.

⁸ Ibid.

⁹ https://www.sig tarp.gov/Audit%20Reports/HHF%20Nevada_090916.pdf

¹⁰ Charge information compiled from Id. at summary and pp. 36-38.

¹¹ https://www.sig tarp.gov/Audit%20Reports/HHF%20Nevada_090916.pdf, p. 51.

¹² Id. at report summary.

¹³ Id. at p. 50.

¹⁴ Ibid.

I am concerned that Treasury's failure to provide adequate oversight will allow further waste of precious taxpayer dollars. Therefore, I am requesting the following information:

1. Please provide the detailed operational and performance metrics established for the HHF program.
2. What steps are being taken by Treasury to ensure that the funding is used as intended for the HHF program?
3. Please document the nonprofit entity established in each state to oversee the distribution of the Hardest Hit Funds. Please include documentation of the authority, leadership structure and access granted to each of these entities.
4. Please provide detailed operating and administrative expenses for each state for 2010 to date. Please break it down by categories including but not limited to: salaries, professional services (legal, compliance, audit, and monitoring services), IT, marketing, travel, etc.
5. What steps are being taken to validate the data each participating state provides to the Treasury Department?
6. What, if any, steps are being taken to recoup HHF funding that has been lost due to waste and/or mismanagement?

Please provide responses to the questions in this letter by October 28, 2016. If you have any questions, please contact Janet Drew at (202) 224-5225.

Sincerely,



Charles E. Grassley
Chairman
Committee on the Judiciary

Cc: The Honorable Christy Goldsmith Romero
Special Inspector General
Special Inspector General for the Troubled Asset Relief Program

The Honorable Patrick J. Leahy
Ranking Member
Senate Judiciary Committee

The Honorable John Boozman, Chairman
Subcommittee on Financial Services and General Government
Committee on Appropriations

The Honorable Christopher A. Coons, Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations

The Honorable Patrick J. Toomey, Chairman
Subcommittee on Financial Services and Consumer Protection
Committee on Banking, Housing and Urban Affairs

The Honorable Jeff Merkley, Ranking Member
Subcommittee on Financial Services and Consumer Protection
Committee on Banking, Housing and Urban Affairs