Evaluation Report

Treasury Has Been Effective at Shifting the Hardest Hit Fund To Assist Homeowners Suffering Pandemic-Related Hardships, Efforts That Could Be Further Enhanced

SIGTARP

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

SIGTARP-21-001

June 8, 2021

OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM
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WASHINGTON, D.C. 20220

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MEMORANDUM FOR: The Honorable Janet Yellen – Secretary of the Treasury

FROM: Honorable Christy Goldsmith Romero – Special Inspector General for the Troubled Asset Relief Program

SUBJECT: Evaluation of the Status of the Hardest Hit Fund Program (SIGTARP-21-001)

There has been a ramp up in activity in the Hardest Hit Fund ("HHF") in response to the economic crisis caused by the coronavirus disease 2019 ("COVID-19") pandemic, including high unemployment, underemployment, and mortgage delinquencies. SIGTARP recommended on April 8, 2020, that Treasury take urgent action to put to better use all remaining unspent HHF funds and funds estimated to be unspent in the Home Affordable Mortgage Program ("HAMP") for HHF's traditional form of assistance—unemployment mortgage assistance. State agencies in HHF also sought Treasury approval to ramp back up unemployment mortgage assistance.

SIGTARP found that Treasury has been effective in shifting the Hardest Hit Fund to help homeowners suffering from unemployment a loss of income or other hardships related to the pandemic. As a result, an additional 12,000 homeowners are estimated to use HHF to stay in their home. Treasury extended a program deadline (June 30, 2021, for underwriting) and has been working with state agencies. The spending deadline is December 31, 2021. State agencies in HHF have been ramping back up HHF's unemployment mortgage assistance, changing eligibility requirements to address the pandemic, and making other changes to address the local needs that they see.

Treasury can enhance its effectiveness further to help even more people stay in their homes. SIGTARP found that existing deadlines are putting pressure on state agencies that faced operational delays in ramping up to respond to the pandemic. Additionally, Treasury did not apply to HHF the $118 million it recovered from four state agencies that wound down HHF (including three during the pandemic), instead applying that to the HAMP account. The $118 million combined with an available $331 million would be $449 million.

SIGTARP also found that state agencies face obstacles, roadblocks, and barriers including:

- Receipt of Coronavirus Aid, Relief, and Economic Security ("CARES Act") unemployment or other stimulus funding can make homeowners ineligible;

- Proof of state unemployment benefits can be a barrier given backlogs in state unemployment benefits;

- Given backlogs, state unemployment benefits are sometimes delivered several months at once, which can cause a homeowner to be ineligible; and

- State agencies that have met their spending cap but have program income available must obtain Treasury approval to spend those dollars, which can cause unnecessary delays and is inefficient.

While the program is winding down, it has experienced a ramp up this year and is helping a lot of people struggling through no fault of their own. With hundreds of millions of dollars remaining, HHF is already increasing its impact, an impact that could further be increased.

SIGTARP recommends that Treasury further extend program deadlines; apply the $118 million to HHF unemployment programs as well as future recoveries when state agencies wind down HHF; issue program wide guidance to remove the obstacles, roadblocks, and barriers; and increase transparency into Treasury's efforts to use HHF for the pandemic and the active status of the program.

While the recently announced Homeowner Assistance Fund will take time to start up, the Hardest Hit Fund can immediately provide mortgage assistance to unemployed homeowners who may not have any additional time to save their homes, and can be used in tandem with the new program while funding remains available.

SIGTARP reviewed Treasury's comments on a draft of this report and made changes to the report, as appropriate. We appreciate the courtesies extended to our staff.

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Background

When Congress passed the Emergency Economic Stabilization Act of 2008 ("EESA") during a housing crisis and record numbers of foreclosures, Congress stated that one purpose of EESA was to preserve homeownership. EESA requires the Secretary of the Treasury to take into consideration "the need to help families keep their homes and to stabilize communities" when exercising authority under EESA. Treasury created two programs to address these needs, the Home Affordable Mortgage Program ("HAMP") (the signature program of the Making Home Affordable Program ("MHA")) in 2009 and the Hardest Hit Fund ("HHF") in 2010. Under HAMP, which closed to applicants on December 31, 2016, Treasury pays incentives to financial institutions and homeowners to modify mortgages to affordable and sustainable terms. Under HHF, Treasury provides funds to 19 state housing finance agencies ("state agencies") that use the funds to respond to local housing conditions.[1] Treasury is responsible for oversight of both programs.

For several years, HHF primarily provided mortgage assistance to unemployed or underemployed homeowners, paid directly to the lender. As unemployment began to improve, Treasury started allowing state agencies to shift HHF to other uses, including funding blight demolitions and down payment assistance to homebuyers. In the Consolidated Appropriations Act of 2016, Congress amended EESA to extend HHF's program's end date and shift $2 billion in HAMP unspent funds to HHF, in recognition of ongoing housing market needs.

SIGTARP evaluated the status of HHF and Treasury's planning of the program wind down in accordance with the "Quality Standards for Inspection and Evaluation" established by the Council of the Inspectors General on Integrity and Efficiency.[2]

[1] The 19 state agencies are in Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, New Jersey, Nevada, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee, and the District of Columbia ("D.C.").

[2] For a discussion of the evaluation's objectives, scope, and methodology, see Appendix A.

Treasury Has Been Effective in Shifting HHF To Assist Homeowners Suffering Pandemic-Related Hardships with State Agencies Ramping Up Efforts to Assist an Additional 12,000 Homeowners

The ongoing coronavirus disease 2019 ("COVID-19") pandemic has created an economic crisis on a scale not seen since the 2008 financial crisis. Unemployment rates have increased significantly across the United States, and millions of Americans remain underemployed. Treasury and states are actively using the HHF program to provide needed relief to struggling homeowners during the crisis conditions caused by the COVID-19 pandemic. In March 2020, HHF states started experiencing negative economic conditions, including rising unemployment, because of the pandemic. Treasury stated in an April 22, 2020, internal memo, "the COVID-19 pandemic has brought new challenges to the HHF program. Due to the high levels of unemployment caused by the pandemic, states such as Oregon have looked to use remaining HHF funds to assist homeowners suffering from financial hardships." State-provided data shows an 18% increase in HHF applications in eight states (Kentucky, Indiana, Mississippi, Nevada, Alabama, Rhode Island, Tennessee, and Oregon) for the time period April 2020 to December 2020, compared to the same time period the prior year, representing 1,063 households.

Treasury has been effective in shifting HHF to assist more homeowners during the COVID-19 pandemic. Since the pandemic, at least 10 state agencies have ramped up efforts to use HHF to help an estimated 12,000 additional homeowners suffering pandemic-related hardships. Treasury approved the requests of 10 state agencies in HHF to open new HHF programs targeted at COVID-19 or to reopen HHF mortgage assistance programs for unemployed or underemployed homeowners that had been closed or closed to new applicants. Treasury also approved other program changes that were specifically targeted at pandemic-related hardships.

- In March 2020, states started submitting requests to Treasury to extend program deadlines, reopen HHF programs that had been closed or closed to new applicants and make program modifications, such as changing program eligibility requirements and benefits, to assist homeowners in need. The states cited high or increasing rates of unemployment due to the COVID-19 pandemic as their reason for reopening and modifying their programs. Some states also noted that pre-pandemic programs were not suited to responding to the rise in unemployment.

- On March 31, 2020, Treasury approved the Kentucky agency to reopen HHF unemployment mortgage assistance. Prior to that, Kentucky's HHF only provided down payment assistance to homebuyers. On May 7, 2020, the Kentucky agency announced that in light of hardships caused by the COVID-19 pandemic, it was reactivating its HHF unemployment assistance program to pay six months of a homeowners' mortgage payments capped at $10,000. The Kentucky agency estimated that these changes would help 1,500 homeowners.

- On March 31, 2020, Treasury approved the Indiana agency to reopen HHF unemployment mortgage assistance to new applicants, which had previously only been open to existing participants.

- Treasury approved Mississippi and Nevada to reopen HHF unemployment assistance to new applicants on April 7, 2020.

With Treasury operating on a state-by-state basis, on April 8, 2020, SIGTARP recommended that Treasury act with urgency to (1) put the remaining unspent HHF program funds to better use by shifting those funds to HHF's traditional form of assistance—unemployment mortgage assistance; and (2) work with Congress to shift funds from MHA (HAMP) projected to be unspent to HHF, similar to what had occurred in 2016. Treasury partially implemented the first recommendation, but not the second.

On April 22, 2020, citing the rapid onset on employment-related hardships due to COVID-19, Treasury extended a program deadline. Treasury had received a request for an extension from the Oregon state agency. Rather than only extend the deadline in Oregon, Treasury extended deadlines program-wide. Treasury extended the HHF underwriting deadline—the date by which states had to process and fund HHF applications—by six months to June 30, 2021. Treasury said it would review requests for further extensions on a state-by-state basis. The spending deadline is December 31, 2021.

Following SIGTARP's letter, from May 2020 through March 2021, Treasury approved six state agencies in Alabama, Rhode Island, Tennessee, Oregon, D.C., and Arizona, to change programs to address pandemic-related hardships. Additionally, the Michigan agency clarified that COVID-19 is considered an eligible hardship, and some state agencies expanded public outreach on HHF's availability to help those impacted by COVID-19.

As of December 31, 2020, there was $331.2 million in HHF funds for 16 states. This includes each state agency's portion of $9.6 billion from Treasury plus $545 million in program income (recoveries from HHF liens, interest, and other income), a figure that continues to increase. In addition, Treasury recovered $118 million from HHF when four state agencies wound down HHF in their states.

See Table 1 for a summary of HHF's response to the COVID-19 pandemic.

Table 1. HHF's Response to the COVID-19 Pandemic (in chronological order).

State	Dollars Available (millions)*	Program Modifications in Response to COVID-19 Pandemic	Estimated Additional Homeowners to be Helped	Results
Kentucky	$24.8	Shifted from only providing down payment assistance for homebuyers to reopen program for unemployed and underemployed homeowners, shifting $11.7 million in funds. HHF will pay six months of a homeowner's mortgage payment and all other mortgage-related expenses during the time of unemployment or underemployment, capped at $10,000.	1,327	From July to December 2020, $483,471 was paid on mortgages of existing HHF homeowners and 77 new homeowners, including homeowners who were unemployed, underemployed, or had medical conditions.
Indiana	$23.53	Changed from only providing HHF mortgage assistance to existing program participants to accept new applications from homeowners experiencing an involuntary loss of employment or reduction in income. HHF will pay up to six months of their mortgage, capped at $30,000. Shifted $4.3 million to administrative funds to handle processing the applications.	1,875	From April through September 30, 2020, $3.9 million was paid on mortgages of existing HHF homeowners and 339 new homeowners—84% were 90+ days delinquent from April through June 2020, and 72% were 90+ days delinquent from July to September 2020.
Mississippi	$24.58	Changed from only providing HHF mortgage assistance to existing program participants to accept new applications from homeowners who lost employment or income due to the COVID-19 pandemic. HHF will pay 12-24 months of their mortgage, capped at $50,000. Shifted $693,000 to administrative funds to handle processing the applications.	500	From July 2020 to December 31, 2020, $4.45 million was paid on mortgages of existing HHF homeowners and 414 new homeowners, almost all with incomes under $50,000.
Nevada	$8.18	Changed from only providing HHF mortgage assistance to existing program participants to accept new applications from homeowners who lost their job through no fault of their own due to the COVID-19 pandemic. HHF will pay up to $3,000 in monthly mortgage payments, capped at $9,000. Shifted $1.5 million to administrative funds to handle processing the applications. To address backlog of applications, in November 2020, HHF removed requirement that homeowners submit proof of unemployment.	1,050	From July 2020 to December 31, 2020, $1.5 million was paid on mortgages of existing HHF homeowners and 321 new homeowners, almost all with incomes under $50,000.

State	Dollars Available (millions)*	Program Modifications in Response to COVID-19 Pandemic	Estimated Additional Homeowners to be Helped	Results
Alabama	$59.43	Changed from only providing HHF mortgage assistance to existing program participants to accept new applications from homeowners who received unemployment benefits during or after March 1, 2020, or experienced a 10 percent loss of income. HHF will pay 12 months of their mortgage, capped at $30,000. HHF expanded eligibility by decreasing the minimum loss of income to qualify from 15% to 10% (which SIGTARP had previously recommended), increasing the unpaid principal balance limit to $300,000, and clarifying that eligible illness can include illness of the borrower or dependent.	1,400	From July 2020 to December 31, 2020, $3.05 million was paid on mortgages of existing HHF homeowners and 293 new homeowners, most with incomes under $50,000.
Rhode Island	$4.74	Previously only provided down payment assistance to homebuyers. Shifted $2 million from administrative funds. Opened a new HHF program, the COVID-19 Mortgage Payment Assistance Unemployment Program, for homeowners facing unemployment or underemployment as a result of the COVID-19 pandemic. HHF will pay their mortgage, capped at $50,000. Eliminated requirement that homeowner contribute to monthly mortgage payment.	300	From July 2020 to December 31, 2020, $402,751 was paid on mortgages of 59 new homeowners.
Tennessee	$16.54	Reopened program to help reinstate mortgage delinquency, citing that delinquency rates had risen in 94 of 95 counties. Shifted $4.5 million from administrative funds to program assistance. Expended eligibility by increasing debt to income ratio limits to 45%.	225	From July 2020 to December 31, 2020, $2,336 was paid on mortgages.
Oregon	$25.35	Opened a new HHF COVID-19 Mortgage Relief Program to help homeowners who became past due on their mortgage after January 1, 2020, and experienced a financial hardship such as a job loss, reduced income, medical issue, disability, death, or divorce. HHF capped at $40,000. Also continued existing HHF program and expanded eligibility to allow for homeowners who own a second home.	5,234	From July 2020 to December 31, 2020, $1.6 million was paid on mortgages of existing HHF homeowners and 4 new homeowners.
District of Columbia	$6.37	Changed from only providing HHF mortgage assistance to existing program participants to accept new applications from homeowners who are unemployed or underemployed. Expanded eligibility to no longer require that homeowner must be receiving unemployment benefits to instead that they must have become unemployed through no fault of their own. Expanded assistance to pay delinquent homeowner association dues. Expanded eligibility by increasing debt to income ratio limits to 45%.	90	There are no reported new homeowners receiving assistance from April 2020 through December 2020.

State	Dollars Available (millions)*	Program Modifications in Response to COVID-19 Pandemic	Estimated Additional Homeowners to be Helped	Results
Arizona	$9.61	HHF program has remained open. The Arizona agency reported an increase of requests for unemployment/underemployment mortgage assistance. Shifted $2 million from administrative expenses to down payment assistance.		From July through December 31, 2020, $1.02 million was paid on mortgages of existing HHF homeowners and 74 new homeowners, 80% of which were 90+ days delinquent from July through September 2020, and 64% were 90+ days delinquent from October to December 2020.
Michigan	$9.92	Clarified that hardship eligibility includes COVID-19 in program that pays delinquent mortgage, property tax, or condominium fees. The homeowner must document that unemployment or underemployment was directly related to the COVID-19 crisis and prevented the homeowner from being able to pay the monthly mortgage payment.	Not stated	From July 2020 to December 31, 2020, $1.9 million was paid on mortgages, which included mortgages of 213 new homeowners.
Georgia	$13.22	No announced changes to existing HHF.		
Illinois	$11.3	No announced changes to existing HHF.		
New Jersey	$27.44	No announced changes to existing HHF.		
North Carolina	$58.71	No announced changes to existing HHF.		
Ohio	$7.49	No announced changes to existing HHF.		
Total	**$331.20**		**12,121**	

* Dollars available includes each state agency's portion of $9.6 billion from Treasury plus $545 million in program income. State agencies continue to receive future program income. Data as of December 31, 2020, the latest data reported.
Sources: Treasury's HHF Program Information Memos and HHF states' quarterly reports for fourth quarter 2020.

Treasury's approval of HHF state agencies' efforts to target pandemic-related hardships has been effective, estimated to help 12,000 additional homeowners stay in their homes and avoid the effects of foreclosures. Treasury can further enhance program effectiveness.

Treasury Was Not Efficient When Four State Agencies Wound Down HHF and Turned in $118 Million That Treasury Should Shift to Open HHF Programs

The $118 Million with the Remaining $331 Million Would Provide $449 Million

Given the great need for HHF assistance, Treasury has not efficiently shifted $118 million that it recovered from four state agencies that wound down HHF. Treasury did not implement SIGTARP's April 2020 recommendation to use all remaining funds. In January 2020, when HHF Florida closed, Treasury recovered $6.5 million, followed by an additional $111.5 million from three state agencies that closed HHF during the pandemic (California, South Carolina, and Illinois). Treasury did not use this for open HHF programs, but instead applied it to the HAMP account even though HAMP is no longer open to new applicants. This was a lost opportunity to help more homeowners impacted by the pandemic, an opportunity that will continue to be lost as other state agencies wind down HHF due to Treasury's current deadlines. Even a few million dollars can help a significant number of homeowners because HHF programs cap assistance (for example, at $10,000 or $30,000 per household). SIGTARP recommends that Treasury shift the $118 million to open HHF programs that, in addition to the available $331 million, would provide a total of $449 million.

Treasury also did not implement SIGTARP's April 2020 recommendation that Treasury repeat 2016 by working with Congress to shift HAMP funds estimated not to be spent to HHF. From 2018 to 2020, Treasury deobligated $4.9 billion from HAMP, a figure that will likely increase at the end of this fiscal year. SIGTARP continues to recommend that Treasury implement SIGTARP's April 2020 recommendations.

Treasury Should Extend Program Deadlines To Alleviate Challenges Faced by State Agencies

When Treasury extended program deadlines in April 2020, not much was known about the economic effect of the pandemic or its longevity. Treasury extended program deadlines by six months "due to the amount of time they [state agencies] will need to reopen their programs and process new homeowner applicants." The Congressional Budget Office's March 2021 economic projection predicts the unemployment rate will not return to pre-pandemic levels (i.e., below 4%) until 2026.[3] In April 2021, the Consumer Finance Protection Bureau reported that the number of people behind on their mortgage payments has doubled since the beginning of the pandemic, that more homeowners are behind on their mortgages than at any time since 2010, and that nearly 1.7 million borrowers will exit forbearance programs in September and the following months, with many of them a year or more behind on their mortgage payments.[4] Homeowners will likely continue to need the type of assistance HHF offers past the program's current December 31, 2021, end date. Although Congress approved a new program modeled after HHF, it will take time to get that program fully functioning, while HHF is readily available.

State agencies reported to SIGTARP that they faced challenges to process the increased requests for assistance by Treasury's June 30, 2021, underwriting deadline. These challenges include operational delays in reopening programs to new applicants and opening new programs, and staffing obstacles to process new applications. Some states faced challenges because Treasury only recently approved changes. For example, because D.C. reopened its monthly mortgage payment assistance program on February 15, 2021, it is under a compressed timeline to process applications prior to the June 30, 2021, deadline.

Treasury should extend all program deadlines, just as it did in April 2020. Otherwise, Treasury risks that the deadlines could artificially limit the number of homeowners HHF can assist during the ongoing economic crisis caused by the COVID-19 pandemic.

[3] Congressional Budget Office, "The 2021 Long-Term Budget Outlook," March 2021; and "Data Supplement to The 2021 Long Term Budget Outlook," March 2021.

[4] Consumer Finance Protection Bureau, "CFPB Proposes Mortgage Servicing Changes to Prevent Wave of COVID-19 Foreclosures," April 5, 2021.

Treasury Should Take Program Wide Action To Remove Other Obstacles, Roadblocks, and Barriers in Order To Speed Assistance to Homeowners in Need During the Pandemic

SIGTARP found that state agencies have run into obstacles, roadblocks, and barriers while trying to assist additional homeowners in need that are related to conditions during the pandemic. Although Treasury gives state agencies in HHF the flexibility to propose (subject to Treasury's approval), the type of HHF assistance, its structure, the amount of assistance, and the eligibility criteria, based on local economic conditions, the pandemic has caused certain conditions that cross states. Some state agencies may not realize that other state agencies are facing similar issues. For some of these issues, Treasury has already taken the recommended action for one or more states. SIGTARP recommends that Treasury be proactive in removing the following obstacles, roadblocks, and barriers program-wide, rather than address them on a state-by-state basis that can take time.

Receipt of CARES Act Unemployment or Other Stimulus Funds Can Make Homeowners Ineligible, Serving as a Barrier

In one state, homeowners' receipt of $600 per week extra federal unemployment benefits under the Coronavirus Aid, Relief, and Economic Security ("CARES Act") or other stimulus amounts can cause them to be turned away from the program because they exceed eligibility requirements, such as level of income reduction or cash on hand (liquid assets). Once turned away from the program, homeowners would have to reapply once the benefits expire. However, some people may not understand that or have time to reapply. Given that this could impact homeowners in multiple states, Treasury should issue guidance that stimulus funds under the CARES Act, American Recovery Plan, or other pandemic stimulus laws should not be counted in decisions on homeowner applications.

Proof of State Unemployment Benefits Can Be a Barrier Given Backlogs in State Unemployment Benefits

Although some state agencies required HHF applicants to show proof of state unemployment benefits, backlogs experienced by one state's unemployment office during the pandemic created a barrier to HHF assistance. Given that this could impact homeowners in multiple states, Treasury should issue guidance that state agencies should not deny homeowners facing the backlog, but instead require other proof of unemployment.

Given Backlogs, State Unemployment Benefits Are Sometimes Delivered as Several Months at Once, Which Can Cause a Homeowner To Be Ineligible

Due to backlogs in a state's unemployment program, homeowners have received multiple months of benefits at once, which could cause them to be ineligible for HHF because they exceed the allowable levels of cash on hand/liquid assets. Treasury worked with the Nevada agency on this issue, but it can impact multiple states. After discussions with Treasury in November 2020, the Nevada agency eliminated the liquid assets test and replaced the existing income documentation requirements with an income affidavit the homeowner signs attesting that income is under the eligibility threshold. Treasury should issue guidance that lump sum state unemployment benefits should not disqualify a homeowner applying to HHF.

Illness or Medical Condition Is Not a Qualifying Hardship in Some States

Some state agencies do not allow medical hardship as a qualifying hardship to receive HHF assistance. The Michigan agency clarified that illness related to COVID-19 is a qualifying hardship. In May 2020, Treasury approved the Alabama state agency to clarify that illness for the homeowner or a dependent is a qualifying hardship. Treasury should issue guidance that illness is a qualifying hardship for HHF. Homeowners would still be required to meet other eligibility requirements such as income limitations, unemployment, etc.

State Agencies That Have Met Their Spending Cap but Have Program Income Available Must Obtain Treasury Approval To Spend Those Dollars, Which Can Cause Unnecessary Delays and Is Inefficient

If a state agency has met its spending cap, but has program income available, it must first obtain Treasury approval before spending these funds, which is inefficient. It took the Oregon agency five months (from April 2020 to September 2020) to obtain Treasury approval to use program income to pay for additional staffing to process the increase in applications during the pandemic. To improve efficiency, Treasury should change program caps to take into account current and future program income.

Additionally, once a state agency winds down HHF, Treasury forfeits any future lien recoveries. In 2016, Treasury changed its HHF contracts, which previously required that lien recoveries go to Treasury. When it made that decision, SIGTARP warned that Treasury had underestimated the amount of lien recoveries—Treasury estimated $337.6 million. As of December 31, 2020, HHF states had recovered $545 million in lien recoveries and other income, which continues to increase. Treasury should re-estimate the amount of liens that it is forfeiting and account for it in planning and decisions. SIGTARP determined 15 state agencies alone had 107,935 HHF liens valued at over $1.2 billion as of February 2021.

Treasury Should Increase Transparency on the Hardest Hit Fund's Response to the Pandemic and Data on the Active Status of the Program

Treasury should increase its transparency of HHF's efforts related to the pandemic and data on the active status of HHF. Treasury publishes quarterly performance summaries, its contracts and amendments with the state, and fact sheets/brochures for HHF in each state. Treasury's April 27, 2021, quarterly performance report does not discuss how HHF is being used to address pandemic-related hardships or the changes to HHF. To understand those changes requires reviewing changes in contract terms and comparing them to past contracts. When describing each state, the quarterly performance report lists programs as closed, even though state agencies reported to Treasury that they are actively paying assistance to existing and new homeowners.

Treasury also does not publish information on the active status of the program, including:

- Available funding (including lien recoveries and other program income) for the whole program (which Treasury reports for HAMP) and state-by-state;
- The number of homeowners actively receiving HHF assistance program-wide each quarter (which Treasury reports for HAMP) and state-by-state;
- The number of homeowner applications each quarter program-wide (which Treasury reported for HAMP during the application period) and state-by-state;
- The number of homeowners denied assistance program-wide (which Treasury reported for HAMP during the application period) and state-by-state;
- The characteristics of homeowners actively receiving assistance, including income level, delinquency of mortgage, hardship type, race, and ethnicity;
- The median amount of assistance on a quarterly basis for homeowners actively receiving assistance program-wide and state-by-state; or
- The total spent quarterly on administrative expenses program-wide and state-by-state.

Treasury used to aggregate state agency reports on some program data but stopped doing so after December 2019. State reports are not timely or easy to find and are sometimes not on the state agency's HHF page, and SIGTARP has found broken links to the reports. Treasury stopped reporting socioeconomic data on HHF after June 2018. This information would be helpful given high unemployment rates and mortgage delinquencies, and would help determine the extent to which the pandemic may be disproportionately affecting low income or minority households, and how HHF is assisting those households.

Conclusion

In times of crisis, the federal government can turn to established programs to deliver immediate relief. The Hardest Hit Fund is one of those established programs, with hundreds of millions of federal dollars available to help homeowners suffering hardships stay in their home. The ongoing COVID-19 pandemic has created an economic crisis on a scale not seen since the 2008 financial crisis. Unemployment and underemployment have increased significantly across the United States, and more homeowners are behind on their mortgage than at any time since 2010. State agencies in the Hardest Hit Fund have seen an increased need and asked Treasury for approval to address that need with HHF's traditional form of assistance—mortgage assistance for unemployed and underemployed homeowners (which many state agencies had previously shifted away from given low rates of unemployment). They sought Treasury approval to ramp back up unemployment mortgage assistance. On April 8, 2020, SIGTARP recommended that Treasury act with urgency to shift all remaining unspent funds in HHF (and funds estimated to be unspent in the HAMP program) to HHF unemployment mortgage assistance.

Treasury has been effective in actively using the Hardest Hit Fund to help homeowners suffering from unemployment, loss of income, or other hardships related to the pandemic. As a result, an additional 12,000 homeowners are estimated to use HHF to stay in their homes. Treasury extended a program deadline and has been working with state agencies. State agencies in HHF have been ramping back up HHF's unemployment mortgage assistance, changing eligibility requirements to address the pandemic, and making other changes to address local needs.

Treasury can enhance its effectiveness even further. Now that these programs are ramping back up, state agencies face a June 30, 2021, Treasury underwriting deadline and December 30, 2021, spending deadline—presenting a challenge to some state agencies that faced operational delays and backlogs in ramping up pandemic-related relief. SIGTARP recommends that Treasury extend those deadlines, particularly given economic projections on unemployment and mortgage delinquencies. Otherwise, these deadlines will artificially limit the number of people that HHF could help.

Treasury could help even more people stay in their homes by applying to these ramped up programs $118 million that Treasury recovered from four state agencies that wound down HHF, including three during the pandemic. Treasury was not efficient in applying those funds to the account for HAMP, which is not open to new applicants. This is a lost opportunity to help unemployed and underemployed homeowners who are suffering now, one that will be further lost as other state agencies wind down HHF given the impending deadlines. There could be millions more in unused funds that could help so many given that HHF programs cap assistance, for example at $10,000 or $30,000 per household. The $118 million combined with an available $331 million would be $449 million available in HHF.

Treasury can also enhance its effectiveness by removing obstacles, roadblocks, and barriers that state agencies face, such as the following:

- Receipt of CARES Act unemployment or other stimulus funding can make homeowners ineligible;

- Proof of state unemployment benefits can be a barrier given backlogs in state unemployment benefits;

- Given backlogs, state unemployment benefits are sometimes delivered several months at once, which can cause a homeowner to be ineligible; and

- State agencies that have met their spending cap but have program income available must obtain Treasury approval to spend those dollars, which can cause unnecessary delays and is inefficient.

These obstacles, roadblocks and barriers are easily fixed by Treasury issuing program guidance to remove them. This is particularly important as each may apply to multiple states, and Treasury's impending deadlines do not allow time for a state-by-state review.

Finally, Treasury should tell the public about all the efforts being taken to use HHF to address pandemic-related unemployment and other hardships, and provide data on the active status of the program. On April 27, 2021, Treasury published its fourth quarter 2020 performance report that does not discuss the pandemic or these efforts at all. Treasury should also increase transparency into the active status of the program. Treasury does post links to individual contracts and other documents but does not report on the amount of available dollars remaining (including program income), how many people are actively receiving HHF assistance or their characteristics, or those applicants who were denied each quarter. This information is necessary to form a complete picture of the program.

While the program is winding down, it has experienced a ramp up this year and is helping a lot of people struggling through no fault of their own. With hundreds of millions of dollars remaining, HHF is already increasing its impact, an impact that could further be increased.

Recommendations

1. Treasury should extend Hardest Hit Fund program deadlines until funds are exhausted based on projected economic conditions related to the pandemic.

2. Treasury should not allow CARES Act or other stimulus funds to be included in the Hardest Hit Fund determination of eligibility.

3. Treasury should issue guidance that state agencies should not deny Hardest Hit Fund applicants due to lack of proof of state unemployment benefits given state unemployment backlogs during the pandemic but to accept other proof of unemployment, and to not disqualify a homeowner from assistance if the homeowner receives multiple months of unemployment benefits at once.

4. Treasury should work with state agencies in the Hardest Hit Fund to include medical condition/illness as a qualifying hardship in light of the pandemic. Homeowners would still be required to meet other eligibility requirements such as income limitations, unemployment, etc.

5. Treasury should put to better use the $118 million returned by Hardest Hit Fund programs in Florida, California, Illinois, and South Carolina, by shifting it to open HHF programs, rather than allocate it to the HAMP account. If a state agency is planning to close HHF while any funds remain unspent, including lien recoveries, Treasury should put to better use those HHF funds by reallocating them to other HHF states with open programs.

6. Treasury should recalculate the amount of lien recoveries to be recycled into the Hardest Hit Fund. Treasury should account for this additional program income in planning and making decisions. Treasury should increase program spending caps to include lien recoveries and other income.

7. To improve the transparency of public reporting on the Hardest Hit Fund, Treasury should publicly describe how HHF is being used in response to the pandemic. Treasury should also publicly report comprehensive information on the HHF program each quarter including all HHF funds available (unused portion of the $9.6 billion plus lien recoveries and other program income); the number of active homeowners in HHF program-wide and by each state; the number of homeowners who have applied for, received, and/or been denied assistance program-wide and state-by-state; their characteristics (income level, mortgage delinquency, hardship type, race, and ethnicity); and the median amounts of homeowner assistance program-wide and state-by-state.

Appendix A – Objective, Scope, and Methodology

SIGTARP performed this evaluation under the authority of EESA, which incorporates some duties and responsibilities under the Inspector General Act of 1978, as amended. SIGTARP initiated this evaluation as part of its continuing oversight of Treasury's HHF program. The objectives were to evaluate the status of HHF and Treasury's planning of its wind down.

The scope of the evaluation covered the HHF program's status and modifications Treasury and the state agencies made in response to the COVID-19 pandemic from March 2020 to April 2021. SIGTARP interviewed personnel from Treasury's Office of Financial Stability in Washington, D.C., and the Florida, Michigan, D.C., Arizona, and Nevada state agencies. We received documentation from Treasury and state agencies.[5] SIGTARP reviewed quarterly performance and financial reports, and Treasury and state agency websites. We analyzed the states' program eligibility requirements, program changes, requests state agencies made to Treasury in response to the COVID-19 pandemic, and Treasury's response.

SIGTARP conducted this evaluation from March 2020 to April 2021 in Washington, D.C., in accordance with the "Quality Standards for Inspection and Evaluation," established by the Council of the Inspectors General on Integrity and Efficiency. Those standards require that SIGTARP plan and perform the evaluation to obtain evidence sufficient to provide a reasonable basis for findings and conclusions based on the evaluation objectives. SIGTARP believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the evaluation objectives.

Limitations on Data

SIGTARP relied generally on Treasury and the state agencies to provide complete and relevant supporting documentation. To the extent that the documentation provided did not reflect a comprehensive response to SIGTARP's requests or questions, SIGTARP's evaluation may have been limited.

Use of Computer-Processed Data

SIGTARP relied on computer-processed data from Treasury and the state agencies, including state agencies' quarterly performance and financial reports, which are prepared from state agencies' systems. SIGTARP did not validate the accuracy of this data, but determined the data was sufficiently reliable for the purposes of this evaluation.

[5] Eighteen states—Alabama, Arizona, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, New Jersey, Nevada, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, and Tennessee—and D.C. have participated in the HHF program. For the purposes of this report, SIGTARP collectively refers to them as "states."

Internal Controls

SIGTARP performed a limited review of internal controls by interviewing Treasury and state officials, and by examining policies and procedures as they pertain to the HHF program. SIGTARP assessed the effectiveness of certain controls by reviewing documentation requested during the evaluation.

Prior Coverage

SIGTARP has covered the HHF program in several prior reports. For example:

- October 30, 2020, Semiannual Report to Congress.
- April 8, 2020, letter to the Secretary of the Treasury.
- January 11, 2017, "Improving TARP's Investment in American Workers."
- October 6, 2015, "Factors Impacting the Effectiveness of Hardest Hit Fund Florida."

Appendix B – Management Comments

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 7, 2021

The Honorable Christy Goldsmith Romero
Special Inspector General
for the Troubled Asset Relief Program
1801 L Street NW, 4th Floor
Washington, DC 20036

Dear Ms. Romero:

I write in response to the Special Inspector General for the Troubled Asset Relief Program's (SIGTARP's) draft report of May 24, 2021 (Draft), regarding an evaluation of Treasury's wind down of the Hardest Hit Fund (HHF) and Treasury's efforts to use HHF to address issues arising out of the COVID-19 pandemic. We are pleased SIGTARP has found that Treasury has been effective in shifting HHF to assist more homeowners during the COVID-19 pandemic. This letter provides Treasury's official response to the Draft.

Background of HHF and Treasury COVID-19 Relief Efforts

Treasury established HHF in February 2010 to help prevent foreclosures and stabilize housing markets in areas hardest hit by the housing crisis. State housing finance agencies (together with certain designated entities, HFAs) in 18 states and the District of Columbia used these funds to design and implement more than 90 programs tailored to the specific needs and conditions of their respective communities. Today, the HHF program has nearly concluded. States have drawn approximately $9.5 billion (99 percent) of the $9.6 billion allocated to the program, and every state has already closed its mortgage assistance application portals to new applicants.[1] Five of the state HFAs have already closed their entire programs, and the remaining states are expected to close their programs by the end of this year.

Treasury has undertaken significant efforts to address economic disruptions caused by the COVID-19 pandemic, including by using HHF. As SIGTARP notes in the Draft, since the onset of the pandemic, Treasury has approved program changes in Alabama, Indiana, Kentucky, Mississippi, Nevada, Oregon, Rhode Island, Tennessee, and Washington, D.C. to assist borrowers facing financial hardships due to the economic fallout related to the pandemic.

In addition, Treasury has disbursed hundreds of billions of dollars to assist state, local, territorial, and tribal governments, American families and workers, small businesses, and American industry through other economic relief programs established by pandemic-related legislation. Of particular note is the Homeowner Assistance Fund, a program created by the American Rescue Plan Act of 2021 that provides up to $9.961 billion to states, territories, and tribes in order to prevent mortgage delinquencies and defaults, foreclosures, loss of utilities or home energy services, and displacements of homeowners experiencing financial hardship after January 21,

[1] Figures as of April 30, 2020.

2020. Every state and U.S. territory has already applied for the Homeowner Assistance Fund, and Treasury has begun providing funding.

SIGTARP's Draft

The Draft acknowledges that Treasury has worked effectively with the state HFAs to shift HHF to assist more homeowners during the COVID-19 pandemic. In particular, the Draft notes that Treasury has approved the requests of 10 state agencies either to open new HHF programs targeted at providing relief to homeowners affected by the pandemic or to reopen programs that had previously been closed. The Draft also notes that Treasury extended the HHF underwriting deadline—the deadline by which states must make any final decisions with regard to homeowner applications and blighted property reimbursements—from December 31, 2020 to June 30, 2021.

The Draft contains some inaccuracies, including its conclusion that Treasury acted inefficiently when it did not shift funds returned from states that had closed their HHF programs to other states with programs that remained open. Treasury does not have the statutory authority to shift funds from one state to another, or to allocate additional funds to any HHF state.[2]

SIGTARP's Recommendations

The Draft contains seven recommendations. SIGTARP first recommends that Treasury extend HHF program deadlines until funds are exhausted. On April 24, 2020, Treasury announced that it would extend the HHF underwriting deadline by six months, from December 31, 2020 to June 30, 2021, and also announced that further extensions would be considered on a state-by-state basis. Since that time, no state has requested that Treasury further extend any deadlines, and each state has closed its mortgage assistance application portals to new applicants. Should any state request that Treasury extend its deadlines so that the state could reopen programs, Treasury will evaluate it in the same manner that it evaluates all state requests for program changes: Treasury will review the state's proposal, assess the number of additional recipients that the state believes it will be able to assist, and consider whether the staff resources at the HFA necessary to reopen its HHF programs would be better used to implement programs such as the Homeowner Assistance Fund. As noted above, nearly all HHF funds have been exhausted.

SIGTARP makes five recommendations (numbers 2, 3, 4, 6, and 7) that consist of changes that would be relevant if Treasury extends HHF program deadlines further. At present, every state has closed its mortgage assistance application portals to new applicants, so any changes to the program would have no effect. If Treasury ultimately extends the HHF program following a state's request for such extension, Treasury will also revisit these five recommendations.

The Draft's other recommendation (number 5) calls for Treasury to reallocate any funds returned by states that close their HHF programs, and to shift those funds to other HHF states with open programs. As noted above, Treasury lacks the statutory authority to do so.

[2] Treasury's authority to purchase troubled assets expired on December 31, 2009. Emergency Economic Stabilization Act of 2008, 12 U.S.C. § 5230. Pursuant to the Consolidated Appropriations Act, 2016, Congress extended Treasury's authority with respect to HHF until December 31, 2017. As these deadlines have passed, Treasury lacks any authority to allocate additional HHF funds.

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* * *

We look forward to working with SIGTARP as we continue to wind down the remaining programs funded through TARP, including HHF. Please feel free to contact Treasury's Office of Financial Stability at (202) 622-4421 if you have any questions about this letter.

Sincerely,

Noel Poyo
Deputy Assistant Secretary for Community and Economic Development

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SIGTARP Hotline

If you are aware of fraud, waste, abuse, mismanagement, or misrepresentations associated with HAMP or the Hardest Hit Fund, please contact SIGTARP.

By Online *Form:* www.SIGTARP.gov

Press Inquiries

If you have any inquiries, please contact our Press Office: 202-927-8940

Legislative Affairs

For Congressional inquiries, please contact our Legislative Affairs Office: 202-927-9159

Obtaining Copies of Testimony and Reports

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