



SIGTARP



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

QUARTERLY REPORT TO CONGRESS
JULY 26, 2018



SIGTARP



415

Criminally Charged



351

Convicted



251

Sentenced to Prison

Including

88

Homeowner Scammers



77

Bank Borrowers



59

Bankers



\$10 Billion =

Recovered from Investigations

35x

Return on Investment

LETTER FROM THE SPECIAL INSPECTOR GENERAL

SIGTARP has been uncovering fraud, waste, and abuse: as a result of our work, more than \$100 million was recovered in 2018 alone for taxpayers and other victims, adding to the billions of dollars previously recovered. Law enforcement investigations, about 80 percent of our work, account for most of these dollars. SIGTARP auditors have also identified \$11 million in wasted TARP dollars for Treasury to recover.

“There has already been more than \$100 million recovered in 2018 as a result of SIGTARP’s work, and we anticipate millions of dollars in future recoveries.”

-Special Inspector General Christy Goldsmith Romero

Key SIGTARP Oversight Activities in Fiscal Year 2018

As a result of a SIGTARP investigation, in May 2018, after a multi-week trial, a Federal jury in Wilmington, Delaware, convicted all four defendants -- the former President, Chief Financial Officer, Controller, and Chief Credit Officer of \$330 Million TARP recipient Wilmington Trust Bank on all counts, including bank fraud, conspiracy, and securities fraud, for a fraud scheme during the time the bank was in TARP. Wilmington Trust Company, which was founded in 1903 by the DuPont family, was the leading retail and commercial bank in Delaware before nearly collapsing, and then being acquired by M&T Bank. Eight defendants in this case have been convicted, including these four bank officers and three additional bank officers, resulting from SIGTARP’s investigation with the U.S. Attorney for the District of Delaware. In October 2017, Wilmington Trust resolved its own indictment with the U.S. Attorney’s office for \$60 million, including \$16 million previously paid in a settlement with the Securities and Exchange Commission (SEC). There is also a \$210 million class action settlement currently pending before the Court.

In FY2018, RBS Securities Inc. entered into an agreement resolving an investigation by SIGTARP, the FBI, and the U.S. Attorney for the District of Connecticut for a securities fraud scheme where RBS employees defrauded investors into overpaying for residential mortgage backed securities (RMBS). Two senior RBS employees pled guilty to conspiracy to commit securities fraud. According to the U.S. Attorney’s office for the District of Connecticut, RBS employees “acted with the knowledge, encouragement and participation of RBS supervisors or its compliance-related personnel.” RBS paid a \$35 million penalty and agreed to make restitution of more than \$9 million to victims. RBS closed its U.S.-based trading group for RMBS and took additional steps to prevent future fraud.

SIGTARP was the first to uncover this wrongdoing in the securities industry. We discovered it while conducting investigations related to a TARP program that traded in RMBS. After we uncovered the first case, I sent out letters (in coordination with the U.S. Attorney for the District of Connecticut and the Fraud Section

of the Department of Justice) to broker-dealers trading in the TARP program requesting self-reporting. There have been several subsequent Federal investigations, criminal indictments, and SEC enforcement actions for this wrongdoing as a result of the actions taken by SIGTARP. For example, in June 2018, the SEC brought a civil enforcement action against Merrill Lynch for failure to supervise its traders who misled investors into overpaying for RMBS and illegally profiting from excessive, undisclosed commissions. Merrill Lynch paid the SEC a \$5.2 million fine and disgorged \$10.5 million to victims. The SEC thanked SIGTARP in its public remarks.

Wasted TARP Dollars by State Employees and Non-Profit Companies: On May 22, 2018, I testified before the House Committee on Oversight and Government Reform about \$11 million in waste that SIGTARP auditors identified in the Hardest Hit Fund. Also testifying were a Treasury official, representatives from state agencies in Alabama and North Carolina, and from a non-profit company in Nevada – officials responsible for the Hardest Hit Fund program. This year, Treasury has already recovered more than \$1 million resulting from this work. SIGTARP auditors found that employees of housing agencies or non-profit companies in several states squandered TARP dollars to drive a Mercedes-Benz, throw parties and big catered barbeques, shower their employees with gifts, cash bonuses and gym memberships, paid lawyers for fees related to, and settlements of, discrimination complaints, and more. SIGTARP even found that the Illinois housing finance agency charged TARP to throw a party at an Italian restaurant to celebrate new funding that Congress authorized in 2016 and an employee's wedding.

“This year, Treasury has already recovered more than \$1 million resulting from SIGTARP’s recent audits. Treasury can still recover millions in waste identified by SIGTARP.”

-Special Inspector General Christy Goldsmith Romero

SIGTARP’s waste audits are a strong deterrent to improper use of TARP funds. Treasury has additional opportunities to recover the waste identified by SIGTARP, opportunities which Members of Congress on a bipartisan basis recommended that Treasury take.

SIGTARP Anticipates Future Recoveries

Future Recoveries from Prosecuted Defendants: Some of the 351 convicted defendants from SIGTARP’s investigations may have assets to pay the Federal government dollars ordered by the courts. For example, a TARP bank’s Chairman of the Board was recently sentenced to more than five years in prison and ordered to pay more than \$5 million. SIGTARP is actively identifying whether there are assets to recover. Additionally, 43 defendants investigated by SIGTARP await trial on criminal charges, which could lead to additional recoveries should they be convicted.

Ongoing SIGTARP Investigations Not Yet Prosecuted: As a Special IG over a Federal program, rather than a Federal agency, SIGTARP conducts audits and investigations over spending by TARP recipients,

rather than Treasury disbursements. SIGTARP is conducting many non-public confidential investigations prioritizing investigations of recipients of TARP dollars in TARP housing programs. Law enforcement activity will always follow after a program has spent money. TARP housing programs will continue to spend TARP dollars until September 2023. It can take a number of years to identify suspected criminal conduct or civil fraud, and to investigate the evidence needed for criminal indictment or civil enforcement actions.

TARP housing programs have not followed the rapid wind down trajectory that Treasury anticipated, instead remaining relatively constant in recent years, spending \$3–4 billion annually.

-Special Inspector General Christy Goldsmith Romero

Treasury distributed \$1.8 billion last year to large banks and other financial institutions in the Home Affordable Modification Program (HAMP). SIGTARP has made investigations into wrongdoing by these institutions its highest priority. Homeowner participation has remained relatively constant with nearly one million households in the program today. Additionally, after Congress in FY2016 authorized an additional \$2 billion, in 2017 and 2018, Treasury shifted hundreds of millions of Federal dollars in TARP's Hardest Hit Fund program from homeowners to the demolition industries in more than 297 towns. Treasury's move increased the program's vulnerability to crimes like corruption of local officials, bid rigging, price fixing, illegal dumping of debris, and fraud. Many of these crimes were not previously present in TARP. SIGTARP is actively conducting criminal investigations along with audits in these areas.

I appreciate the strong support our office has received from Congress and welcome the opportunity to speak with you more about SIGTARP's important oversight work.

Respectfully,

CHRISTY GOLDSMITH ROMERO
Special Inspector General



SIGTARP

SIGTARP investigations have led to enforcement actions against

TWELVE

institutions



JPMORGAN
CHASE & CO.

Morgan Stanley



ally





SIGTARP

SIGTARP AUDITS IDENTIFY WASTE AND ABUSE, AND DETER FUTURE WRONGDOING

RECENT FINDINGS



Nevada's Hardest Hit Fund wasted \$8.2 million on parties, a Mercedes Benz and more



Georgia mismanaged the state's Hardest Hit Fund, wasting \$18.6 million



\$3 million in Hardest Hit Fund squandered by state agencies on parties, gifts, and gym memberships



Blight demolition program faces asbestos exposure, illegal dumping and contaminated soil risks



Financial Institutions have wrongfully terminated homeowners out of the Home Affordable Modification Program



Most of the Hardest Hit Fund has no Federal competition requirements for contract awards



The average cost of TARP demolitions in Michigan and Ohio have skyrocketed in the last few years

OPEN AUDITS



Hardest Hit Fund travel and conference expenses



Blight demolition activities in South Carolina



Blight demolition greening and maintenance activities

THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES & THREATS FACING THE GOVERNMENT IN TARP

SIGTARP identifies the most serious management and performance challenges and threats facing the Government in TARP. Our selection is based on the significance and duration of the challenge/threat to the mission of TARP and Government interests; the risk of fraud or other crimes, waste or abuse; the impact on agencies in addition to Treasury; and Treasury's progress in mitigating the challenge/threat.

SIGTARP prioritizes its oversight to mitigate each of these four challenges/threats.

Risk of Fraud, Waste and Abuse by Large Banks and Others in the Making Home Affordable Program (Until Sept. 2023)

Unlawful conduct by any of the nearly 100 financial institutions that continue to receive TARP dollars in the MHA program is the top threat in TARP. Treasury has paid \$19.2 billion and will pay up to an additional \$8.6 billion, \$7.5 billion of which is obligated or committed to Ocwen, Wells Fargo, JPMorgan Chase, Bank of America, Nationstar, Select Portfolio Servicing, CitiMortgage, OneWest/CIT, Bayview Loan Servicing, and Ditech Financial. These are not automated payments, but require compliance with the law and Treasury's rules for nearly one million homeowners in the program. Despite a recent uptick in enforcement actions and other wrongdoing by many of these financial institutions, Treasury has significantly scaled back oversight. The risk of fraud, waste, and abuse also jeopardizes the GSEs, FHA, and Veterans Affairs that participate in MHA.

Risk of Waste and Misuse of TARP Dollars by State Agencies for Their Own Administrative Expenses in the Hardest Hit Fund (Until 2022)

Treasury has budgeted \$1.1 billion in TARP dollars for administrative expenses of 19 state agencies to distribute Hardest Hit Fund dollars. SIGTARP identified \$11 million in wasteful and unnecessary spending by state housing agencies, including for example, catered barbecues with Treasury employees, parties, country club events, leasing a Mercedes, cash bonuses, gym memberships, gifts, free parking, settlements and legal fees in discrimination cases, costs not associated with HHF and more. In March 2018, SIGTARP issued an audit that despite Treasury anticipating TARP dollars will be spent under contracts for lawyers, accountants, auditors, consultants, providers of

equipment, information technology, communications, risk management, training, and marketing, there are no Federal requirements for competition.

Risk of Corruption, Antitrust Violations, Price Fixing, and Fraud in the Hardest Hit Fund Blight Elimination Program (Until Dec. 2021)

This program has expanded exponentially since the city of Detroit in 2014 started to use TARP to fund demolitions of abandoned houses. The number of municipalities in the program increased in 2017 and 2018 to 297, using \$764 million. Over the last year, 7,413 abandoned houses have been demolished with 93 cities/counties starting demolitions for the first time during that period; 1 state and 36 cities/counties have not yet started reporting demolitions. Consequently, the risk of corruption, collusion, and fraud has significantly increased.

Risk of Asbestos Exposure, Contaminated Soil and Illegal Dumping in the Hardest Hit Fund Blight Elimination Program (Until Dec. 2021)

In November, 2017 SIGTARP issued a report based on the U.S. Army Corps of Engineers findings that the Treasury and state agencies have not applied industry standard safeguards that protect against the risk of asbestos exposure, illegal dumping of debris, and contaminated soil material filling the hole. Treasury has not implemented SIGTARP recommendations, even to require basic documentation of proper asbestos abatement, inspections, landfill receipts for dumping, and receipts showing the purchase of clean dirt. TARP may expand even further in this area. The 2018 Economic Growth, Regulatory Relief and Consumer Protection Act authorizes Treasury to use TARP dollars to remediate lead and asbestos hazards in residential properties.



SIGTARP

SIGTARP CONDUCTS OVERSIGHT OF TARP HOUSING PROGRAMS AT RISK OF FRAUD, WASTE, AND ABUSE LAST YEAR, TARP HOUSING PROGRAMS SPENT \$3.2 BILLION

The Hardest Hit Fund (HHF)

helps Americans pay their mortgages. It also pays to demolish homes and for down payments for homebuyers.

\$8.1 billion has been spent, including \$1 billion last year. \$1.75 billion is available to be spent by December 2021.

– Recipients include –



19 state agencies



297 cities or counties and 505 local partners



Hundreds of demolition contractors



Homeowners & homebuyers

The Home Affordable Modification Program (HAMP)

pays servicers and investors to lower rates for homeowners at risk of foreclosure.

\$19 billion has been spent, including \$2 billion last year. Up to \$8.6 billion is available to be spent by September 2023.

– Recipients include –

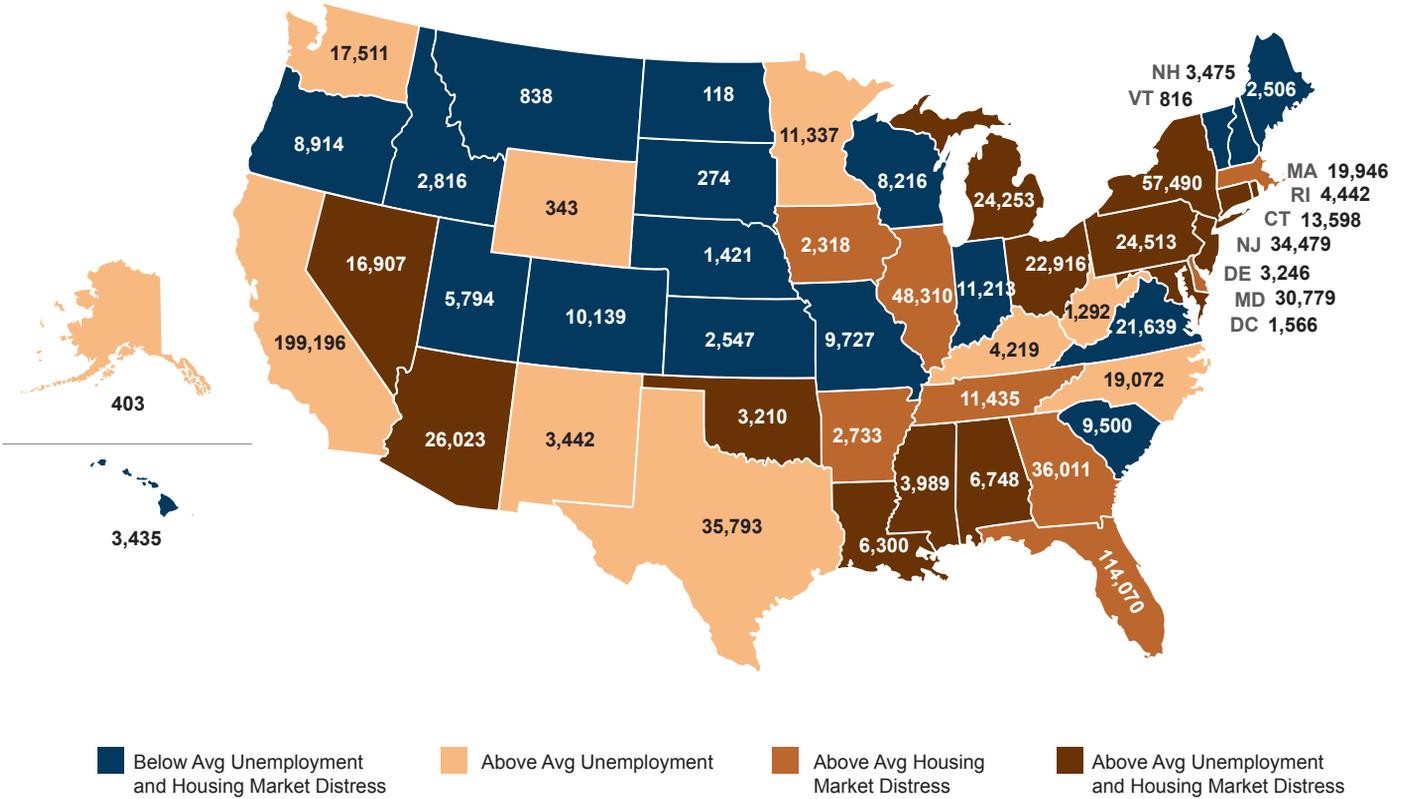


TREASURY CONTRACTS FOR \$8.6 BILLION TO BE PAID TO FINANCIAL INSTITUTIONS UNTIL 2023 AS OF 6/30/2018

SIGTARP Investigations and Audits	\$4.9 Billion <i>TARP dollars paid</i>		\$2.1 Billion <i>TARP Obligated or Committed to be paid</i>	Future SIGTARP Investigations and Audits
	\$3.1 Billion <i>TARP dollars paid</i>		\$1.3 Billion <i>TARP Obligated or Committed to be paid</i>	
	\$3 Billion <i>TARP dollars paid</i>		\$949 Million <i>TARP Obligated or Committed to be paid</i>	
	\$2.2 Billion <i>TARP dollars paid</i>		\$700 Million <i>TARP Obligated or Committed to be paid</i>	
	\$1.4 Billion <i>TARP dollars paid</i>		\$852 Million <i>TARP Obligated or Committed to be paid</i>	
	\$1.4 Billion <i>TARP dollars paid</i>		\$832 Million <i>TARP Obligated or Committed to be paid</i>	
	\$731 Million <i>TARP dollars paid</i>		\$216 Million <i>TARP Obligated or Committed to be paid</i>	
	\$431 Million <i>TARP dollars paid</i>		\$105 Million <i>TARP Obligated or Committed to be paid</i>	
	\$337 Million <i>TARP dollars paid</i>		\$189 Million <i>TARP Obligated or Committed to be paid</i>	
	\$280 Million <i>TARP dollars paid</i>		\$189 Million <i>TARP Obligated or Committed to be paid</i>	
	\$1.5 Billion <i>TARP dollars paid</i>	Other Servicers (141 Institutions)*	\$1.1 Billion <i>TARP Obligated or Committed to be paid</i>	
	\$19.2 Billion <i>TARP dollars paid</i>	TOTAL	\$8.6 Billion <i>TARP Obligated or Committed to be paid</i>	

Sources: Treasury, Aggregate Cap Monitoring Report -June 2018; SIGTARP analysis of Treasury MHA data.
 *A total of 163 institutions have been paid or are eligible to be paid TARP funds through MHA, of which 131 can still receive TARP disbursements subsequent to 6/30/2018.

915,812 HOMEOWNERS CURRENTLY IN HAMP



Sources: Treasury HAMP data as of 5/31/2018;

Bureau of Labor Statistics, STATE EMPLOYMENT AND UNEMPLOYMENT — STATE EMPLOYMENT AND UNEMPLOYMENT — May 2018, <https://www.bls.gov/news.release/pdf/laus.pdf>, accessed 7/10/2018; CoreLogic housing market data as of 3/31/2018.

Note 1: There are 4,407 active HAMP modifications in Puerto Rico, 14 in the US Virgin Islands, and 13 in Guam, these figures are included in the total cited above.

Note 2: National unemployment rate of 3.6% (not seasonally adjusted), as of May 2018, used as the "average".

Note 3: Housing market distress based on the following factors, weighted equally in relation to the number of mortgages outstanding (based on CoreLogic data): 1) completed foreclosure sales within the past 12 months, 2) delinquent mortgages, and 3) properties in negative equity.

STATUS OF \$9.8 BILLION IN HHF FUNDS AVAILABLE TO STATE AGENCIES UNTIL 2021

The Hardest Hit Fund (“HHF”) was scheduled to close in December 2017. However, Congress appropriated an additional \$2 billion in FY2016. Treasury then extended the program 4 years allowing TARP spending until December 2021. SIGTARP conducts oversight through audits and investigations.

	Spent	State	Unspent	
	\$77,052,630	Alabama	\$86,663,418	
	\$259,650,552	Arizona	\$41,292,687	
	\$2,184,744,375	California	\$261,794,058	
	\$20,267,653	District of Columbia	\$9,544,711	
	\$1,094,817,936	Florida	\$60,124,549	
	\$275,097,349	Georgia	\$101,346,512	
	\$561,983,957	Illinois	\$181,655,523	
	\$225,267,429	Indiana	\$62,821,635	
	\$176,302,939	Kentucky	\$35,918,453	
SIGTARP Investigations and Audits	\$553,577,610	Michigan	\$218,449,415	Future SIGTARP Investigations and Audits
	\$102,647,941	Mississippi	\$42,668,675	
	\$616,191,935	North Carolina	\$114,997,984	
	\$345,794,227	New Jersey	\$77,620,598	
	\$127,560,446	Nevada	\$70,222,556	
	\$611,369,384	Ohio	\$158,417,091	
	\$278,023,222	Oregon	\$79,267,277	
	\$94,764,869	Rhode Island	\$23,064,838	
	\$272,251,880	South Carolina	\$49,314,529	
	\$236,443,463	Tennessee	\$70,266,818	
	\$8,113,809,796	Total	\$1,745,451,328	

Note: Unspent figures include an additional \$261 million in recycled TARP dollars.
 Source: Treasury, response to SIGTARP data call 7/6/2018; SIGTARP analysis of HHF Quarterly Financial Reports.

TREASURY HOLDINGS IN TARP SECURITIES IN CPP AND CDCI BANKS AS OF 6/30/18

Program	Bank	Outstanding Principal Investment	Warrants Remaining	Missed Dividends	SIGTARP Investigation
Capital Purchase Program (CPP)	1. Onefinancial Corporation	\$17,300,000		\$12,937,560	✓
	2. One United Bank	\$12,063,000		\$7,629,848	
	3. Harbor Bankshares Corporation	\$6,800,000		\$3,740,000	✓
	4. Broadway Financial Corporation	\$3,984,332			✓
	5. Treaty Oak Bancorp, Inc.		\$3,098,341		
	6. Synovus Financial Corp.		\$2,215,820		✓
	7. Wilmington Trust Corporation / M&T Bank Corporation		\$95,581		✓
	8. AB&T Financial Corporation		\$80,153		
	9. Porter Bancorp, Inc.(PBI)		\$66,112	\$6,737,500	✓
	10. Village Bank And Trust Financial Corp.		\$31,189	\$2,026,475	
	11. Hope Bancorp, Inc. (BBCN Bancorp, Inc.)		\$20,238		
	CPP Total	\$40,147,332	\$5,607,434	\$33,071,382	6
Community Development Capital Initiative (CDCI)	12. Carver Bancorp, Inc	\$18,980,000			
	13. First American International Corp.	\$17,000,000			
	14. Hope Federal Credit Union	\$4,520,000			
	15. Community Bank of the Bay	\$4,060,000		\$20,300	
	16. Cooperative Center Federal Credit Union	\$2,799,000			
	17. Tri-State Bank of Memphis	\$2,795,000		\$223,600	
	18. Community First Guam Federal Credit Union	\$2,650,000			
	19. Opportunities Credit Union	\$1,091,000			
	20. D.C. Federal Credit Union	\$500,000			
	21. Tulane-Loyola Federal Credit Union	\$424,000			
	22. North Side Community Federal Credit Union	\$325,000			
	23. Neighborhood Trust Federal Credit Union	\$283,000			
	24. Buffalo Cooperative Federal Credit Union	\$145,000			
	25. Union Baptist Church Federal Credit Union	\$10,000			
	26. East End Baptist Tabernacle Federal Credit Union	\$7,000			
	CDCI Total	\$55,589,000		\$243,900	0
	Grand Total	\$95,736,332	\$5,607,434	\$33,315,282	6

Sources: Treasury, Transactions Report, June 13, 2018; Treasury, responses to SIGTARP data call July 2018



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