

# SIGTARP

QUARTERLY REPORT TO CONGRESS  
JULY 30, 2019





# SIGTARP



428

Criminally Charged



369

Convicted



283

Sentenced to Prison

Including

92

Homeowner Scammers



84

Bank Borrowers



74

Bankers



**\$10 Billion =**

Recovered from Investigations

**31x**

Return on Investment

# LETTER FROM THE SPECIAL INSPECTOR GENERAL

This report details the billions spent each year in TARP, including in the Home Affordable Modification Program (HAMP) and the Hardest Hit Fund (HHF). Through the first quarter of 2024, Treasury has committed to provide hundreds of millions each to Ocwen, Wells Fargo, JP Morgan Chase, Bank of America, Nationstar, and Select Portfolio Servicing. Other servicers will collectively receive hundreds of millions more. Millions will also be paid to more than 1,500 demolition contractors and others in the HHF program.

Crime, fraud, waste, and abuse threaten the important goals of TARP programs. At SIGTARP, we root out, stop, and mitigate these threats through investigations and audits. The most serious challenges and threats in TARP set our priorities. We are selective in our investigations and audits, prioritizing those that will have the most impact.

Acting as a protector of taxpayers and the Government, and an enforcer of the law, SIGTARP special agents and investigators uncover crimes, and search, seize, and arrest. We support the Justice Department in prosecuting those we investigate: courts have convicted 369 defendants — a 96 percent conviction rate. To date, courts have sentenced 283 defendants to prison, including 74 bankers. Our nation's criminal justice system takes time, with SIGTARP investigations leading to indictments, trials, convictions, and sentencing that occur years after Treasury disbursed TARP dollars.

SIGTARP auditors act to protect taxpayers and the Government by preventing fraud, and identifying waste, abuse, mismanagement, inefficiency, and cost savings. We mitigate risk in TARP programs by leveraging our experience in best practices and our expertise in TARP.

Our work often has systemic impact. Our work has made the banking industry safer through courts sentencing to prison bankers for crime that hurt banks. Our work has made the securities industry safer through corporate changes and deterrence. We have made the automotive industry safer through increased safety recalls for defective auto parts. We also brought more competition for TARP dollars, removed impediments to homeowners obtaining assistance, protected homeowners from con artists seeking to steal their mortgage payments, increased safety to communities from demolitions, stopped wasteful state agency extravagances, increased transparency for TARP, and saved billions of dollars for taxpayers.

With a 31 times return on investment (of actual dollars recovered), SIGTARP is a good investment. Every year, we recover millions of dollars for the government and other victims. In fiscal year 2019 alone, the Government and other victims recovered \$805 million from SIGTARP's work, compared to our budget of \$23 million. In total, more than \$10 billion has been recovered. We will report on more specifics results in our semi-annual report, and would welcome a chance to speak with you.

Respectfully,

CHRISTY GOLDSMITH ROMERO  
Special Inspector General



# SIGTARP

SIGTARP investigations have led to enforcement actions against

# TWENTY-ONE

institutions



JPMORGAN  
CHASE & Co.

Morgan Stanley



ally



MARTIN



NOMURA



# SIGTARP

## SIGTARP AUDITS IDENTIFY FRAUD, WASTE AND ABUSE, AND DETER 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, gym memberships, and more



Blight elimination 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



South Carolina blight elimination program challenged by hazardous material, quality assurance, and oversight problems

### OPEN AUDITS



Evaluation of blight elimination program in Michigan and demolition activities in Detroit



# SIGTARP

## SIGTARP CONDUCTS OVERSIGHT OF TARP HOUSING PROGRAMS AT RISK OF FRAUD, WASTE, AND ABUSE *NEARLY \$3 BILLION WAS SPENT IN FY 2018*

### The Hardest Hit Fund (HHF)

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

\$9.0 billion has been spent, including \$884.2 million last year. \$953.2 million is available to be spent into FY 2022.

– Recipients include –



19 state agencies



378 cities or counties and 503 local partners



At least 1,712 demolition contractors



Homeowners & homebuyers

### The Home Affordable Modification Program (HAMP)

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

\$20.1 billion has been spent, including \$1.6 billion last year. Up to \$3.7 billion is available to be spent into FY 2024.

– Recipients include –



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

SIGTARP identifies the most serious 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 victims in addition to Treasury; and Treasury's progress in mitigating the challenge/threat.

*SIGTARP prioritizes its oversight to counter each of these challenges/threats.*

### **Risk of Fraud, Waste, and Abuse by Large Banks and Others in the Making Home Affordable Program (Until Mar. 2024)**

Unlawful conduct by any of the 152 banks or institutions that received \$20.1 billion or will continue to receive \$3.7 billion in TARP's MHA program is the top threat in TARP. Treasury will pay up to \$3.1 billion to Ocwen, Wells Fargo, JPMorgan Chase, Bank of America, Nationstar, Select Portfolio Servicing, CitiMortgage, OneWest/CIT, Bayview Loan Servicing, and Specialized Loan Servicing along with 131 institutions.<sup>2</sup> These TARP payments require compliance with the law and Treasury's rules for 811,520 consumers in all 50 states. Wells Fargo recently disclosed in two SEC filings its wrongful denial of homeowners for admission to the program. Despite enforcement actions and other wrongdoing by many of these financial institutions, Treasury has significantly scaled back its compliance reviews. 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 Dec. 2021)**

Treasury has budgeted \$1.1 billion in TARP dollars for administrative expenses of 19 state agencies to distribute HHF assistance.<sup>3</sup> In March 2019, SIGTARP issued an audit that found state agencies violated federal cost regulations by charging more than \$400,000 in prohibited travel and conference costs to the Hardest Hit Fund. SIGTARP found waste, a lack of internal controls at state agencies, and lack of effective oversight by Treasury. State agencies did not have the documentation required by Federal regulations to charge

the travel and conferences to HHF. The audit also identified outright waste, including TARP funds spent on luxury hotels, conferences and extravagant dinners and receptions. In 2016 and 2017, SIGTARP identified \$11 million in wasteful and unnecessary spending by state housing agencies, including, for example, catered barbecues, parties, country club events, leasing a Mercedes, cash bonuses, gym memberships, gifts, free parking, settlements and legal fees in discrimination cases, other costs not associated with HHF, and more. In March 2018, SIGTARP issued an audit that found that while Treasury anticipates that millions of dollars will be spent on lawyers, accountants, auditors, consultants, information technology, communications, risk management, training, and marketing, it has no Federal requirements for competition.<sup>4</sup>

### **Risk of Corruption, Anticompetitive Actions, and Fraud in the Hardest Hit Fund Blight Elimination Program (Until Dec. 2021)**

There is a risk of corruption, anticompetitive acts, and fraud as TARP funds the demolitions of abandoned homes and apartments. The number of municipalities in the program increased to 378 cities or counties. There have already been criminal charges and guilty pleas for corruption in HHF.

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

In November 2017, based on the U.S. Army Corps of Engineers' findings, SIGTARP warned that the standard protections in demolition are not present in the TARP program. The Corps found missing industry standard safeguards that protect against the risk of asbestos exposure, illegal dumping of debris, and contaminated material filling the hole. Treasury did not implement SIGTARP's recommendations, even to require basic documentation of proper asbestos abatement, certain inspections, landfill receipts for dumping, and receipts showing the purchase of clean dirt.

A new review, issued in July 2019, conducted by the Corps on behalf of SIGTARP found significant risks at

the federal, state, and contractor level in the program. The Corps found that the South Carolina state agency lacked technical oversight and quality assurance throughout the lifecycle of the demolition process. It only requires initial and closeout inspections, which creates significant risks. Critically the South Carolina housing agency does not require proof prior to demolition that all asbestos and other hazardous materials are removed, stored, transported and disposed of following federal and state requirements. It also does not require contractors to track the amount of hazardous materials found, creating a risk that some material may be left. SIGTARP urges Treasury to adopt the recommendations made in this report, which are similar to our 2017 recommendations, to protect the communities where these demolitions are taking place and federal taxpayer dollars. Key to these safeguards is for Treasury to require participating state agencies paid with TARP dollars to oversee HHF programs under contract with Treasury to increase their technical oversight over demolition activity, rather than heavily relying on others not in contract with Treasury, such as individual contractors, land banks, and municipalities. SIGTARP's investigation into a demolition contractor for illegal dumping of contaminated soil in Fort Wayne, Indiana was resolved by DOJ under the False Claims Act.

The Economic Growth, Regulatory Relief, and Consumer Protection Act authorizes Treasury to use TARP dollars to remediate lead and asbestos hazards in residential properties.<sup>6</sup> TARP may expand even further in this area.

### **No Complete List or Data Identifying All Contractors and Others Doing Work in the Hardest Hit Fund Blight Subprogram and What They Were Paid**

Treasury and the state agencies do not know, and cannot provide to SIGTARP a complete list of contractors receiving TARP dollars in the program. SIGTARP and Treasury cannot conduct oversight over contractors and

other entities that are unknown. Treasury rejected SIGTARP's 2015 recommendation to maintain a list and accounting of payments in HHF.

SIGTARP's proactive analysis has identified 2,215 land banks or other partners, contractors, or subcontractors that have done or are contracted to do work in the program—but given the missing data, we believe the actual numbers may be much higher.

State agency data is incomplete. The data provided by state agencies to SIGTARP also provides limited detail about the \$526.1 million that has been spent in the Blight Elimination Program beyond the first-level recipient. As a result there may be hundreds, or perhaps thousands, of additional subcontractors doing work in the program.<sup>5</sup> Without complete records and accounting, the program and taxpayers are vulnerable.

### **Risk of Waste from Weakened Oversight by Treasury of State Agencies in the Hardest Hit Fund**

Starting in October 2018, Treasury allowed state to shift HHF dollars between programs and removed caps on administrative expenses (by the greater of five percent or \$50,000). Treasury also decreased oversight in the HHF program in 2018 by reducing OFS personnel charged with providing oversight of the HHF program by 30%.

These Treasury changes increase risk of fraud, waste and abuse because state agencies can move more TARP money to higher risk subprograms. These changes also have weakened Treasury oversight of state administrative spending after SIGTARP has proven waste and misuse of TARP dollars by state agencies. Additionally, GAO found in a December 2018 study that “Treasury is missing an opportunity to ensure that HFAs are appropriately assessing their risk.”

2. SIGTARP analysis of Treasury, Aggregate Cap Monitoring Report, March 2019.

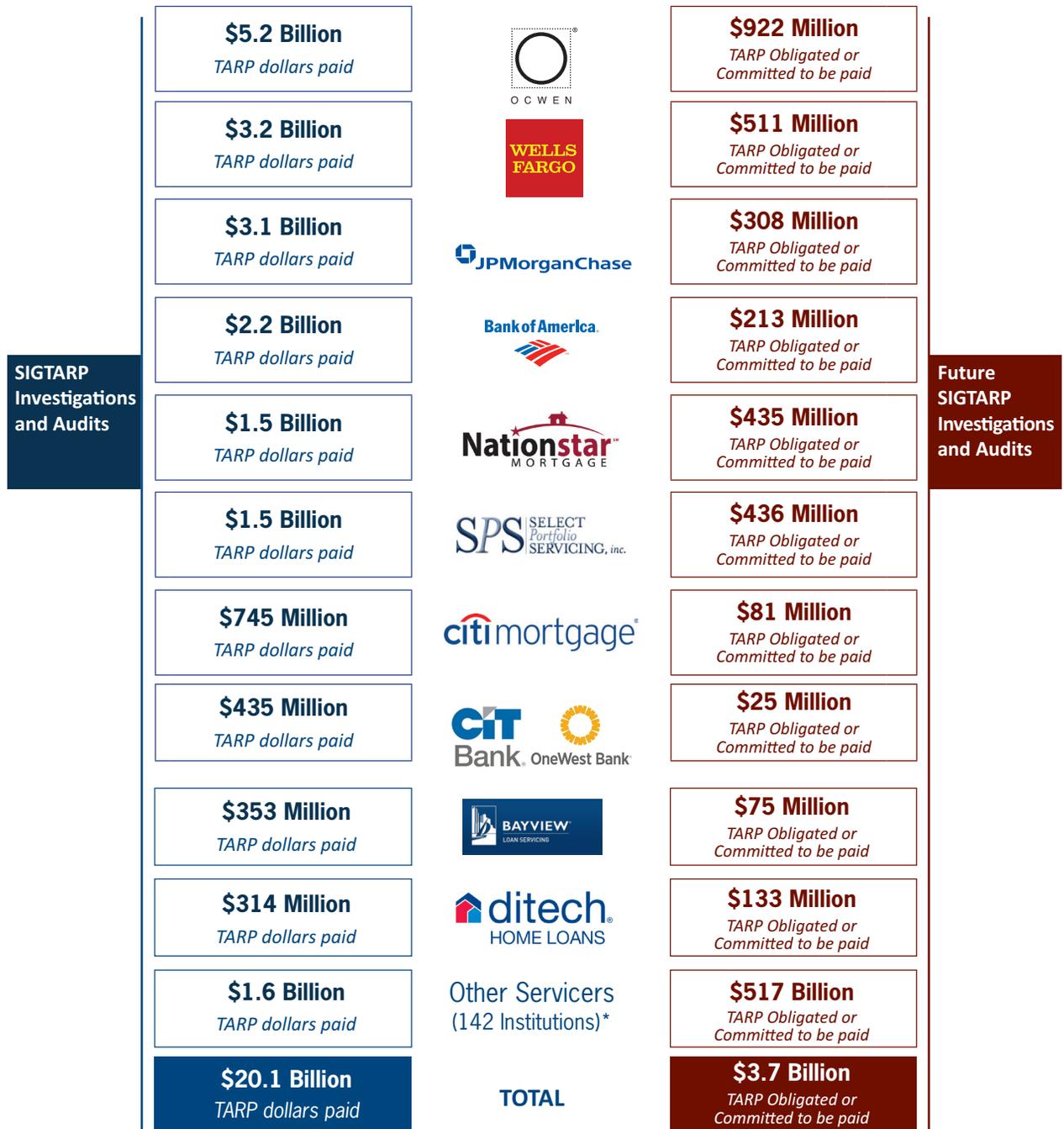
3. SIGTARP analysis of Treasury Hardest Hit Fund Quarterly Financial Reports (various dates), obtained via Treasury response to SIGTARP data calls.

4. SIGTARP Audit Report, Unnecessary Expenses Charged to the Hardest Hit Fund, August 2017, [https://www.sig tarp.gov/Audit%20Reports/Unnecessary\\_Expenses\\_Audit\\_8.25.17.pdf](https://www.sig tarp.gov/Audit%20Reports/Unnecessary_Expenses_Audit_8.25.17.pdf), accessed 4/24/2019; SIGTARP Audit Report, Waste and Abuse in the Hardest Hit Fund in Nevada, September 2016, [https://www.sig tarp.gov/Audit%20Reports/HHF%20Nevada\\_090916.pdf](https://www.sig tarp.gov/Audit%20Reports/HHF%20Nevada_090916.pdf), accessed 4/24/2019; SIGTARP, Engagement Memorandum – Audit of Hardest Hit Fund Travel, Conferences, and Other Administrative Expenses Charged to TARP, October 2017, [https://www.sig tarp.gov/Audit%20Engagement%20Memorandums/Engagement\\_Memo\\_for\\_Audit\\_of\\_HHF\\_Travel\\_and\\_Conferences\\_10.16.2017.pdf](https://www.sig tarp.gov/Audit%20Engagement%20Memorandums/Engagement_Memo_for_Audit_of_HHF_Travel_and_Conferences_10.16.2017.pdf), accessed 4/24/2019; SIGTARP Audit Report, The Hardest Hit Fund Lacks Standard Federal Requirements for Competition, March 2018, [https://www.sig tarp.gov/Audit%20Reports/HHF\\_Competition\\_Audit\\_Report.pdf](https://www.sig tarp.gov/Audit%20Reports/HHF_Competition_Audit_Report.pdf), accessed 4/24/2019; Public Law 114-113: Consolidated Appropriations Act, 2016, 12/18/2015, <https://www.congress.gov/bill/114th-congress/house-bill/2029/text>, accessed 4/24/2019.

5. SIGTARP analysis of Blight Elimination Program data provided by Housing Finance Agencies participating in the Hardest Hit Fund Program.

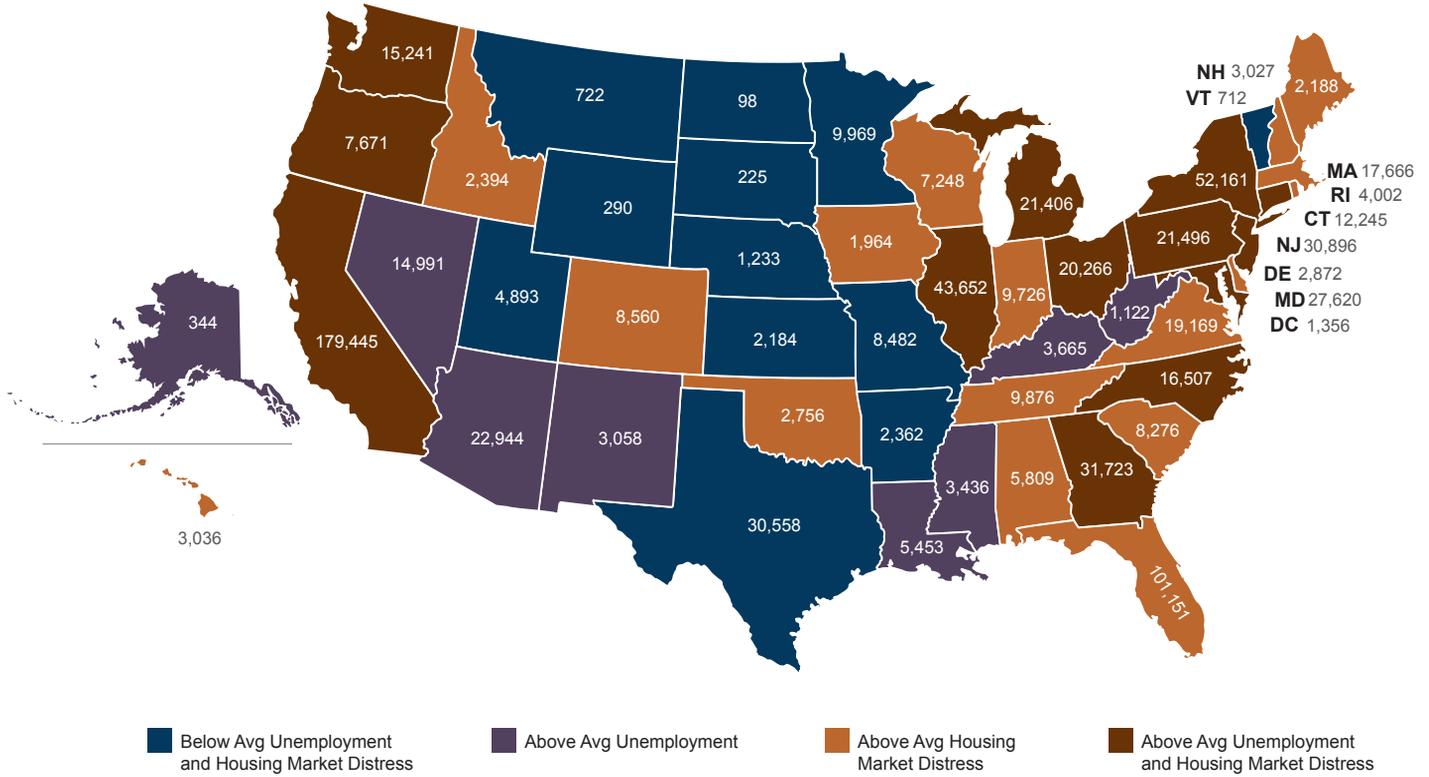
6. SIGTARP Audit Report, Risk of Asbestos Exposure, Illegal Dumping, and Contaminated Soil Found in Federal Blight Elimination Program. November 2017, [https://www.sig tarp.gov/Audit%20Reports/Blight\\_Eliminations\\_Inspection\\_Report\\_11.21.2017.pdf](https://www.sig tarp.gov/Audit%20Reports/Blight_Eliminations_Inspection_Report_11.21.2017.pdf), accessed 4/24/2019.

# TREASURY CONTRACTS FOR TARP DOLLARS TO BE PAID TO HAMP MORTGAGE SERVICERS INTO FY 2024



Sources: Treasury, Aggregate Cap Monitoring Report - March 2019; SIGTARP analysis of Treasury MHA data. As of 3/25/2019.  
 \*A total of 152 institutions have been paid or are eligible to be paid TARP funds through MHA, of which 131 can still receive TARP disbursements subsequent to 3/25/2019.

# 811,520 HOMEOWNERS CURRENTLY IN HAMP



Sources: Treasury HAMP data as of 3/15/2019; Bureau of Labor Statistics, STATE EMPLOYMENT AND UNEMPLOYMENT — STATE EMPLOYMENT AND UNEMPLOYMENT — May 2019, <https://www.bls.gov/news.release/pdf/laus.pdf>, accessed 06/21/2019; CoreLogic housing market data as of 06/28/2019.

Note 1: There are 3,499 active HAMP modifications in Puerto Rico, the US Virgin Islands, and Guam. These figures are included in the total cited above.  
 Note 2: National unemployment rate of 3.6% (seasonally adjusted), published in June 2019, 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 SPEND INTO FY 2022

	Spent	State	Unspent	
	\$90,415,398.65	Alabama	\$73,394,689.68	
	\$279,542,817.75	Arizona	\$24,241,041.06	
	\$2,420,792,899.42	California	\$59,521,756.57	
	\$22,432,406.35	District of Columbia	\$7,440,737.70	
	\$1,139,221,503.11	Florida	\$25,530,028.96	
	\$320,429,168.26	Georgia	\$59,250,602.07	
	\$666,274,196.54	Illinois	\$83,894,110.38	
	\$244,362,141.29	Indiana	\$47,431,597.86	
	\$189,461,366.20	Kentucky	\$24,595,823.41	
SIGTARP Investigations and Audits	\$630,314,278.92	Michigan	\$145,009,950.66	Future SIGTARP Investigations and Audits
	\$109,018,923.44	Mississippi	\$36,568,000.21	
	\$666,380,821.31	North Carolina	\$77,326,217.04	
	\$384,840,795.73	New Jersey	\$41,032,485.36	
	\$139,495,521.63	Nevada	\$58,687,071.52	
	\$696,713,489.51	Ohio	\$73,908,587.33	
	\$311,590,713.31	Oregon	\$49,770,744.51	
	\$109,895,093.52	Rhode Island	\$8,173,694.77	
	\$296,459,892.42	South Carolina	\$26,613,424.15	
	\$280,320,606.56	Tennessee	\$30,818,911.39	
	<b>\$8,997,962,033.92</b>	<b>Total</b>	<b>\$953,209,474.63</b>	

Note: Unspent figures include an additional \$307 million in recycled TARP dollars.  
 \*Source: Treasury, response to SIGTARP data call 6/12/2019; SIGTARP analysis of HHF Quarterly Financial Reports.

## TREASURY HOLDINGS IN TARP SECURITIES IN CPP AND CDCI BANKS

Program	Bank	Principal Investment	Missed Dividends	SIGTARP Investigation
Capital Purchase Program (CPP)	One United Bank	\$12,063,000	\$8,715,518	
	Harbor Bankshares Corporation	\$5,308,193		✓
	<b>CPP Total</b>	<b>\$17,371,193</b>	<b>\$8,715,518</b>	<b>1</b>
Community Development Capital Initiative (CDCI)	Carver Bancorp, Inc	\$18,980,000		
	Cooperative Center Federal Credit Union	\$2,799,000		
	D.C. Federal Credit Union	\$500,000		
	North Side Community Federal Credit Union	\$325,000		
	Buffalo Cooperative Federal Credit Union	\$145,000		
	<b>CDCI Total</b>	<b>\$22,749,000</b>	<b>\$0</b>	<b>0</b>
	<b>Grand Total</b>	<b>\$40,120,193</b>	<b>\$8,715,518</b>	<b>1</b>

Sources: Treasury, Transactions Report, July 3, 2019; Treasury, Dividends and Interest Report, May 2019; Treasury, response to SIGTARP data call 6/12/2019: As of 7/2/2019.

---

The Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) is a federal law enforcement agency and an independent audit watchdog that targets financial institution crime and other fraud, waste, and abuse related to TARP

---