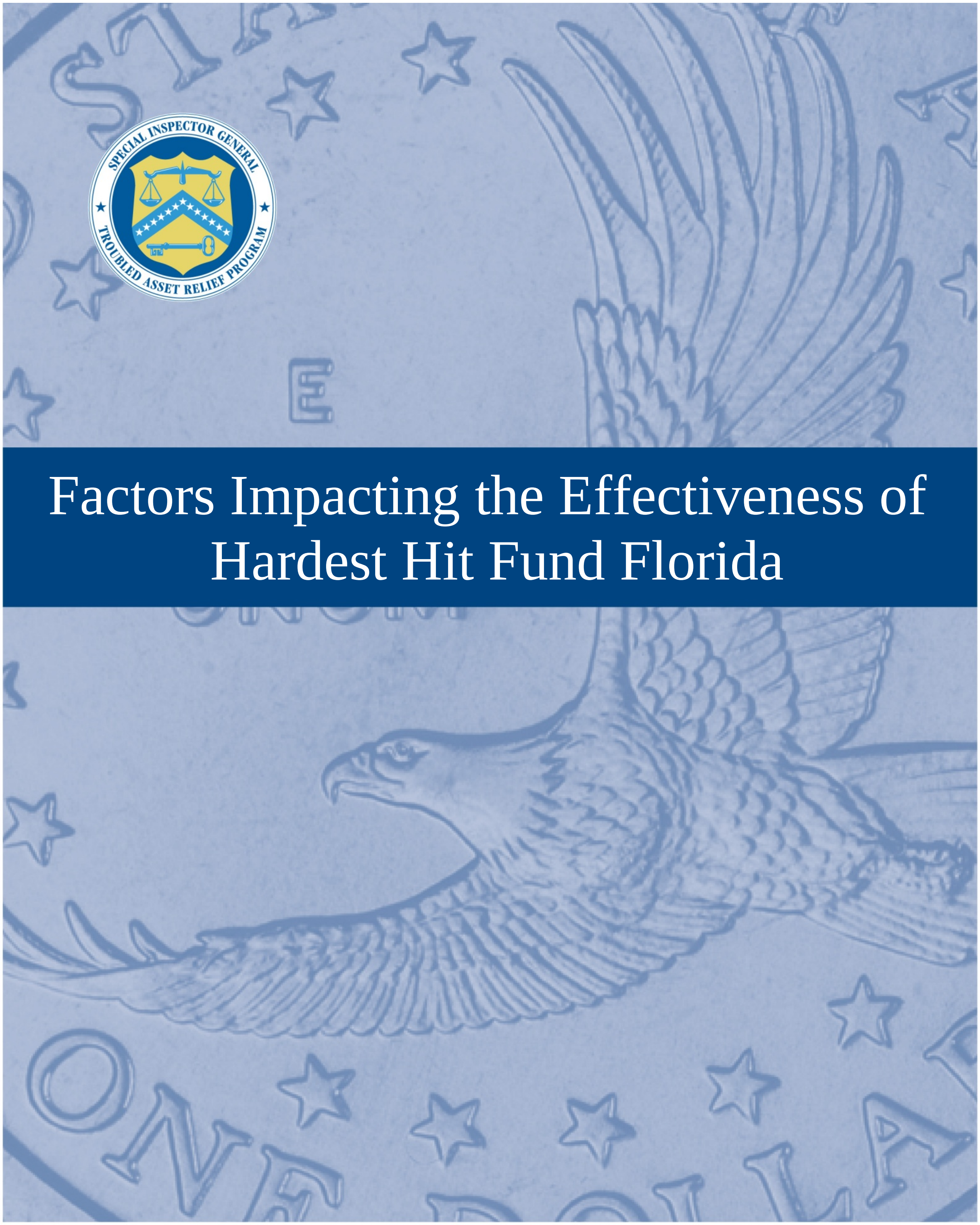

Factors Impacting the Effectiveness of Hardest Hit Fund Florida

Special Inspector General for the Troubled Asset Relief Program

SIGTARP 16-001

October 6, 2015

OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM
1801 L STREET, NW, 4TH FLOOR
WASHINGTON, D.C. 20220

October 6, 2015

MEMORANDUM FOR: The Honorable Jacob J. Lew – Secretary of the Treasury

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

SUBJECT: Factors Impacting the Effectiveness of Hardest Hit Fund Florida (SIGTARP 16-001)

We are providing this report for your information and use. It discusses the Florida Housing Finance Corporation's implementation and Treasury's oversight of the programs that comprise Florida's Hardest-Hit Fund ("HHF") Program.

The Office of the Special Inspector General for the Troubled Asset Relief Program conducted this evaluation (engagement code 006), under the authority of Public Law 110-343, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended.

We considered comments from the Department of the Treasury when preparing the report. Treasury's comments are addressed in the report, where applicable, and a copy of Treasury's response is included in the Management Comments – Appendix J.

We appreciate the courtesies extended to our staff. For additional information on this report, please contact Mr. Bruce S. Gimbel, Deputy Special Inspector General for Audit and Evaluation (Bruce.Gimbel@treasury.gov / 202-927-8978), or Ms. Jenniffer F. Wilson, Assistant Deputy Special Inspector General for Audit and Evaluation (Jenniffer.Wilson@treasury.gov / 202-622-4633.)

Summary

Five years into the Troubled Asset Relief Program's ("TARP") second largest foreclosure prevention program known as the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("Hardest Hit Fund" or "HHF"), HHF in Florida has helped only 22,400, far less than expected at the beginning of the program. HHF Florida has drawn down only about half the $1 billion in TARP funds available.

What SIGTARP Found

SIGTARP found that Treasury abandoned its announced intent to bring strict accountability by measuring Hardest Hit Fund program effectiveness, and as a result, Treasury has allowed the Hardest Hit Fund in Florida to underperform compared to other HHF states, consistently. The Administration and Treasury announced that the Hardest Hit Fund combined flexibility for states with strict accountability by Treasury, and that program effectiveness would be measured, with effective oversight. Treasury told all 19 participating state housing finance agencies that they were required to have a tracking system to measure progress against goals. Former Treasury Home Preservation Office Chief Phyllis Caldwell told SIGTARP in 2011, that Treasury could evaluate success in HHF in ways such as, "are we reaching the right number of people, are we reaching them in a sustainable way."

Treasury has no goals or targets to measure program effectiveness due to fear of impacting the "dynamic nature" of this TARP program, which has led to a lack of accountability and effectiveness of both Treasury and Florida's HFA. Treasury could have set specific goals/targets tailored to HHF Florida, but did not do so. SIGTARP found that as a result, HHF Florida has not been as effective in reaching homeowners as other states. HHF Florida has the lowest homeowner admission rate of any HHF state, one of the highest withdrawn application rates, and has consistently denied homeowners at higher rates than the national average.

Treasury has no goal for the right number of people to be helped by HHF Florida, and as a result, Treasury has allowed Florida's HFA to reduce its estimate of the number of people to be helped by HHF by 63% from 106,000 to 39,000, despite the fact that Florida had the nation's highest foreclosure rate at 2.3% in 2014.

Treasury has no targeted homeowner admission rate for HHF Florida, and as a result, only 20% (22,400 of 109,774) of homeowners who applied for help received assistance. This is the lowest of any HHF state, and is far below the other 18 states' average of providing assistance to about half (48%) of homeowners who apply. HHF has consistently had a low homeowner admission rate over five years (ranging from 18-23%). Treasury has no targeted homeowner denial rate for HHF Florida, and as a result, HHF Florida has consistently denied a higher percentage of homeowners for assistance (27-45%) than the national average. This rate improved this year, but is still slightly above the national average of 26%. Treasury provides no transparency on why HHF Florida denied homeowners. Treasury has no targeted number of homeowner applications withdrawn by Florida's HFA, and as a result, as of March 2015, nearly 40% of all homeowners who applied to HHF Florida either withdrew their application or had their application withdrawn by Florida's HFA. This rate has escalated from 35% in 2012, and was far higher than the other 18 states' average of 24%, as of March 2015.

Treasury has no target for how long HHF Florida should process homeowner applications, and as a result, it takes a median of nearly 6 months (167 days) for a homeowner to get assistance.

SIGTARP found several factors contributed to HHF Florida's slowness in getting assistance to homeowners and lack of effectiveness during the height of the crisis

when Florida homeowners needed it most.

Treasury lacked comprehensive planning and waited for Florida's HFA to get large servicers to participate. Unemployed homeowners would have to wait more than one year for statewide rollout of HHF assistance.

SIGTARP found that despite choosing Florida for HHF because it had the third highest home price decline in the nation, there was no HHF Florida program targeted to underwater homeowners for the first three years. Treasury left it to Florida's HFA acting deferentially.

In the first two years, nearly half of all homeowners were denied as ineligible, but Treasury accepted Florida HFA's justification. Two weeks after SIGTARP's 2012 report, Florida's HFA voted to eliminate four eligibility requirements that accounted for half of all denied homeowners.

In December 2010, Treasury deferred to Florida HFA's request to reduce the duration of unemployment assistance from 18 months to 6 months, the shortest duration in HHF, despite Treasury knowing that unemployment was 27 weeks or longer. Florida's HFA would extend assistance to 12 months, two weeks after SIGTARP's 2012 report.

Treasury can, and has on occasion, intervened to "change the game," "pressure" or "push," Florida's HFA, according to senior Treasury officials, and that intervention has brought some improvement. Treasury intervened to get large servicers to participate. After SIGTARP's 2012 HHF report, Treasury took strong action to increase HHF Florida's effectiveness, sending a November 2012 Action Memorandum to Florida's HFA, instructing them to increase homeowners assisted to 750 a month, raise the ratio of approved homeowners to denied homeowners, increase inadequate staffing levels, and create a program to address negative equity. This brought improvement, but Treasury did not hold Florida's HFA to 750 homeowners per month, and HHF Florida continued to lag behind other HHF states.

Despite improvements made in 2013, SIGTARP found several factors contributing to HHF Florida lagging behind other HHF states. Treasury did not identify and mitigate the obstacle that Florida's HFA was unable to handle the flood of applications for the 2013 principal reduction program. After the first week, Florida's HFA stopped accepting applications for 8 months. Only 14% of homeowners who applied have received this assistance, and more than one-third of homeowners have been denied. Treasury did not identify and mitigate obstacles for senior citizens with reverse mortgages facing problems applying for assistance and providing necessary documentation. As a result, 46% of all seniors who have applied had their application withdrawn. Treasury has no goal for the length of time Florida's HFA takes to process an application, and as a result, it takes 9 to10 months for a senior citizen to obtain assistance. Treasury lacked comprehensive planning in a HHF Florida program for a non-profit to buy homes and HHF to modify mortgages by not identifying and mitigating an obstacle that the non-profit might not be the successful bidder at HUD sales. After a two-year pilot, only 92 homeowners have been helped through that program.

Rather than holding itself and Florida's HFA strictly accountable, Treasury conducts deferential oversight, without a sense of urgency. Treasury's current Home Preservation Office (HPO) Chief Mark McArdle described to SIGTARP how Treasury "leaves it to the states" to decide. Treasury looks for incremental change – either a program change or steady growth quarter to quarter- "one or the other," according to Treasury HPO Chief McArdle. Treasury only tracks and measures against the goal of HHF Florida spending their allocated $1 billion in TARP funds by the end of the program in December 2017. After five years, HHF Florida has spent only half of these funds, despite Florida's homeowners experiencing a critical need.

SIGTARP also found that Treasury shifts to homeowners the burden of complying with the Dodd-Frank Act's prohibition on anyone convicted of a mortgage-related crime within the last 10 years from receiving HHF funds, by only complying with this law by requiring homeowners to self-report. Treasury conducts no due diligence to check readily available public databases on convictions of homeowners, making HHF vulnerable to fraud and thwarting the intent of the Dodd-Frank Act.

What SIGTARP Recommends

Given the sense of urgency that Treasury must adopt to improve the effectiveness of HHF Florida to help the urgent needs of Florida homeowners now, not by December 31, 2017, when the program ends, and to ensure that Florida homeowners have the same chance of HHF assistance as homeowners in other states, SIGTARP made 20 recommendations to Treasury to improve HHF Florida's homeowner admission rate, homeowner withdrawal rates, homeowner denial rates, time to process homeowner applications, and time to process senior citizens' applications. SIGTARP also made recommendations for Treasury to reassess whether all eligibility requirements are absolutely necessary and eliminate those that are not, particularly for senior citizens; increase reporting at a county level to give insight into areas for improvement; report why homeowners have been denied; require more detailed reporting on withdrawn applications; increase contact with homeowners to give insight into areas for improvement; and form a performance committee to meet each quarter to measure performance in each state, identify obstacles, and develop strategies to mitigate those obstacles. To reduce HHF's vulnerability to fraud, waste, and abuse, SIGTARP made recommendations related to Treasury conducting due diligence, including background checks on homeowners and HFA employees related to convictions.

Treasury provided comments to the draft report. SIGTARP addressed those comments where applicable. Treasury generally disagreed with SIGTARP's findings, and said that "Treasury believes it would hamper progress and slow the pace of assistance by substantially increasing the administrative burden to operate these programs." Treasury did not agree to implement SIGTARP's recommendations, but said they would "review all of SIGTARP's recommendations and respond to each one in the ordinary course."

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Introduction

In 2009, the United States was in a financial crisis, with approximately 2.8 million homeowners receiving foreclosure filings, according to RealtyTrac LLC, 18.3% of them (517,000) in Florida.[1] Almost 6% (nearly 3 in 45) of Florida households entered into foreclosure, compared to slightly more than 2% (1 in 45) of households nationwide. In February 2010, the Administration announced the second largest TARP housing program, the $7.6 billion TARP Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("Hardest Hit Fund," or "HHF"), to target help to families in the states "hit the hardest by the aftermath of the housing bubble."[2]

Treasury selected the first five HHF states because each saw the average price of homes fall by more than 20% from the peak – Florida had a 37.4% average price decline. Treasury expanded HHF three times to cover 18 states and the District of Columbia (the "states" or "HHF states"). Treasury was so concerned with Florida's home price decline and 11.8% unemployment rate, that it would pick Florida in two additional rounds, allocating $1 billion in TARP funds for HHF in Florida ("HHF Florida"). HHF Florida is administered by Florida's housing finance agency called the Florida Housing Finance Corporation ("Florida's HFA"). Treasury, as the steward for TARP funds, is responsible for oversight over HHF.

Two years into this TARP program, on April 12, 2012, SIGTARP issued a report finding that HHF had experienced significant delay in providing help to homeowners due to several factors including a lack of comprehensive planning by Treasury and a delay and limitation in participation in the program by large servicers and the government-sponsored enterprises ("GSEs") – Fannie Mae and Freddie Mac. As of December 31, 2011, which was the latest Treasury data available at that time, the Hardest Hit Fund had only spent $217.4 million to provide assistance to 30,640 homeowners – approximately 3% of the TARP funds allocated to HHF and approximately 7% of the minimum number of homeowners whom the state HFAs estimated helping over the life of the program, which ends in 2017. At that point, HHF Florida had provided assistance to 3,302 homeowners (3.1% of the 106,000 expected to be helped by HHF) and spent $15,156,356 (1.4% of allocated TARP funds).[3] SIGTARP also reported that nearly all (98%) of the help provided to homeowners under HHF had been related to unemployment assistance or reinstatement of past-due amounts, the only types of assistance for which GSEs directed servicers to participate. SIGTARP concluded that without significant change, HHF was likely to be limited in

[1] RealtyTrac is a data analytics company that provides real estate data analytics and services.
[2] TARP's signature housing program that began in early 2009 is the Home Affordable Modification program ("HAMP").
[3] Florida's estimate of the number of homeowners expected to be helped by HHF may double-count individual homeowners who receive assistance from more than one program.

addressing negative equity for homeowners who are underwater. Treasury rejected SIGTARP's recommendations.

In a letter to SIGTARP in 2013, Senator Bill Nelson requested that SIGTARP initiate a review of HHF Florida after a Tampa Bay Times article was published entitled "Tax dollars are paying Florida mortgages for felons, debtors." SIGTARP began an evaluation of the Hardest Hit Fund in Florida to assess Florida's HFA's implementation and Treasury's oversight of HHF Florida. Our evaluation covers the entirety of HHF Florida. SIGTARP conducted this evaluation in accordance with the "Quality Standards for Inspection and Evaluation" established by the Council of the Inspectors General on Integrity and Efficiency. For a discussion of the evaluation's scope and methodology, see Appendix A.

Background

The Administration announced that HHF would "Help address *urgent* problems facing homeowners at the center of the housing crisis" [emphasis added]. The White House announced, "This new innovation fund will help housing finance agencies in the hardest-hit areas and localities further respond to the most *pressing* problems in their communities" [emphasis added].

As SIGTARP reported in 2012, former Treasury Chief of Homeownership Preservation Office ("HPO") Phyllis Caldwell told SIGTARP, "We focused on price declines….We thought about principal reduction and negative equity to address that in places where homeowners had put down 20% or more and were still underwater."[4] Caldwell explained that Treasury thought it "could capture the responsible borrower caught in the bubble and then price declines."

Treasury's website describes the Hardest Hit Fund as providing targeted aid to families in states hit hard by the economic and housing market downturn, to provide funding for state HFAs to develop locally-tailored foreclosure prevention strategies. Treasury's former HPO Chief Phyllis Caldwell told SIGTARP in 2011 that there were differences at the state level that showed the need for state-level solutions, a local program versus a national program, saying "for instance, it's difficult to develop the same set of criteria for Arizona and Ohio in order to develop home foreclosure prevention solutions."

Hardest Hit Fund Florida started with: (1) unemployment assistance – HHF pays an unemployed or underemployed homeowner's mortgage for a set number of months up to a set amount and (2) reinstatement – a one-time payment up to a set amount to a mortgage lender to help satisfy past-due amounts. According to a 2012 report by the State of Florida Auditor General, Florida's HFA has employees who work on HHF Florida, but largely relies on approximately 100 advisor agencies they contract with throughout Florida to process HHF homeowner applications and determine eligibility.

Three quarters of homeowners in Florida who are receiving HHF assistance are unemployed or underemployed. Almost all (96%) of homeowners in Florida receiving HHF assistance made less than $70,000, with 82% making less than $50,000. Additionally, about 80% have underwater homes.[5] Half of these homeowners were 60 or more days' past-due on their mortgage (including 42% who were 90 days past-due).

Although unemployment and home price decline have improved in Florida, Florida homeowners are still struggling. In 2014, Florida had the nation's highest foreclosure rate at 2.3%, according to RealtyTrac. As of March 31, 2015, the

[4] *See* SIGTARP, "Factors Affecting Implementation of the Hardest Hit Fund Program," April 12, 2012.
[5] Underwater homes have a loan to value ratio over 100%.

latest Treasury data available as of the drafting of this report, after five years, HHF Florida had provided assistance to 22,400 homeowners, had spent about half of the allocated TARP dollars ($495.6 million) and spent $53.5 million on administrative expenses, outreach, and counseling.[6] Only three states lag behind Florida in their use of available TARP funds, as a percentage of HHF funds received.[7]

[6] As of March 31, 2015, Florida HFA had drawn down $596.3 million (56%) of the approximate $1.06 billion in HHF funds available, leaving $495.6 million. Figures may not add due to rounding.

[7] See Appendix C for utilization of HHF funding by state.

According to Treasury Data, Only 20 Percent of Homeowners Who Applied for Help from the Hardest Hit Fund Florida Received Assistance – the Lowest of All HHF States

Only 20% of homeowners who applied for the Hardest Hit Fund Florida received assistance. According to Florida HFA's most recent report sent to Treasury, as of March 31, 2015, only 22,400 of the 109,774 homeowners who applied for the Hardest Hit Fund in Florida received assistance – a 20% homeowner admission rate. Treasury has not set a goal for what is the right number of people for HHF Florida to reach, and rejected SIGTARP's 2012 recommendation to set such goals. Treasury has allowed HHF Florida to decrease the estimate of homeowners to be helped by 63%, from 106,000 homeowners to 39,000.[8] SIGTARP found with HHF Florida that this estimate has limited usefulness because Treasury has permitted Florida HFA to change its estimate several times, creating a shifting baseline that makes it difficult for Treasury to measure HHF Florida's progress and to hold itself or Florida's HFA accountable for getting assistance to homeowners when they needed it most.

Treasury also has not set a goal for a target homeowner admission rate for HHF Florida. SIGTARP found that HHF Florida has the lowest rate of admitting homeowners into HHF than any of the other 18 HHF states.

[8] On May 30, 2012, Treasury allowed Florida's HFA to decrease its aggregate estimate of 53,000 homeowners to be helped in each of Florida's two HHF programs (unemployment assistance and reinstatement) to 45,000 homeowners each. On September 20, 2013, when HHF Florida began its first HHF principal reduction program, Treasury allowed Florida's HFA to adjust their estimates of homeowners to be helped in the unemployment assistance and reinstatement programs to a combined total of 25,000 homeowners. With the addition of the Principal Reduction Program ("PR") and two other programs – Modification Enabling Pilot Program ("MEP") and Elderly Mortgage Assistance Program ("ELMORE") – Florida HFA's estimate is 39,000.

TABLE 1

HARDEST HIT FUND HOMEOWNER ADMISSION RATE BY STATE

State	Homeowners Receiving Assistance	Total Applicants	Application Approval Rate
District of Columbia	697	861	81%
Tennessee	7,355	9,352	79%
Indiana	5,198	6,818	76%
Ohio	24,485	34,778	70%
Illinois	13,798	20,294	68%
Kentucky	6,668	9,881	67%
North Carolina	19,060	28,787	66%
Rhode Island	3,075	4,833	64%
Mississippi	3,187	5,096	63%
Michigan	25,573	54,230	47%
New Jersey	6,000	13,093	46%
South Carolina	9,209	22,113	42%
Oregon	11,740	28,269	42%
California	48,864	119,453	41%
Nevada	5,282	13,694	39%
Georgia	6,245	22,695	28%
Alabama	3,947	14,766	27%
Arizona	3,728	15,619	24%
Florida	22,400	109,774	20%

Source: SIGTARP analysis of Treasury, Housing Finance Agency Aggregate Report as of March 31, 2015, obtained from http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Housing-Finance-Agency-Aggregate-Report.aspx, accessed August 10, 2015.

The low homeowner admission rate for Florida has been relatively constant throughout the history of HHF (ranging from 18-23% since March 2011).[9] This is not new information to Treasury. Each quarter, Florida's HFA reports to Treasury on the total number of homeowners who applied, received assistance, were denied assistance, had their applications withdrawn, or have applications in process, by each program.

Transparency in reporting to Treasury at a county level in HHF can be significantly improved to give insight into the effectiveness of HHF Florida. The number of homeowners who received assistance is the only county-level data that Treasury requires to be reported.[10] This data shows that in the last year (April 1, 2014 to March 31, 2015), 28 of 67 Florida counties (more than 40%) provided HHF assistance to fewer than 10 Florida homeowners. Because Treasury does not require Florida HFA (or any other state HFA) to report the number of homeowners who applied for HHF in each county, Treasury and the public had no insight into each county's homeowner admission rate.

[9] Florida's March 31, 2012 report to Treasury showed that HHF in Florida had only provided assistance to 18% of homeowners who applied. Florida's March 31, 2013 report to Treasury showed that HHF in Florida had only provided assistance to 21% of homeowners who applied. Florida's March 31, 2014 report to Treasury showed that HHF in Florida had only provided assistance to 23% of homeowners who applied.

[10] See Appendix D for information related to Florida HHF assistance by county.

Treasury also does not require state HFAs to report by county, the number of homeowners denied for HHF, whose applications were withdrawn, or whose applications are in process, which would provide greater transparency and insight into each county's performance. Treasury also does not require Florida HFA to report on a county-level the performance of each category of HHF Florida assistance (such as principal reduction or unemployment). County-level HHF performance data is particularly important for HHF Florida's advisor agents in counties who review applications and make decisions on homeowners.

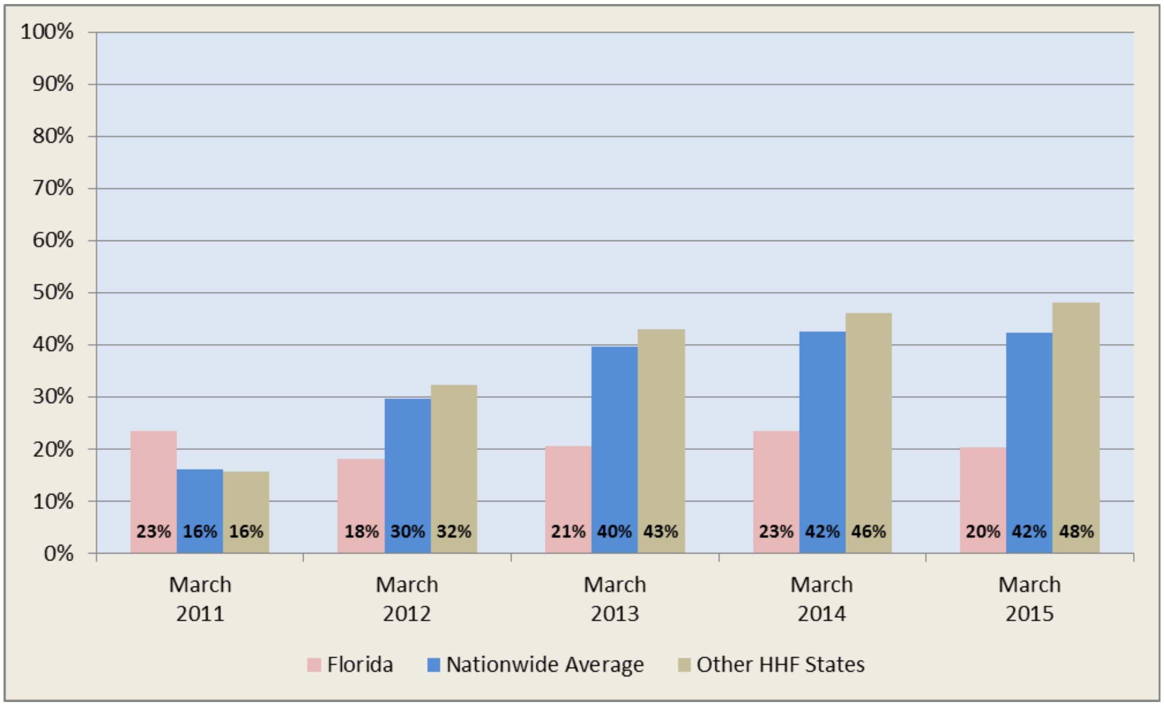
Treasury has no goal for how long it takes Florida's HFA (or their county-level advisor agents) to process homeowner applications. According to Treasury's data as of March 31, 2015, HHF Florida takes a median of 167 days from the time a homeowner seeks help to the time they get unemployment assistance. Last quarter's median was 174 days. HHF Florida takes a median of 226 days to get reinstatement assistance, which has improved, but last quarter was 167 days. Given the various steps and players involved in the homeowner application process, measuring county-level performance could bring transparency and insight to see where there might be delays or other obstacles.

According to Treasury Data, the Other HHF States Average Providing Assistance to About Half (48 Percent) of Homeowners Who Applied

Nationwide HHF (including Florida) Provides Assistance to 42 Percent of Homeowners

The other 18 states in HHF average providing assistance to about half (48%) of homeowners who apply. HHF Florida's low homeowner admission rate pulls the national average for HHF down to 42%, which is still more than double HHF Florida's homeowner admission rate. According to the latest Treasury data available as of the time of drafting this report, as of March 31, 2015, across all 19 HHF states, 226,511 of the 534,406 homeowners who applied for the Hardest Hit Fund received assistance – a 42% homeowner admission rate nationwide. One in every five homeowners who applied (20%) received help from the Hardest Hit Fund Florida, compared to a national average of two in every five homeowners (42%).

Figure 1: Hardest Hit Fund Homeowner Admission Rates Over Time – Florida vs. Other HHF States

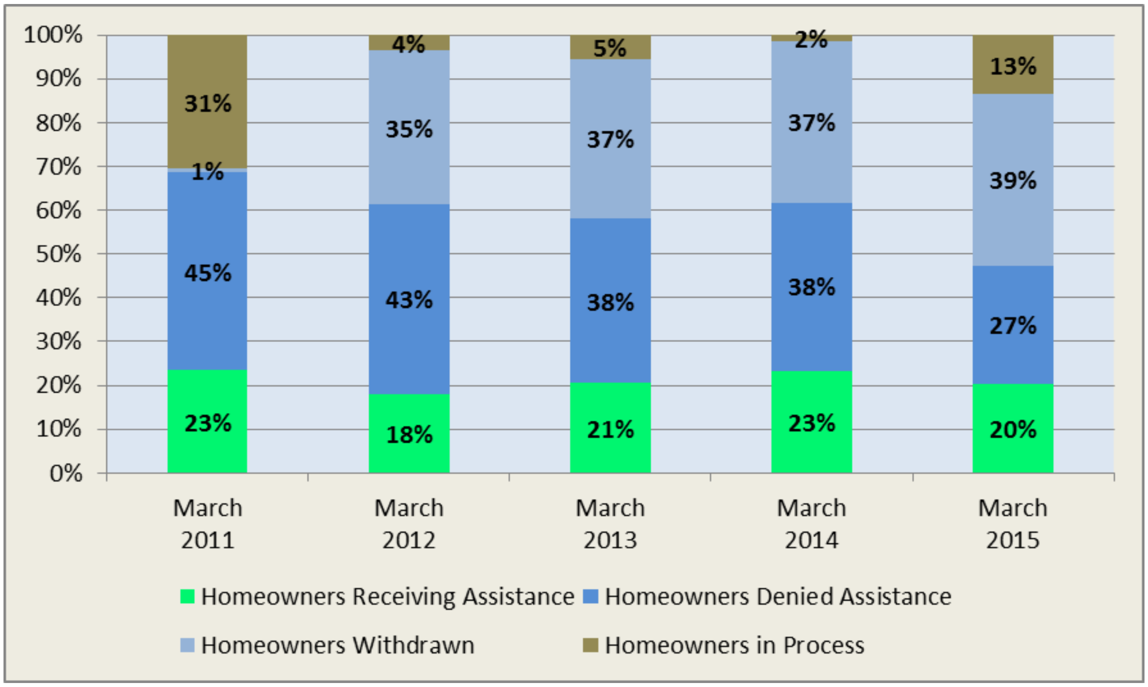


Source: SIGTARP analysis of Treasury, Housing Finance Agency Aggregate Report as of March 31, 2015.

An overall low homeowner admission rate raises questions as to the effectiveness of HHF Florida and the fact that the rate has not improved raises questions about whether HHF Florida has been effective in responding to "urgent" and "pressing" problems as HHF promised. Homeowners who did not get help from HHF Florida either: (1) were denied (29,544 homeowners – 27%); (2) had their application withdrawn by Florida's HFA or withdrew their application after approval (43,030 homeowners – 39%); or (3) had an application in process (14,800 homeowners – 13%).[11]

[11] According to the latest Treasury data available, as of the time of the drafting of this report, March 31, 2015.

Figure 2: Status of Florida Hardest Hit Fund Applications Over Time

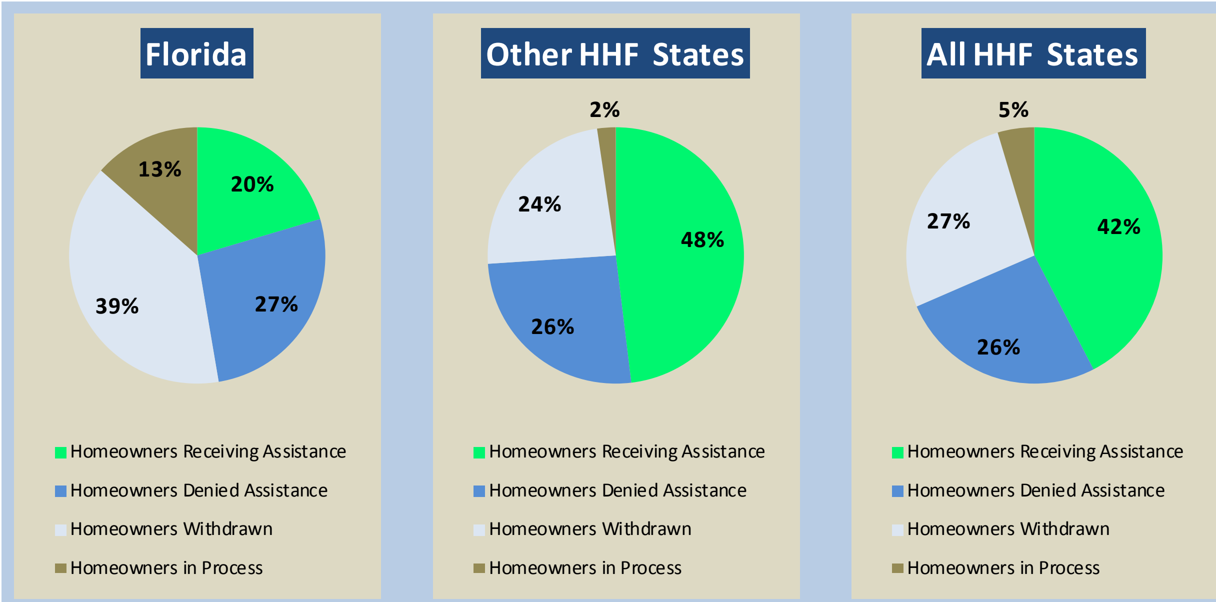


Source: SIGTARP analysis of Treasury, Housing Finance Agency Aggregate Reports as of March 31, 2015, March 31, 2014, and March 31, 2013, obtained from http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Housing-Finance-Agency-Aggregate-Report.aspx, accessed 8/10/2015. HFA performance data from March 31, 2012 was obtained from each states Q1 2012 HHF quarterly performance report, the websites containing these reports can be accessed through Treasury's "Hardest Hit Fund: State-By-State Information" website at: http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/Pages/Program-Documents.aspx.
Note: Figures may not total 100% due to rounding.

Compared to other HHF states, Treasury's latest data as of the drafting of this report (as of March 31, 2015) shows that HHF Florida has a lower homeowner admission rate, higher rate of withdrawn homeowner applications, and higher percentage of applications in process than the national average. Because HHF Florida's numbers skew the national average, SIGTARP is also presenting the average of the other 18 HHF states.[12]

[12] Appendix E shows a comparison of Florida application data to that of the other HHF states.

Figure 3: Status of Hardest Hit Fund Applications – Florida vs. Other HHF States



Source: SIGTARP analysis of Treasury, Housing Finance Agency Aggregate Report as of March 31, 2015, obtained from http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Housing-Finance-Agency-Aggregate-Report.aspx, accessed 8/10/2015.
Note: Figures may not total 100% due to rounding.

HHF Florida Consistently Denied Homeowners at Higher Rates than the National HHF Average Every Year, Which Improved This Year, But is Still Slightly Above the National Average

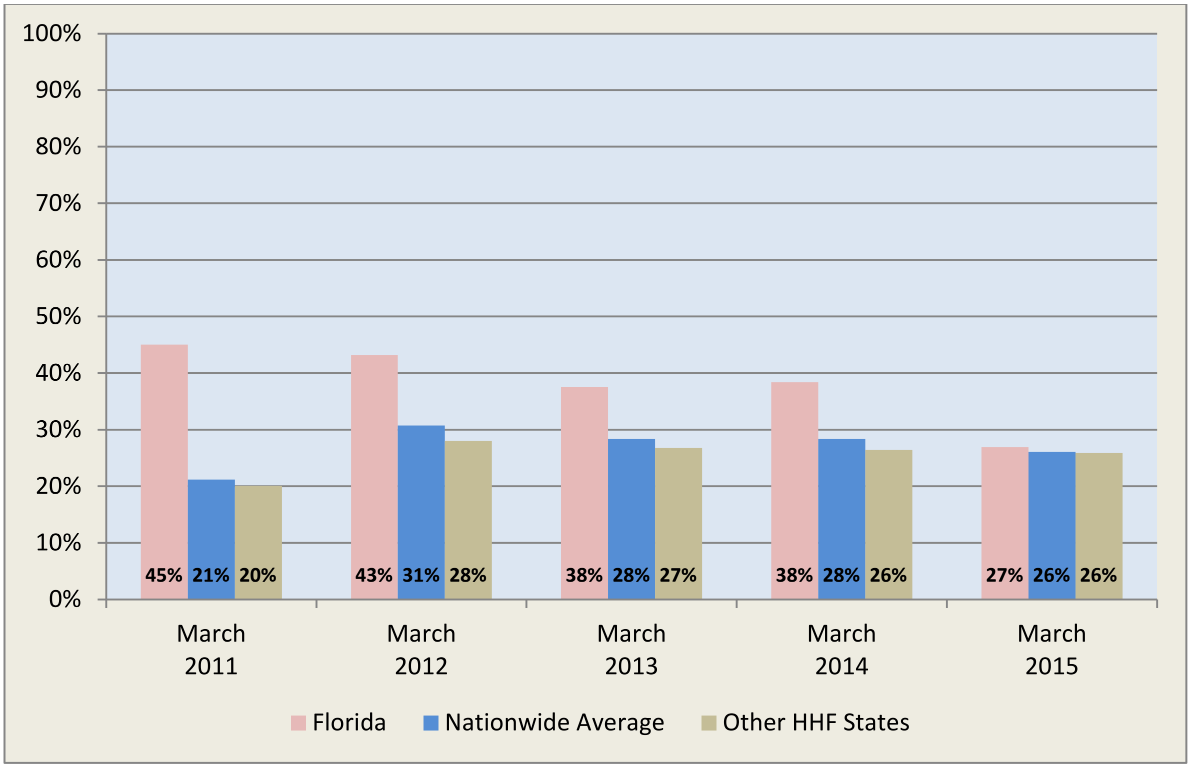
HHF Florida has a high number of applications "in process"

Treasury has not set a goal for a target homeowner denial rate for HHF Florida. As a result, through the history of HHF, HHF Florida has denied a higher percentage of homeowners for assistance than the national average in HHF, which showed improvement this year, but is still slightly above the national average. After the first year in HHF, as of March 31, 2011, according to Treasury's data, Florida's HFA reported denying 45% (288) of the 639 homeowners who applied, compared to a national HHF average of 21%. As of March 31, 2012, Florida's HFA had denied 11,352 homeowners, 43% of all who applied, compared to the national HHF average of 31%.[13] After SIGTARP's April 2012 report, there was some improvement, but Florida still denied a higher percentage of homeowners for assistance than the national average – denying 38% of homeowners for the

[13] According to Treasury data, as of March 31, 2012, Florida's HFA has denied 11,352 homeowners, 43% of the 26,280 homeowners who had applied for HHF.

years ended March 2013 and March 2014, compared to the national average of 28%.[14]

Figure 4: Hardest Hit Fund Homeowner Denial Rates Over Time – Florida vs. Other HHF States



Source: SIGTARP analysis of Treasury, Housing Finance Agency Aggregate Report as of March 31, 2015,
Note: See Appendix F for application denial rates by state.

Treasury does not have insight into why these homeowners were denied. Even though Florida's HFA includes in a letter to the homeowner the reason for denial, Treasury does not require reporting on those reasons. Treasury's HPO Chief told SIGTARP that in 2011, Treasury looked very closely at the reasons why homeowners were denied in Florida. However, Treasury provides no transparency to the public on the reasons why HHF Florida denied homeowners.

For the first time this year ended March 31, 2015, there was improvement. HHF Florida reported denying 29,544 (27%) of the 109,774 homeowners who applied, which is slightly over the national average of 26%. Treasury has not set a goal that HHF Florida's rate of denying homeowners meet some target such as the

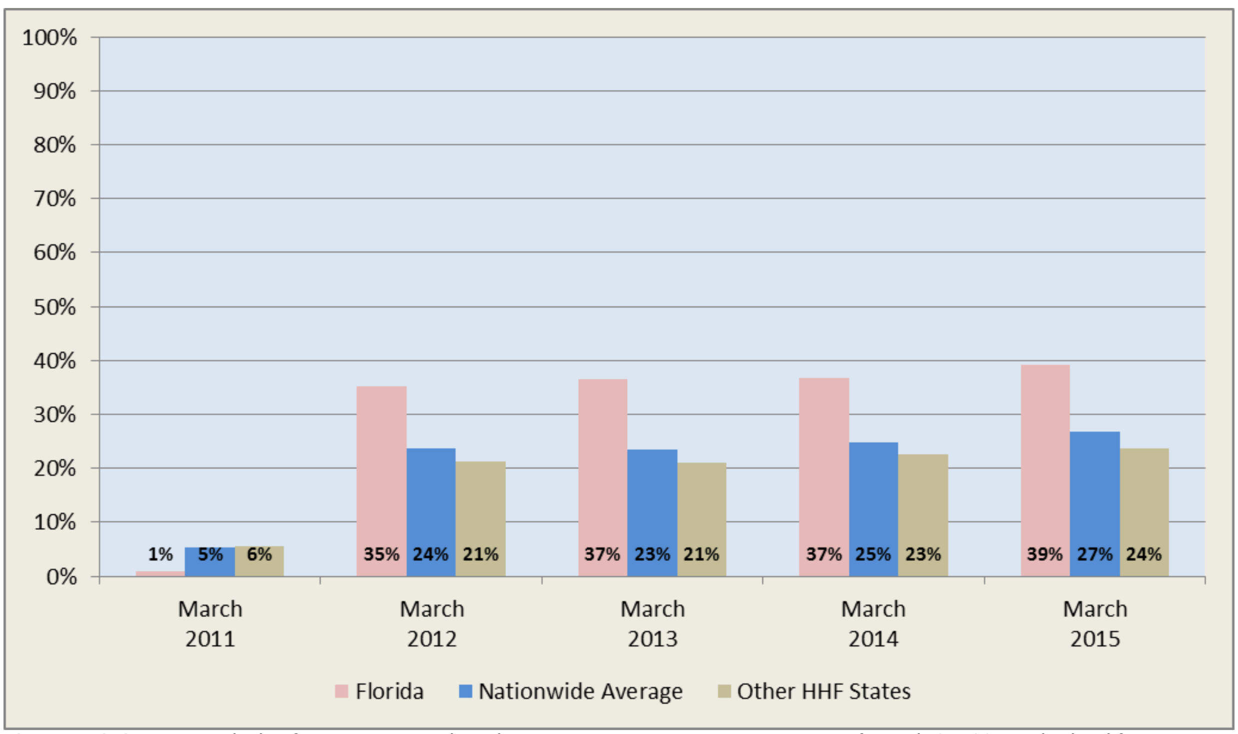
[14] According to Treasury data, as of March 31, 2013, Florida's HFA had denied 15,729 homeowners, 38% of the 41,890 homeowners who had applied for HHF. According to Treasury data, as of March 31, 2014, Florida's HFA had denied 26,334 homeowners, 38% of the 68,598 homeowners who had applied for HHF.

national average, or if it did, it was neither made public nor memorialized. This improvement should be maintained. Also, during this same reporting period, HHF Florida had very high rates of homeowners whose HHF applications were withdrawn – 39% (compared to the national HHF average of 27%), and 14,800 homeowners whose HHF applications were in process – 13% (compared to the 5% national HHF average), which requires further Treasury review.

HHF Florida Has a High Number of Withdrawn Applications (Either by the Homeowner or Florida's HFA) Compared to the National HHF Average

According to Treasury's data, nearly 40% (43,030) of all 109,774 homeowners who applied for HHF Florida had their application withdrawn, either initiated by themselves or by Florida's HFA. This has been an escalating issue with HHF in Florida, growing from 2012 reporting of 35% of homeowners who applied. The national HHF average is 27% withdrawn applications. HHF Florida has such a high withdrawn applications rate that it drags the national average up. The average of the other HHF states is 24% withdrawn applications.

Figure 5: Hardest Hit Fund Withdrawn Application Rates Over Time – Florida vs. Other HHF States



Source: SIGTARP analysis of Treasury, Housing Finance Agency Aggregate Report as of March 31, 2015, obtained from http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Housing-Finance-Agency-Aggregate-Report.aspx, accessed 8/10/2015.

Treasury lumps two very different situations into one category: a withdrawal of the HHF application initiated by the homeowner after being deemed eligible for HHF assistance, and a withdrawal initiated by Florida's HFA for homeowners who do not respond to requests for information. Treasury does not know how many homeowners withdrew their application themselves versus how many homeowners saw their application withdrawn by Florida's HFA because Treasury does not require that reporting.[15]

Neither Treasury nor Florida's HFA know the reasons why a homeowner withdraws. They do not follow up with the homeowner to ask. A senior Florida HFA official told SIGTARP about the principal reduction assistance that HHF Florida began providing in September 2013, saying, "unfortunately, you know, there's certainly been well over 12,000 of those folks who on their own accord have decided not to pursue their applications and have, you know, withdrawn and voluntarily left the process for reasons unfortunately they don't often communicate to us." SIGTARP found that HHF Florida has always had high withdrawn application rates, even prior to the launch of the principal reduction assistance.

Treasury has not set a goal for HHF Florida for the number of applications withdrawn by Florida's HFA. High numbers of applications that Florida's HFA, or their advisor agencies in counties around Florida, withdraws for homeowners who are not responding to requests for information, raises questions about whether HHF Florida is operating in the most effective way in each county. Treasury does not require any county-level reporting on withdrawn applications, let alone breaking down applications that Florida's HFA withdrew by county. County-level data would bring accountability and give Treasury faster and better insight into program effectiveness and targeted areas for improvement, including, among other things, whether there is homeowner confusion that could be remedied or whether there could be a more effective way to reach out to homeowners.

[15] Appendix G shows application withdrawal rates by HHF state.

Treasury Has Not Done Everything It Can To Ensure That HHF Florida is Effective in Providing Assistance to Homeowners and as a Result HHF Florida Has Underperformed

SIGTARP found that Treasury set the objective of the Hardest Hit Fund to allow HFAs "to develop creative, *effective* approaches that consider local conditions"[emphasis added], but Treasury has not done everything it can do to ensure that HHF Florida is "effective" in providing assistance to homeowners. In Treasury's March 29, 2010 press release, and in guidelines given to the HHF states, Treasury stated that the objective of HHF is to develop creative, effective approaches that consider local conditions. After Treasury approved state specific HHF programs, on June 23, 2010, Treasury's Assistant Secretary for Financial Stability Herbert Allison stated that the Administration "will continue to do everything it can to help those who are struggling the most during this difficult time."

SIGTARP Found That Treasury Abandoned Its Intent To Set Goals for HHF Program Effectiveness and Measure Progress Against Those Goals

In February 2010, the White House announced, "The program will be under strict transparency and accountability rules." The White House announced that "program *effectiveness*" would be *measured*, and that there would be "*effective* oversight" under the Emergency Economic Stabilization Act of 2008 (the law that created TARP) [emphasis added]. Oversight under EESA means Treasury, not just the state HFAs.

On March 29, 2010, Treasury repeated that program activity will be subject to effective oversight under EESA, and stating:

> HFAs will be required to develop and maintain operational and performance metrics, have a detailed financial reporting system and track homeowners helped through its programs. HFAs will report data to Treasury on a periodic basis, including metrics used to measure program *effectiveness* against stated objectives. Treasury may request that the HFA modify the proposed performance measures or seek additional metrics as necessary [emphasis added].

Treasury repeated this statement in its guidelines to state HFAs. Treasury's guidelines provide that HHF is designed to allow the maximum possible flexibility to eligible HFAs in designing programs that are tailored to the needs of the specific state, while Treasury ensures the effectiveness of the program. The two concepts of state flexibility and Treasury measuring effectiveness were not mutually exclusive. Treasury required:

- Detailed information about the specific problems that the program will address as well as the specific goals for the program and how progress toward those goals will be measured.
- Identification of any anticipated program implementation obstacles and a related mitigation plan.
- Information of its organizational capacity to implement the program.
- Detailed staffing plan and key partners including their roles, expertise and relationship.
- Plan to minimize program and fraud risk, and risk management and fraud prevention strategies.
- Description of proposed methodology for measuring program progress, including key performance measurements, frequency of reporting and tracking system to measure progress against goals.

Treasury's former Chief HPO Phyllis Caldwell told SIGTARP in 2011, that Treasury could evaluate success in HHF in ways such as, "are we reaching the right *number* of people, are we reaching them in a sustainable way…" [emphasis added]. HHF states performance numbers are the only information Treasury publishes on accountability in HHF.

SIGTARP found in its April 2012 report, that Treasury had not set any measurable goals and metrics that would allow Treasury, the public, and Congress to measure the progress of HHF. The recommendations SIGTARP made in April 2012 reflect what Treasury said they would do at the start of HHF to conduct effective oversight. In April 2012, SIGTARP did not tell Treasury what goals they should set to measure program effectiveness, instead recommending:

1) Treasury set meaningful and measurable performance goals for HHF, including, at a minimum, the number of homeowners Treasury estimates will be helped by the program, and measure progress against those goals.
2) Treasury should instruct state HFAs in HHF to set meaningful and measurable overarching and interim performance goals with appropriate metrics to measure progress for their individual state programs.
3) Treasury should set milestones at which the state HFAs in HHF must review the progress of individual state programs and make program adjustments from this review.

Treasury rejected SIGTARP's recommendations stating, "Treasury believes establishing static numeric targets (as the recommendations seem to suggest) is not well suited to the dynamic nature of HHF. Treasury has a rigorous performance management program in place, which requires each HFA to set goals and targets for all of its initiatives." Treasury has not set any numeric or non-numeric goals and targets, except one time for HHF Florida in November 2012. HHF Florida's goals are "preserving homeownership" and "protecting home values," goals that are more high-level expectations that could have been considered met in the first year. The number of people helped is not the only goal that Treasury could have set. There are a number of goals that Treasury could have set, but did not. Treasury's current HPO Chief Mark McArdle told SIGTARP, "There is no such thing as one set goal that works or doesn't work."

Treasury's responsibility to define targeted outcomes and measure progress against them is important for accountability over the state HFAs' uses of TARP funds. The Government Performance and Results Act ("GPRA") requires Federal agencies to measure performance against established goals. Congress enacted this law to hold Federal agencies accountable for achieving program results and to improve management of Federal programs. Treasury cannot escape GPRA's requirements because a state should have flexibility and be innovative under HHF. Flexibility and innovation does not come in a Federal program without accountability that can be measured.

Treasury has not done everything it can do for HHF Florida. Targeted outcomes that can be measured benefit Treasury, Congress, and taxpayers in seeing areas for improvement. HHF Florida is, and has been, underperforming. HHF Florida loses opportunities to be "dynamic" by having, for example, such a low homeowner admission rate. For five years, Treasury has tried it their way, with HHF Florida having no numeric goals and targets to measure effectiveness, and as a result, the numbers have not added up for Florida homeowners.

The dynamic nature of the program will not be harmed by numeric goals. The one time Treasury set numeric goals and measureable targets in HHF in 2012 there was significant improvement (discussed in more detail later in this report). At the beginning of HHF, Treasury warned HHF states that Treasury may request that the HFA modify the proposed performance measures or seek additional metrics, as necessary. Treasury has only done this one time – in 2012. In 2012, Treasury took strong action by issuing Action Memorandums to Arizona (in February 2012), Georgia (in April 2012), New Jersey (in May 2012), and Florida (in November 2012) with numeric goals to increase the number of homeowners receiving assistance along with other changes.[16] Treasury's action brought improvements to the effectiveness of HHF Florida, but Treasury would not repeat it.

[16] Appendix H is Treasury's Action Memorandum to Florida.

Treasury Is Not Operating with a Sense of Urgency To Ensure that HHF Florida Is Effective

SIGTARP found that Treasury is not operating with a sense of urgency to ensure that HHF Florida is effective now, but is instead tracking to see if HHF Florida will spend the allotted $1 billion in TARP by the end of the program in December 2017. The Administration and Treasury announced that they would act with a sense of urgency to help homeowners with HHF. In February 2010, the White House announced HHF as a TARP program to "Help address *urgent* problems facing homeowners at the center of the housing crisis" [emphasis added]. The White House announcement also states that HHF will respond to "the most *pressing* problems" in those communities [emphasis added]. On June 23, 2010, Treasury announced that it had approved state plans to use HHF funding, including HHF Florida, stating that the first round of HHF states now could roll out their specific Hardest Hit Fund programs to provide relief to struggling homeowners "*as soon as possible*" [emphasis added]. On August 4, 2010, Treasury announced that it had approved the second round of HHF states to begin using HHF funds, with Treasury's Assistant Secretary for Financial Stability Herbert Allison stating, "[W]e are committed to doing everything we can to *immediately* help those who are hurting the most *during these tough times*" [emphasis added].

Each quarter Treasury has seen in HHF Florida's reports that it is underperforming in comparison to other states, but does not do all that it can do to conduct effective oversight as was promised. Treasury describes its role more as a collaborator with the state HFAs. Treasury's HHF Program Director told SIGTARP, "There is so much going on that we just can't see based on a quarterly performance report." Treasury's HHF Program Director told SIGTARP that she talks to the states every day. She described in a Treasury blog how "participating states and Treasury have worked together to develop and implement" HHF, explaining:

> Treasury and other stakeholders have communicated constantly, sharing best practices, implementing new ideas, and refining programs and outreach campaigns. This collaboration and flexibility have helped states respond to changes in housing markets, local economies, and industry dynamics, and as a result, improve the quality of assistance provided to homeowners. Treasury has also worked with participating states to identify barriers to program success and make appropriate changes quickly so programs continue to grow.

This collaboration is not memorialized. Treasury's HHF Program Director told SIGTARP that if it's not working, the state HFAs tweak it, and Treasury's role is to support them in those efforts.

Rather than requiring state HFAs to have metrics used to measure program *effectiveness* against stated objectives as Treasury said it would conduct its oversight, senior Treasury officials instead look for improvement more generally. Treasury HPO Chief McArdle told SIGTARP in 2013, "What we push states to do is to continuously improve. So you either make a change to your program, you show steady growth quarter to quarter. You do one or the other. And you know, basically Florida followed that thing." Success from continuous improvement that is not defined results in:

- No target of success for HHF Florida to aim for.
- No baseline to measure HHF Florida's performance against.
- No standard for accountability of Treasury or Florida's HFA.
- Lack of useful information and insight into areas where the program's effectiveness can be improved mid-course, rather than at the end of HHF when it is too late.

The one time Treasury set a goal for HHF Florida, the program's effectiveness improved, only for it to slip again, under Treasury's watch. In November 2012, Treasury required HHF Florida to nearly triple the number of homeowners HHF assisted each month from an average of 278 to 750 homeowners. This goal spurred Florida's HFA to reach for a target without diminishing their ability to innovate and tailor HHF programs to that state's needs. On the contrary, it enabled both Florida's HFA and Treasury to ensure that innovation was implemented in such a way that the program could be more effective. However, Treasury allowed HHF Florida to slip from this goal. Between October 2012 and March 2015, HHF Florida assisted an average of 534 homeowners each month – 216 fewer than Treasury's goal. Only once, in the third quarter of 2013, did HHF Florida achieve the goal of an average of 750 homeowners helped a month, and did not meet this target in any other quarter. Treasury missed an opportunity to hold itself and HHF Florida continuously accountable for maintaining improvement.

The one goal that Treasury does track is whether HHF Florida will use their allocated $1 billion in TARP funds by the program end; after five years, HHF Florida only used half of the allocated TARP dollars in a 7-year program. Treasury HPO Chief McArdle told SIGTARP, "I believe they're going to utilize their funds with [the HHF principal reduction program]." Using up allotted TARP funds by a 7-year deadline does not necessarily mean that HHF Florida is effective in addressing the "urgent" and "pressing" needs of Florida homeowners "as soon as possible" as the Administration and Treasury announced.

Unfortunately, for some homeowners HHF help may come too late. As the next section of this report describes, many Florida homeowners needed HHF assistance the most at the height of the crisis when Floridians were hit hardest.

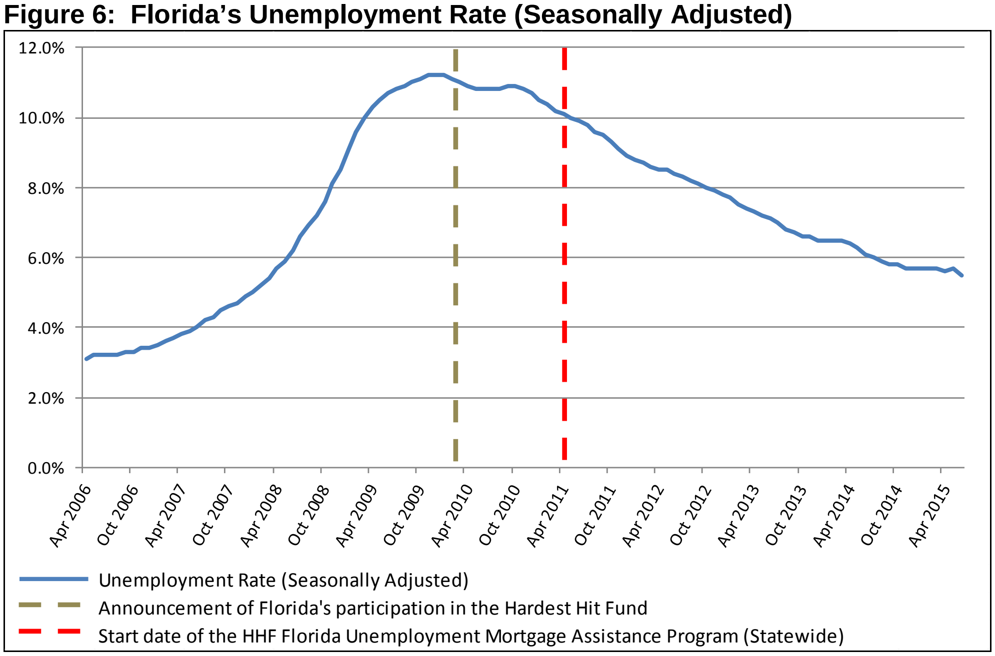
Several Factors Contributed to Hardest Hit Fund Florida's Slowness in Getting Assistance to Homeowners and Lack of Effectiveness During the Height of the Crisis When Florida Homeowners Needed it Most

Hardest Hit Fund Florida was slow in getting assistance to homeowners and lacked effectiveness during the first years of the program, which was the height of the crisis, when Florida homeowners needed it most.

Plagued by a Lack of Comprehensive Planning by Treasury, Which Waited for Florida's HFA To Get Large Servicers To Participate, the Hardest Hit Fund Florida was Slow To Reach Homeowners

Florida started 2010 with an 11.8% unemployment rate, but unemployed homeowners would have to wait more than one year before the statewide rollout of HHF Florida unemployment assistance.[17] By then, Florida's unemployment rate although still high at 10.1% had already started to improve.

Figure 6: Florida's Unemployment Rate (Seasonally Adjusted)



Source: SIGTARP analysis of Bureau of Labor Statistics data.

[17] *See* SIGTARP, "Factors Affecting Implementation of the Hardest Hit Fund Program," April 12, 2012 Appendix I for Treasury's calculation of unemployment for Florida, related to Treasury's selection of Florida for the first round of HHF.

SIGTARP found that the same factors that contributed to the Hardest Hit Fund's significant delay in assisting homeowners nationwide, applied to Florida, including a lack of comprehensive planning by Treasury that led to delay and limitation in participation in the program by large servicers and the Government-sponsored enterprises (GSEs) (Fannie Mae and Freddie Mac).[18] Florida's HFA Director of Homeownership Programs told SIGTARP in 2011 that the primary challenge with implementing HHF Florida was the lack of big servicer participation.[19] He told SIGTARP in 2011, "The one billion dollars has been a nice carrot to use for servicers in Florida, but there is no stick with the carrot to force servicers to participate," and that if Treasury had a stick to use on servicers, they had not used it.[20]

SIGTARP found in its 2012 audit that Treasury's delay in securing support from large servicers and the GSEs was a planning and execution error.[21] Treasury's HPO Chief Mark McArdle told SIGTARP that Treasury expected states to talk with servicers and find out what worked, and "we wanted to let that process work out." Treasury knew that the process was not working and that as a result, HHF programs were not rolling out. Treasury's HPO Chief told SIGTARP, "what servicers wanted to do, maybe states didn't want to do, and what states want to do, servicers didn't want to do." Treasury HPO Chief McArdle told SIGTARP that servicers were coming to Treasury and saying that they could have maybe worked with one or two states, but now there were 19, "and so we knew we had to change the game." He told SIGTARP:

> By the summer of 2010, as the program got larger, we intervened. And we held this summit, we said, "All right. You guys can still do your innovation, but let's at least all agree on the template, though, for one basic program." So that was a little different than how we operated before. We basically said, "All right. Can we all agree to do this?" And everyone did agree to do that. And that program started to gain significant traction.

HHF states did not gain traction on their own, and there was no traction until Treasury intervened to "change the game." Treasury did not gain GSE support for HHF programs for eight months, until October 2010, and even then GSE guidance to servicers only supported unemployment or reinstatement programs.[22]

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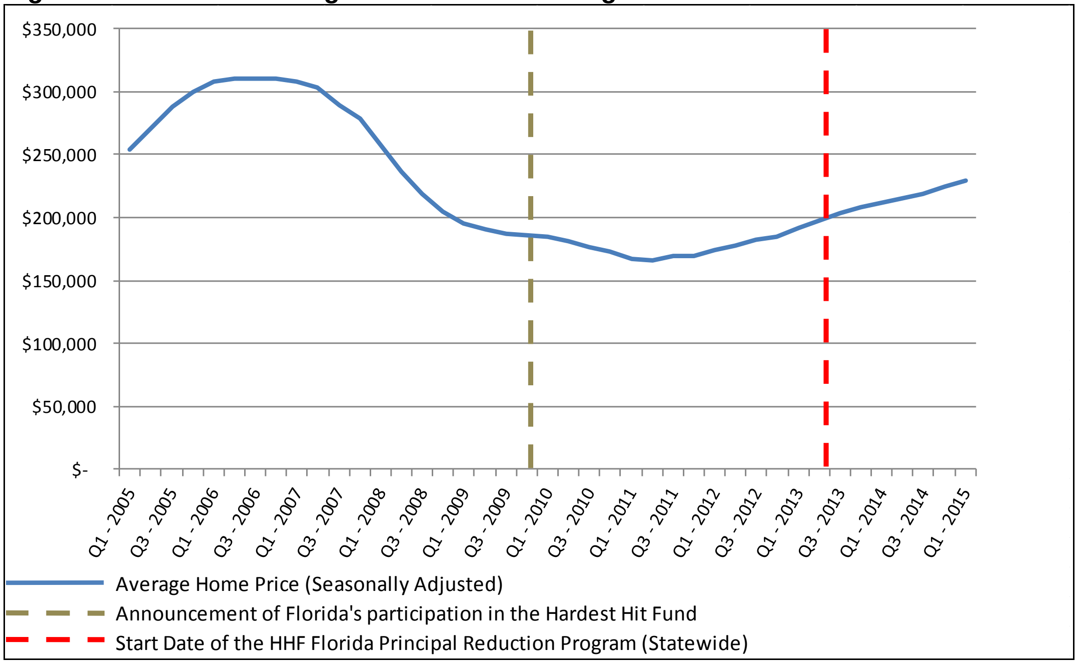
[18] *See* SIGTARP, "Factors Affecting Implementation of the Hardest Hit Fund Program," April 12, 2012.
[19] Florida's HFA delayed its pilot launch to October 2010 because large servicers were not participating, and they only launched with one servicer. Florida's HFA explained, "Without big servicers, it would take much, much longer to get the funds out, with just community banks and credit unions. It would be a trickle of eligible applicants. Without the big servicers, we would only be able to help about 50%" of the applicants the HFA had originally estimated. *See* SIGTARP, "Factors Affecting Implementation of the Hardest Hit Fund Program," April 12, 2012, page 21.
[20] *See* SIGTARP, "Factors Affecting Implementation of the Hardest Hit Fund Program," April 12, 2012, page 19.
[21] *See* SIGTARP, "Factors Affecting Implementation of the Hardest Hit Fund Program," April 12, 2012, page 19.
[22] These programs require no financial sacrifice from the servicers or investors. The GSEs did not support principal reduction.

A senior Florida HFA official told SIGTARP that there was no hint of big servicer participation until Fannie/Freddie put out guidance. Treasury's intervention to "change the game" did not take away each state's ability to tailor solutions to local problems, but instead made HHF more effective. In 2011, a Florida HFA senior officer told SIGTARP that Treasury's servicer summit was the first big step and that FHFA, the GSEs, the big servicers, and the first 10 states looked to Treasury "to instigate this improvement." Florida's HFA told SIGTARP that only after the summit did Fannie Mae and Freddie Mac issue the guidance directing servicers to accept HHF funds for their loans.

For the First Three Years (February 2010 – September 2013), There Was No Hardest Hit Fund Targeted Assistance to Underwater Homeowners in Florida

SIGTARP found that despite choosing Florida as one of the first HHF states because it had the third highest home price decline in the nation at 37.4%, the Hardest Hit Fund in Florida suffered from a lack of comprehensive planning by Treasury to provide assistance to underwater homeowners hit hard by home price declines (those with negative equity) during the first three years when home price declines were at their highest.[23]

Figure 7: Florida's Average Home Prices During the Financial Crisis



Source: SIGTARP analysis of FHFA, House Price Index Datasets, accessed August 7, 2015.

[23] Treasury's concerns over high home price declines and unemployment in Florida were so great, that it would select Florida in three of four HHF rounds.

Treasury did not take action to ensure that HHF Florida was effective in targeting underwater homeowners until November 2012, when Treasury intervened to change the game.[24] There was no HHF Florida program targeted to underwater homes for the first three years (February 2010 – September 2013). In fact, Treasury allowed HHF Florida's only programs to deem ineligible any unemployed/underemployed homeowner who was significantly underwater (loan to value ratio exceeding 200%). Rather than propose and pressure Florida's HFA to start a program targeting underwater homeowners, Treasury left it to Florida's HFA, acting deferential, and only taking action in reaction to a state HFA's request.[25] SIGTARP issued its April 2012 report that called into question whether HHF would be able to reach underwater homeowners given the fact that 98% of the assistance provided to homeowners was for unemployment or reinstatement of past-due amounts. After SIGTARP's report, Treasury proposed and pressured Florida's HFA to start a program for underwater homeowners. Treasury's approach of leaving the effectiveness of HHF Florida to Florida's HFA was a lost opportunity for HHF to help homeowners facing declining home values at the worst time. By September 2013, when HHF Florida started principal reduction, home values had already increased by more than 22% from second quarter 2011 lows.

For the First Two Years, Nearly Half of All Who Completed an Application for the Hardest Hit Fund in Florida Were Denied as Ineligible

SIGTARP found that the first two years of HHF Florida were plagued by the fact that nearly half (45%) of homeowners who applied were denied because they fell outside eligibility requirements. According to HHF Florida's data, of the 27,541 Florida homeowners who were able to complete their HHF applications by April 1, 2012, Florida's HFA denied nearly half (45%) as ineligible. Although Treasury does not require HHF states to report on the reasons homeowners were denied, Florida's HFA compiled information on the denial reasons as of April 1, 2012, in advance of an April 27, 2012 Florida HFA board meeting. According to this Florida HFA data as of April 1, 2012, the most common reasons why Florida's HFA turned 12,516 homeowners down as ineligible were as follows:

[24] A senior Florida HFA official told SIGTARP in 2011 that Treasury told the states to tailor HHF to their state circumstances to best address foreclosures. Treasury's directive was for these states to develop innovative housing programs tailored to their local conditions to help prevent foreclosures and stabilize housing markets. Treasury approved HHF for five categories of assistance: (1) principal reduction; (2) second-lien reduction of payoff; (3) reinstatement through payment of past-due amounts; or (4) unemployment/underemployment assistance; or (5) transition assistance such as a short-sale (when the home is sold for less that the mortgage loan balance), deed-in-lieu of foreclosure (where the homeowner transfers ownership to the lender or investor), or relocation assistance. Each state HFA could offer multiple programs under HHF, with Treasury approval.

[25] Treasury knew that principal reduction was difficult at that time because the GSEs did not support it. Former Treasury HPO Chief told SIGTARP that principal reduction is difficult and Treasury encouraged individual HFAs to work on principal reduction within servicers' non-GSE book. Given the problems that individual states had already had with the large servicers, it should have been apparent to Treasury that states would have a hard time gaining traction on their own and would need Treasury's intervention.

TABLE 2

REASONS FOR INELIGIBILITY OF FLORIDA HHF APPLICANTS

Ineligibility Reason	Number of Homeowners Denied
Does not have a qualifying hardship (unemployment or underemployment) that is no fault of their own	3,944
First mortgage is more than 180 days past-due	2,929
Homeowner cancelled application	2,704
Monthly housing expenses including first mortgage plus taxes, insurance, and HOA dues less than 31% gross monthly income	2,157
Did not obtain mortgage loan on or before 1/1/09	1,641
Combined loan to value exceeds 200%	1,072
Home is a condo and is not on the Fannie Mae/FHA approved list	821

Source: Florida HFA Board of Directors data as of April 1, 2012.

Treasury did not do all that it could to stop HHF Florida's high rates of denying homeowners. Treasury did not set a target denial rate for HHF Florida, or require that HHF states report publicly on denial reasons and the number of homeowners denied for each reason. Treasury's HPO Chief McArdle told SIGTARP that Treasury asked Florida about their high rejection rate, and in 2011, focused on the "pull through rate" – the number of applications funded compared with withdrawn or denied. He told SIGTARP that Treasury looked very closely at the reasons why homeowners were denied in Florida. He explained that part of the rejection reason was that HHF Florida had a rule that a homeowner could not be more than some number of months in arrear which rejected a large number of borrowers. HPO Chief McArdle explained that because Florida has a long foreclosure timeline, there were an abnormal number of people in that bucket. Treasury's HPO Chief McArdle told SIGTARP, "as long as they have – state a justification, you know, we're trying to basically help people who can still be helped."

Treasury could have taken action to propose or pressure Florida's HFA to remove the second largest eligibility requirement leading to denials that a homeowner could not be more than 180 days delinquent. As of April 1, 2012, a total of 2,929 Florida homeowners had been denied based on that reason. After SIGTARP released its April 12, 2012 report, Florida's HFA board voted two weeks later, on April 27, 2012, to eliminated that requirement, and allow those denied to be reconsidered. This would cause a backlog of application reviews, and some homeowners may not have had the luxury of time.

After SIGTARP's report, Florida's HFA removed other eligibility requirements, including that the mortgage had to be originated prior to January 1, 2009, a loan-to-value ratio could not exceed 200%, and that a condo had to be on a Fannie Mae- or FHA-approved list. These eligibility requirements accounted for half

(6,463 homeowners) of all 12,516 homeowners who had been previously denied. HHF Florida's effectiveness to reach additional homeowners improved.[26] Still, however, HHF Florida's homeowner denial rates reported for the years ended March 31, 2013 and 2014 were 38%, much higher than the national average.

Treasury Allowed Florida To Decrease the Duration of HHF Unemployment from 18 Months to 6 Months Despite Treasury Knowing that Unemployment was 27 Weeks or Longer, and that Treasury Allowed Extended Unemployment Assistance in HAMP

The effectiveness of HHF assistance to unemployed and underemployed Florida homeowners suffered early on due to a lack of comprehensive planning by Treasury to ensure that the assistance lasted long enough for a homeowner to become reemployed at a level where they could afford to pay their mortgage, as stated in Treasury's term sheet for HHF Florida. Initially homeowners could receive 18 months of unemployment assistance based on the average number of months that individuals received unemployment benefits. Around December 2010, Treasury allowed Florida's HFA to drop the length of assistance to six months, effective March 2011.

Treasury should have identified the risk that six months would be too short a time for Florida homeowners to regain employment at an income where they could afford to pay their mortgage. SIGTARP identified this risk for HAMP on April 20, 2010, recommending that Treasury extend the duration of its unemployment program in HAMP stating:

> One prominent feature of this recession is an unusually high degree of long-term unemployment. According to the Bureau of Labor Statistics….nearly 43% of unemployed workers have been out of work for 27 weeks, a length of time longer than the six-month contemplated maximum for unemployment assistance….large numbers of unemployed homeowners may still be unemployed at the end of the forbearance period….For the fortunate who quickly find jobs, the program [HAMP's UP] may be an important lifeline. But for the rest, the forbearance time period will end before a job is found, their unpaid amount will still be owed, and they will still face an unaffordable mortgage with a principal balance that has been made higher by the

[26] SIGTARP found that the first two years of HHF in Florida were plagued by high numbers of homeowners with incomplete applications. As of April 1, 2012, two years after the program's announcement, 41,406 Florida homeowners had applied for HHF, but one-third of them (13,865) had incomplete applications – defined as applications that homeowners have begun to fill out, but are not yet completed. A completed application was one where the homeowner had finished filling out an online application even if required documentation supporting the application had not necessarily been provided.

> unpaid interest amounts during the forbearance period, potentially eliminating equity for some and plunging others even deeper underwater. In light of this reality, Treasury should consider implementing a program with a longer minimum term and that will have a broader impact. Although no program will assist all unemployed borrowers, Treasury should strive for a program that will at least assist the typical unemployed borrower.

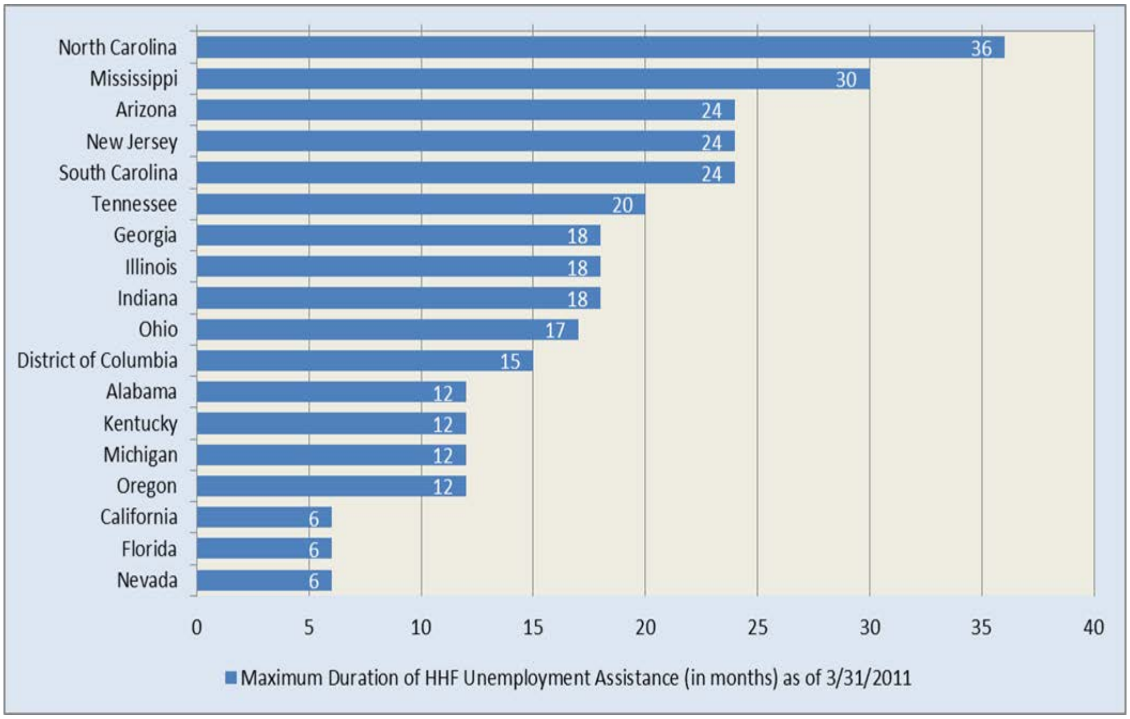
In May 2010, Treasury sent a letter to SIGTARP citing to the Bureau of Labor Statistics data showing unemployment of 27 weeks or longer, and saying that Treasury gives servicers the discretion to extend the forbearance beyond 3 months with no set limit.[27] Months later, Treasury allowed HHF Florida to decrease the length of assistance from 18 months to 6 months.[28]

Treasury knew that six months was the shortest duration of unemployment assistance provided in HHF at that time.

[27] In July 2011, Treasury formally adopted a SIGTARP recommendation and extended the minimum forbearance to 12 months.

[28] See Letter from Treasury to SIGTARP, May 20, 2010, republished in SIGTARP, Quarterly Report to Congress, Appendix G, July 21, 2010.

Figure 8: Maximum Duration of HHF Unemployment Assistance by State as of 3/31/2011



Source: SIGTARP analysis of various Hardest Hit Fund program amendments from individual states, which can be obtained from the Treasury Department's Hardest Hit Fund - Archived Program Information website at http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/hhf/Pages/Archival-information.aspx?Program=Hardest+Hit+Fund, accessed 8/11/2015).
Note 1: The maximum duration of HHF unemployment assistance provided by Rhode Island was not capped at a number of months, but rather however long it took the homeowner to go through the $6,000 of assistance the program provided.
Note 2: Several states only provided the maximum benefit period to homeowners in highly distressed counties, or to homeowners who participated in qualifying job training or education programs.

Rather than ensure that HHF Florida's unemployment assistance would be long enough to be effective – "for homeowners to become re-employed at a salary that is sufficient for them to either resume making full mortgage payments or qualify for a mortgage modification" – as Treasury's term sheet stated, Treasury adopted a deferential position to the state HFA despite Treasury's knowledge. Treasury HPO Chief Mark McArdle told SIGTARP that Florida HFA did not ask Treasury for guidance on this change. He said that Treasury did as it always did, ask for the rationale and reason, and Florida HFA's reason was that lowering the assistance would help the money go farther to help more people. Treasury's HPO Chief McArdle told SIGTARP, "Now, this is totally something the state can decide." He said that Treasury leaves it to the states that are closer to the situation to decide, and the state did have a stated rationale.

Treasury would again miss an opportunity 10 months later, in October 2011, when it approved California and Nevada to extend (9 months for California, 12 months for Nevada). This left HHF Florida with the shortest duration; however, Treasury took no action.

The deference Treasury gave to Florida's HFA in leaving it to the state had serious consequences. After SIGTARP's 2012 report, Florida's HFA found, "the six-month duration of this program is not sufficient time for homeowners to achieve a successful outcome."[29] In April 2012, Florida HFA reported that only 11% (208) of 1,904 Florida homeowners who received and exited HHF unemployment assistance regained employment at a level that made their mortgage affordable. This brings into question whether the remaining 89% of Florida homeowners who exited the program continue to struggle to find employment at an income where they could afford their mortgage.

[29] HHF in Florida also provided $6,000 in HHF to reinstate past-due mortgages for homeowners who found employment. However, typically those same homeowners had also been in the unemployment program and were considered delinquent by their mortgage servicer while in that program, leading to arrearages over $6,000. It was not until April 2012 when Florida's HFA internally stated that the $6,000 cap was often quite insufficient to bring the loan current and suggested increasing the HHF funds from $6,000 to $25,000.

Treasury Took Some Strong Oversight Action in Response to SIGTARP's 2012 Report and Recommendations To Hold Treasury and the Florida Housing Finance Agency Accountable and Make HHF Florida More Effective

Two weeks after SIGTARP's report, on April 27, 2012, the board governing Florida's HFA voted to make changes:[30]

- Eliminate certain eligibility requirements.
- Loosen income requirements.[31]
- Reconsider homeowners previously denied.
- Increase unemployment assistance to 12 months (capped at $24,000). HHF Florida made the change retroactive to convert those already getting that assistance. As explained by Treasury's HPO Chief McArdle, "that totally froze up their operations."
- Increase up to $18,000 HHF payment to reinstate a delinquent mortgage (total assistance capped at $42,000).
- Increase up to $25,000 in HHF funds as a one-time payment to bring current a past-due mortgage for homeowners who returned to work or recovered from underemployment.[32]

Following SIGTARP's report, Treasury increased oversight of HHF by both: (1) Treasury's program and policy group and (2) Treasury's compliance group. On June 14, 2012, Treasury released the results of its on-site compliance review at Florida's HFA looking at 75 loan files.

- Treasury found that Florida's HFA lacked documented processes or adequate controls to monitor the advisor agencies to ensure program requirements were being met. Treasury stated, "Without a regular review of approved and denied loans, the HHF cannot assess the accuracy and effectiveness of these processes."
- Treasury found that Florida's HFA did not have a clear definition of what qualified as substantial underemployment (the required level for HHF assistance).
- Treasury found insufficient documentation to support the calculation of income, calculation of loan-to-value ratio, or reason for denial.

[30] The changes were announced on June 27, 2012, after Treasury's approval.
[31] Florida HFA's board also changed threshold income from limiting it to homeowners with housing expenses less than 31% gross monthly income to require that there be at least a 10% reduction in income for a hardship.
[32] On May 30, 2012, Florida's HFA decreased its estimates from helping 53,000 homeowners in each of its HHF unemployment and reinstatement programs to helping 45,000 homeowners in each program.

In November 2012, the State of Florida Auditor General issued a report to Florida's HFA, which found that improved monitoring of the advisor agencies' eligibility determination processes was needed. Florida's Auditor General stated that absent effective monitoring, advisor procedure weaknesses and instances of noncompliance with contractual requirements may escape timely detection.

Following SIGTARP's report, in November 2012, Treasury's program and policy group took strong oversight action to hold itself and Florida's HFA accountable for HHF Florida performance. Treasury's HPO Chief told SIGTARP that Treasury realized that HHF Florida was not looking that good at the end of 2011, and told Florida's HFA, "Maybe it's time you think about lengthening assistance, widening the net a bit." On November 20, 2012, Treasury issued an Action Memorandum to Florida's HFA targeting:

(1) Florida's low number of homeowners assisted, which averaged 375 homeowners per month.
(2) Florida's low ratio of approved homeowners to denied homeowners.[33]
(3) Florida's inadequate staffing levels.[34]
(4) Florida's focus on unemployment and reinstatement, with no program to address negative equity or long-term affordability issues.

By taking strong action, Treasury was able to bring effective change to HHF in Florida to start providing HHF assistance to underwater homeowners. Treasury would change their deferential approach to one of putting pressure on Florida's HFA including telling Florida HFA that they had no HHF assistance to address negative equity or long-term affordability issues. Treasury's HPO Chief McArdle explained to SIGTARP that Treasury "gave them pressure over time saying, you know, perhaps you should consider changes to your program because you're not—you weren't—one of the things we asked about was the sustainability of assistance." He said that Florida's HFA did come up with changes eventually.

In its Action Memorandum, Treasury asked Florida for a written plan and set a minimum benchmark for Florida's HFA to meet a goal of an average 750 funded homeowners a month with action steps to achieve that goal. Treasury warned, "If Florida Housing fails to achieve these goals, Treasury will consider additional steps, including possible remedial actions, to improve performance." Treasury ended by stating that "Florida still faces elevated unemployment, high

[33] Treasury found that during the third quarter of 2012, Florida's HFA had assisted 833 borrowers and had a pull through rate of 26.3%. The pull through rate is essentially the ratio of approved homeowners to denied homeowners. Treasury told Florida's HFA that they "must achieve a combination of high volumes and a higher ratio of approved homeowners to denied homeowners."

[34] Treasury expressed concern over Florida's HFA's staffing level noting that on average other HHF states had one position for every $9 million allocated, but in Florida it was one position for every $31 million, almost double the next highest allocation amount per position.

delinquency rates, and oppressive negative equity…" and "It is urgent that [Florida's HFA] take steps now to increase volume while the need is still critical."

Improvements After Treasury Intervened To Take a Stronger Role Following SIGTARP's 2012 Report Prove that Stronger and More Proactive Treasury Action in HHF Leads to Stronger HHF Performance

Treasury's prior lack of action to demand accountability and ensure the effectiveness of HHF did not work for HHF Florida. Treasury's HHF Program Director told SIGTARP that states get to design HHF programs and have the flexibility to roll it out and implement it, and if it's not working the states tweak it, and Treasury's role is to support the states, and ask questions and offer advice. However, improvements did not come until after SIGTARP's report when Treasury issued Florida the Action Memorandum. Treasury's HHF Program Director told SIGTARP that Treasury issued the Action Memorandum to Florida to say, "We're concerned about your performance. Here are some steps we'd like you to take, or we'd like you to respond to this memo with a proposed action plan or steps that you're going to take."[35]

Treasury officials describe the action they took with HHF Florida as "pressure" or "pushing." Treasury's HPO Chief McArdle told SIGTARP that Florida "made dramatic changes, under pressure." Treasury's strong action in 2012 brought improvements that show the benefit of Treasury conducting oversight to ensure HHF Florida is effective including:

- HHF Florida increased the number of homeowners receiving assistance, although it did not meet Treasury's targeted goal of helping 750 homeowners per month, and Treasury did not ensure that HHF Florida met this metric.
- There are now two HHF programs in Florida to address underwater homes and long-term affordability.
- Treasury started a principal reduction program for current homeowners with underwater homes. Treasury HPO Chief McArdle explained, "Within a week they filled 25,000 slots. So what we pushed them to do was just that, and they've done it." HPO Chief McArdle told SIGTARP that "Florida had…current borrowers who were underwater who did the right thing and paid their mortgage. They designed a program to address that population that had tremendous demand."
- Treasury required Florida HFA to recast the mortgage after the principal reduction that would result in a reduction in the mortgage payment.
- Treasury was "instrumental" in bringing Ginnie Mae to the table to discuss recasting the mortgages, according to Florida HFA.

[35] The only time Treasury issued a formal directive was to three other states (Arizona, Georgia, and New Jersey) around the time of SIGTARP's audit in 2012. Treasury's HHF Program Director told SIGTARP that Treasury has not issued a formal directive since the end of 2012.

Treasury publicly heralded the improvements in its March 2013 "TARP: Four Year Retrospective Report," stating, "As a result of recent program and operational changes made by state housing finance agencies working closely with Treasury, OFS expects the pace of assistance to accelerate throughout 2013."

Despite Improvements Made in 2013, HHF Florida Continues To Lag Behind Other HHF States in Effectiveness

Although there were improvements after Treasury intervened, HHF Florida continued to lag behind other HHF states in effectiveness. SIGTARP found several factors that contributed to this lag.

Implementation Issues Delayed HHF Florida Principal Reduction Assistance and Caused a Backlog

HHF Florida struggled with implementation issues that delayed homeowners from getting principal reduction assistance. The only way to apply for this assistance is through the web-based online application. Within the first week there was a flood of applications. Florida's HFA stopped accepting applications that week, after the first 25,000. It would take eight months for Florida HFA to clear the backlog of applications. Florida HFA did not reopen their system to accept applications again until May 2014.

According to Treasury's guidelines, Treasury intended to be involved in identifying and mitigating obstacles to program effectiveness, but Treasury did not do that here. Given that Florida was one of the states hit hardest by underwater homes during the crisis, and that this was the first HHF Florida program to target underwater homes, Treasury and Florida's HFA should have engaged in critical thinking to anticipate a flood of applications, and determine any obstacles in Florida's HFA being able to address them. Those obstacles could have been mitigated with additional staff. That type of comprehensive planning did not happen, despite Treasury's intention to identify and mitigate obstacles when it designed HHF.

When the program reopened, it had helped only 1,756 homeowners. A senior Florida HFA official told SIGTARP that there were issues with application withdrawals and incomplete applications. Treasury's HHF Program Director told SIGTARP that there were lots of applications from lots of people who were not eligible for the program, and so the approval rate is commensurately low.[36] As of December 31, 2013, Florida HFA estimated that the program would help 10,000 Florida homeowners. The Executive Director of Florida's HFA was quoted in the press that, "at the end of March, it became clear to us that given the folks who had been denied and those who reserved a spot but had no other activity, we would not be able to spend the $350 million."

[36] To be eligible, a homeowner must be underwater (defined as owing 125 percent or more in mortgage debt compared to the current value of the home), the homeowner must owe less than $350,000 in outstanding home debt, and must earn a household income that is below 140% of the area median.

Florida HFA's decision to stop accepting applications after the first 25,000 could have had serious consequences to homeowners who may have been eligible but were kept from applying, and therefore, could not tell their mortgage servicer that they had applied for HHF assistance. A senior Florida HFA official told SIGTARP for homeowners who are in the HHF underwriting process, that Florida's HFA communicates with servicers and judges to explain that certain homeowners are potentially eligible for HHF assistance to stop foreclosures. That official explained to SIGTARP that whether the foreclosure process stops depends on the judge and the servicer, but that some servicers may delay foreclosure. That official told SIGTARP that Treasury does not require HFAs to report on issues related to foreclosures. Treasury's HHF Program Director addressed dual tracking with SIGTARP, saying "Oftentimes, servicers receiving funds through the Hardest Hit Fund's side of their organization, those folks may not be fully communicating with the legal foreclosure side of the organization. This has been well documented across the board since loss mitigation programs have been in place." Dual tracking is something that Treasury must monitor in HHF. However, a homeowner who does not have a chance to even apply to a program potentially can be single tracked to foreclosure.

With such a great demand, HHF Florida principal reduction can address a great need for Florida homeowners with underwater homes, but only if it operates effectively. Nearly 5,000 Florida homeowners have already received assistance.

TABLE 3

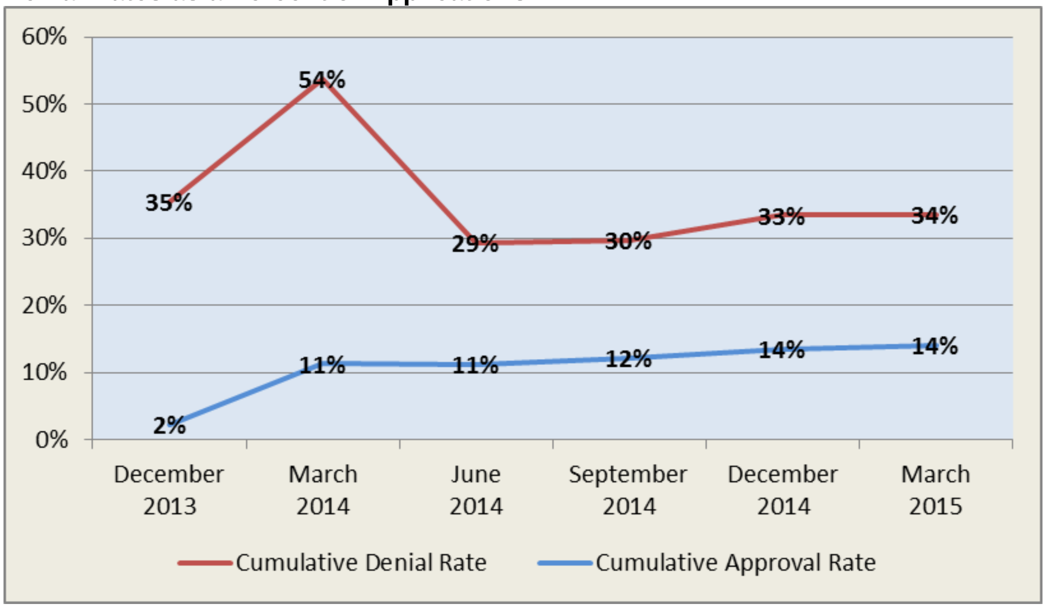
PERFORMANCE OF HHF FLORIDA'S PRINCIPAL REDUCTION PROGRAM

Quarter Ended	Homeowners Assisted During the Quarter	Cumulative Homeowners Assisted Through the Quarter
December 31, 2013	394	394
March 31, 2014	1,362	1,756
June 30, 2014	995	2,751
September 30, 2014	1,048	3,799
December 31, 2014	709	4,508
March 31, 2015	461	4,969

Source: SIGTARP analysis of Treasury's Quarterly Performance Report data for HHF Florida's Principal Reduction Program.

However, according to Treasury data as of March 31, 2015, only 14% of homeowners who apply for HHF Florida principal reduction have received assistance, and more than one-third of homeowners have been denied.

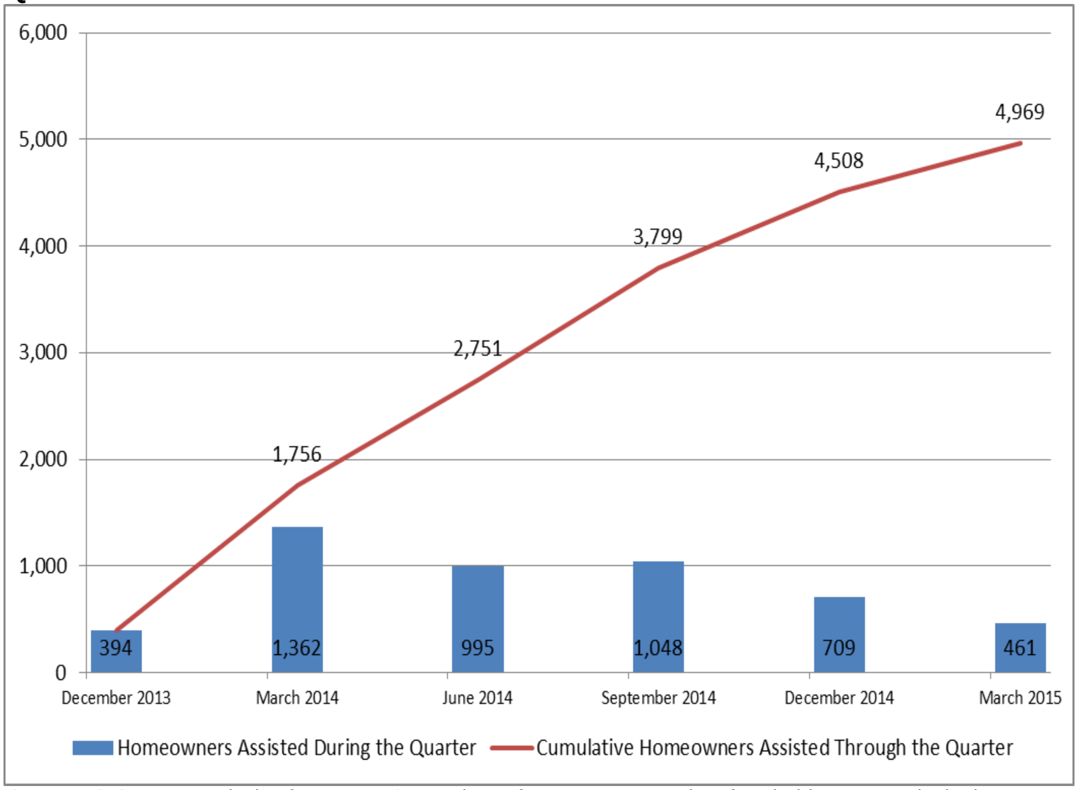
Figure 9: HHF Florida Principal Reduction Program – Cumulative Approval and Denial Rates as a Percent of Applications



Source: SIGTARP analysis of Treasury's Quarterly Performance Report data for Florida's HHF Principal Reduction Program.

The need for assistance for underwater homeowners is so great an issue in Florida that Treasury should be actively engaged each quarter, and not wait to take action to ensure that HHF Florida operates in the most effective manner. Already, fewer homeowners have received assistance in the last two quarters compared to prior quarters. Further, it is taking longer for Florida homeowners to get help from this program than it did in the past. According to Treasury's March 31, 2015 data, this past quarter showed that it took a median of 210 days for a homeowner to get this assistance, longer than the median of 154 days in the year and a half since the program started.

Figure 10: Florida Homeowners Receiving HHF Principal Reduction Assistance by Quarter and Cumulative



Source: SIGTARP analysis of Treasury Quarterly Performance Report data for Florida's HHF Principal Reduction Program.

Treasury has set no goals for this program other than to spend $350 million in TARP funds. Given that it took so long for HHF Florida to have a program that targeted underwater homeowners, there is no time for Treasury to wait to ensure that this assistance is effective.

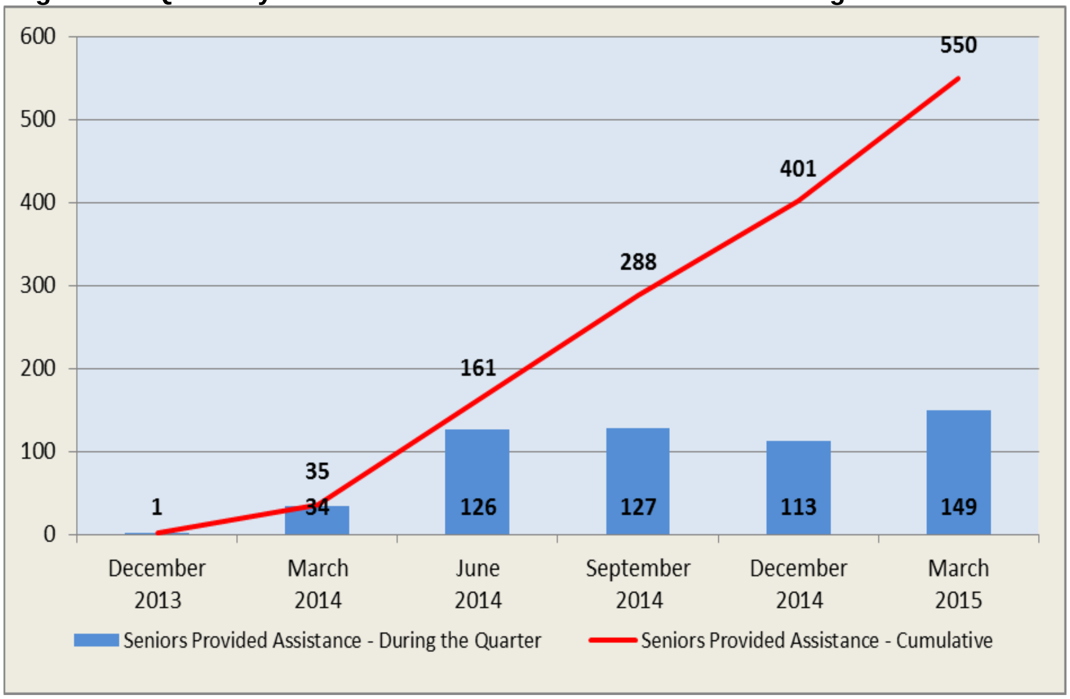
The HHF Program for Senior Citizens Has Struggled in Part Because Seniors Had Difficulty Applying and Providing Necessary Documentation

SIGTARP also found that Florida lags behind other states because both Treasury and Florida's HFA lacked comprehensive planning to identify and mitigate obstacles that Florida seniors with reverse mortgages facing problems applying to the program and providing necessary documentation. Beginning in November 2013, this $25-million HHF program helps Florida seniors with reverse mortgages and limited means who have suffered a hardship, avoid foreclosure due to their inability to pay taxes, insurance, or homeowners association fees.[37] Estimated to

[37] To be eligible, the senior must have liquid assets under $48,000 and a household income no more than 140% of the area median income.

help 2,500 seniors, the program was slow to get help to seniors, a population that does not have the benefit of time.

Figure 11: Quarterly Performance of HHF Florida's ELMORE Program

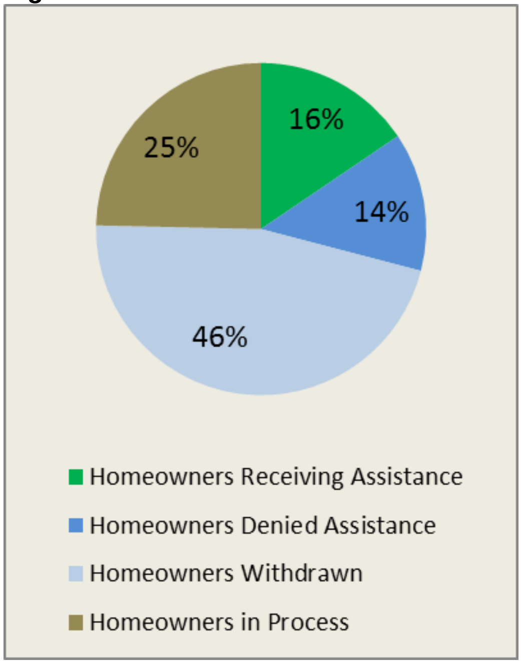


Source: SIGTARP analysis of Treasury's Quarterly Performance Report data for Florida HHF ELMORE program.

There have been two obstacles to seniors getting help from this HHF program, first that seniors had difficulty applying, and second that elderly applicants were not providing the required documentation. Treasury's HHF Program Director told SIGTARP that Treasury asked Florida's HFA about the number of applications and the number of homeowners approved and whether there were operational challenges. Florida's HFA told Treasury that they were having issues trying to reach seniors who are not sophisticated in applying and submitting documents online.

The obstacles that senior citizens were having trouble applying and submitting required documents may be one explanation to Treasury's data showing that 46% had their application withdrawn. However, Treasury should not assume, but instead dig into this number to understand it better and gain insight for improvement.

Figure 12: Status of Florida Seniors' HHF Applications



Source: SIGTARP analysis of Treasury's Quarterly Performance Report data as of March 31, 2015.
Note: Percentages do not total 100% due to rounding.

The obstacles senior citizens faced could have been identified earlier through comprehensive planning by Treasury and Florida's HFA before rolling out the program. According to Treasury's guidelines issued to the HHF states at the start of the program, Treasury intended to be involved in identifying and mitigating obstacles to program effectiveness, but Treasury did not do that here until later. Treasury's later intervention helped mitigate this obstacle, but for some homeowners it may have come too late. Treasury asked Florida's HFA to streamline their underwriting guidelines to what was necessary, which Florida's HFA did. Florida's HFA also began working with a state agency on aging to help seniors submit applications and required documents. Now the Department of Elder Affairs can go into the home of a senior citizen and help them gather the documents. This type of action by Treasury to bring about change shows how powerful the Hardest Hit Fund can be if Treasury requests improvement.

Treasury's action has brought some improvement, and the program has helped 550 seniors (still only 22% of those estimated to be helped). Seniors apply by calling a toll-free phone number where a live person can advise and assist them, and staff from the Area Agencies on Aging may assist seniors with gathering and submitting documents.[38] A senior Florida HFA official told SIGTARP that even with the applications being taken by telephone instead of requiring an online application, the biggest delay is being able to obtain the proper documentation.

[38] According to Florida's HFA website, the only way to apply for the Florida ELMORE program is to use the toll-free ELMORE Application and Information Line at 1-(800) 601-3534 to speak to a certified ELMORE advisor.

TABLE 4
PERFORMANCE OF HHF FLORIDA'S ELDERLY MORTGAGE ASSISTANCE PROGRAM

Quarter Ended	Seniors Provided Assistance - During the Quarter	Seniors Provided Assistance - Cumulative	Days to Obtain Approval (Median)	Progress Toward Program Goal
December 31, 2013	1	1	36	0%
March 31, 2014	34	35	88	1%
June 30, 2014	126	161	134	6%
September 30, 2014	127	288	199	12%
December 31, 2014	113	401	296	16%
March 31, 2015	149	550	280	22%

Source: SIGTARP analysis of Treasury's Quarterly Performance Report data for HHF Florida's Elderly Mortgage Assistance Program.
Note: The Days to Obtain Approval column represents median days for the quarter.

Treasury has no goal for the length of time Florida's HFA takes to process an application. Florida's HFA should view a targeted length of time to process an application not as an excuse to deny a homeowner, but instead as a target for their own improvement in helping homeowners make it through the approval process. With a median 280 days to obtain approval for this HHF assistance, Treasury will need to be actively involved to ensure that the program is moving as fast as it can to get help to Florida seniors who need the money now, not in 9 to 10 months.

The HHF Florida Two-year Pilot To Buy and Modify Pools of Mortgages Has Not Been Effective

SIGTARP found that Florida lags behind other HHF states in part because both Treasury and Florida's HFA lacked comprehensive planning in a program for a non-profit to buy mortgages on underwater homes and HHF to pay funds to modify those mortgages to identify the obstacle that the non-profit might not be the successful bidder at HUD sales. Started in April 2013, two years later, Treasury still refers to this program as a pilot program. Treasury approved Florida to use $50 million in TARP funds to modify mortgages of 1,500 Florida homeowners whose loans are part of a pool of loans purchased by a non-profit based in New Jersey named National Community Capital ("NCC") at a HUD-sponsored distressed sale. NCC would write down the principal balance to 115% of the current value of the home, and HHF would provide the homeowner with up to $50,000 to reduce the principal balance to 100% of the current value of the home. Treasury's term sheet with Florida's HFA estimated that the HHF money would be spent over two years. However, after two years, the program still remains in its pilot phase and has helped only 92 homeowners in two years – 6% of the 1,500 homeowners estimated to be helped. Florida's HFA told SIGTARP that this is because NCC is not the successful bidder at the HUD-sponsored sales.

TABLE 5

PERFORMANCE OF HHF FLORIDA'S MODIFICATION ENABLING PILOT PROGRAM

Quarter Ended	Homeowners Assisted During the Quarter	Homeowners Assisted - Cumulative	Progress Toward Program Goal
December 31, 2013	1	1	0%
March 31, 2014	7	8	1%
June 30, 2014	4	12	1%
September 30, 2014	19	31	2%
December 31, 2014	40	71	5%
March 31, 2015	21	92	6%

Source: SIGTARP analysis of Treasury's Quarterly Performance Report data for HHF Florida's Modification Enabling Pilot Program.

Treasury's HHF Program Director said Treasury asked Florida's HFA for insight. Treasury's HHF Program Director told SIGTARP that there may be a viable reason why Florida wants to continue to have a $50-million allocation ready for that program. HHF Program Director told SIGTARP that it takes time to engage borrowers, that this program has a very long tail. She told SIGTARP that Treasury is not at a point where they are going to say "shut it down" because they understand the lag. She told SIGTARP that the state has a tremendous amount of latitude to design and fund their own programs and elect how they wish to operate those programs, and if Florida feels that they've got a viable pipeline, "we have to give them a certain amount of latitude to manage that program, and we'll continue to ask them questions so that we can evaluate the efficacy of that particular program."

However, Treasury has not set any goals or measurable metrics to measure whether this program is progressing effectively. Treasury's lack of goals, and lack of any action to bring accountability for this program to be effective, does not come without consequence. The money for this program came directly from existing HHF unemployment assistance programs.

Treasury Must Ensure that the New Homebuyer HHF Program Progresses Effectively and Make Timely Changes To Ensure Effectiveness

In April 2015, for the first time in the history of HHF, Treasury approved a HHF program not for homeowners, but for new homebuyers. Treasury had previously rejected a HHF Florida homebuyer assistance program in 2010. Treasury's HPO Chief McArdle told SIGTARP in 2013, that Treasury rejected that program because it did not avoid a foreclosure to keep someone in their home, but instead was assisting other people to buy foreclosed homes, and that under EESA (the law governing TARP), it had to be before the foreclosure occurred or preventing a foreclosure somehow generally. Treasury is now allowing TARP funds to go to a first time homebuyer program, which is similar to a program that Florida's HFA was already participating in outside of TARP. The new HHF program would provide up to $15,000 to qualified homebuyers to pay down payments and closing costs. Initially, this program is only open to buy homes located in five counties: Brevard, Duval, Hillsborough, Orange, and Volusia.[39] Treasury must set goals for this program now, and set measurable targets that could be measured over time to ensure that this program is effective.

HHF Florida Has Vulnerabilities to Fraud That Treasury Should Strengthen

Although the Dodd-Frank Act precludes anyone convicted of a mortgage-related or real estate-related crime within the last 10 years from receiving HHF funds, Treasury is not doing enough to ensure that HHF complies with the Dodd-Frank Act.[40] Rather than conduct due diligence to ensure compliance with the Dodd-Frank Act, Treasury has shifted the burden to the homeowner to self-report in an affidavit affirming no mortgage fraud conviction within the past 10 years.

The Dodd-Frank Act precludes HHF assistance for persons convicted of mortgage-related crimes, not persons who *say* they were convicted of those crimes. It is not the homeowner's duty to comply with the Dodd-Frank Act, it is Treasury's duty. However, SIGTARP found that neither Treasury nor Florida does any due diligence to determine whether a homeowner applying for the

[39] Despite being labeled a first time home buyer program, a homeowner might be eligible even if they are not a first time homebuyer if they are a qualified veteran or are purchasing a home in a federally designated target area.

[40] Subtitle G, Section 1481(d)(1) of the Dodd Frank Wall Street Reform and Consumer Protection Act reads, "No person shall be eligible to begin receiving assistance from the Making Home Affordable Program authorized under the Emergency Economic Stabilization Act of 2008 (12 U.S.C. 5201 et seq.), or any other mortgage assistance program authorized or funded by that Act, on or after 60 days after the date of the enactment of this Act, if such person, in connection with a mortgage or real estate transaction, has been convicted, within the last 10 years, of any one of the following: (A) Felony larceny, theft, fraud, or forgery. (B) Money laundering. (C) Tax evasion."

Hardest Hit Fund has been convicted of a mortgage-related crime in the last 10 years, instead, relying entirely on homeowner self-reporting.[41]

The language in the self-certification makes clear that a Treasury background check is routine. The HHF self-certification statement says, "Treasury, or their agents may investigate the accuracy of my statements by performing routine background checks, including automated searches of federal, state and county databases, to confirm that I/we have not been convicted of such crimes." However, Treasury does not check, or require Florida's HFA to check, any database to see if a homeowner has been convicted of a mortgage-related crime.

Self-certifications serve an important function to deter fraud, and provide a law enforcement remedy where fraud is found, but they are not on their own sufficient to protect a TARP program from being vulnerable to fraud. Given SIGTARP's law enforcement authority, SIGTARP will criminally investigate anyone we find who lies on a certification for a TARP program. Unfortunately however, if discovered at all, the misrepresentation may not be found until after the applicant has received and spent the funds. The TARP funds paid to homeowners under HHF Florida are thousands of dollars. Recovery of TARP funds lost to fraud is not easy, and may not be successful if the person no longer has assets.

More should be done up front by Treasury and state HFAs to prevent the funds from being released to an ineligible applicant. Treasury has an obligation to ensure that those who are not entitled to participate do not receive funds that otherwise could go to eligible distressed homeowners. Treasury's oversight should be more than a check-the-box determination that the self-certification is a part of the file.[42] Treasury does more than rely on a homeowner's self-certification about their income, their assets, their mortgage, and the value of the home. Treasury requires due diligence to collect documentation to verify that a homeowner meets the other eligibility requirements – this eligibility requirement should be no different.

SIGTARP found that Treasury's oversight of Florida's HHF programs related to homeowner fraud certifications is lacking and leads to vulnerability to fraud. Treasury's HHF Program Director told SIGTARP that "[Treasury] does not perform criminal background checks to verify the accuracy of Dodd-Frank certifications for HHF programs." Florida HFA's Homeownership Director told SIGTARP that they did not have access to criminal databases to validate the certifications. The absence of a systematic process for detecting

[41] Information is limited even for those deemed ineligible due to a homeowner self-certifying as to a mortgage fraud conviction. Because Treasury does not require reporting on why a homeowner was denied, Treasury does not know how many applicants were denied for truthfully self-reporting their mortgage fraud offenses.

[42] A Treasury compliance official told SIGTARP that their compliance review consists of looking to see if the certification is included in the documentation for assistance but does not test for the truthfulness of the attestation.

misrepresentations made in the self-certifications means that most falsifications by an applicant would not be discovered.

Treasury should inquire into gaining access to criminal databases; however, even if they do not receive access, or before they gain access, convictions are public records, housed as Treasury's certificate says, in "federal, state, and county databases," typically readily available to search on the internet, or at least to request records that could come in a matter of days while Florida HFA advisor agents are processing the application. The Florida Supreme Court issued an administrative order allowing all county clerks to post records online. For example, the Clerk of the Court Miami Dade County has a "Miami-Dade County Criminal Justice Online System" where anyone can search by defendant name and click an option for "I wish to request a background check," The Lee County Clerk of the Court provides for an online criminal records request by defendant's name on their website.

Treasury's lack of any due diligence to ensure that HHF funds do not go to ineligible homeowners (those convicted of mortgage-related fraud) makes HHF vulnerable to potential fraud, and thwarts the intent of the Dodd-Frank Act. Taxpayers who funded HHF deserve more than reliance on a self-certification to protect TARP from fraud. The options available to comply with the Dodd-Frank Act are not complicated and would require that Treasury, or its agents at Florida's HFA, do what it says it does in the warning contained in the certification – conduct routine criminal record checks against federal, state, and county databases.

Treasury should also ensure that companies that state HFAs contract with, such as Florida HFA advisor agencies, who are paid with HHF funds, also are not run or staffed by felons convicted of mortgage-related crimes. For example, a Florida homeowner who had applied for HHF and not heard back became concerned. Her internet search revealed that the director of the advisor agency had been arrested and charged with organized fraud. An investigation by Florida HFA's Office of Inspector General confirmed the pending organized fraud charges and also confirmed that a record search of the Department of Business and Professional Regulation and the Office of Financial Regulation showed that in a 2009 final order, this director of the advisor agency had his real estate license and mortgage broker licenses revoked for committing fraud related to a residential mortgage transaction, and that the director had admitted to the fraud. Florida's HFA had no knowledge of this. Subsequently, Florida's HFA terminated their contract with this advisor agency.

To strengthen HHF even stronger against fraud, Treasury should also search not just for convictions, but also for arrests. Many county sheriffs maintain online records of arrest searches by name.[43] Treasury could put a notation with the homeowner's application if they have been criminal charged for mortgage-related crimes and are awaiting trial. HHF Florida has such long application processing times that the trial could happen prior to a decision to provide HHF assistance. A notation in the system reminds an advisor agent of Florida's HFA to go back and check to see whether the person has been convicted prior to HHF advancing the funds.

For example, an employee at an advisor agency read an article in a local newspaper about criminal charges brought against an applicant who was being processed for HHF funds. Florida HFA's Office of Inspector General conducted an investigation that revealed that the applicant had failed to disclose his subsequent arrest for fraud charges related to a more than $4-million investment fraud scheme involving more than 50 victims including many active or retired Florida school teachers and administrators. The scheme included conduct that could preclude his eligibility as it alleged that proceeds from the fraud had been used for personal gain to purchase commercial and residential properties. The applicant received his first HHF assistance just months after the indictment, and subsequently pled guilty to four felony counts for operating a sham investment fraud.

Finally, the exclusion in the Dodd-Frank Act is a minimum, and there could be other crimes for which a person is convicted that could make HHF vulnerable to fraud. A senior Florida HFA official told SIGTARP, "The only crime that prohibits someone from receiving HHF assistance is a conviction under Dodd-Frank for mortgage fraud." Florida might have better protected against potential abuse of taxpayer funds had it chosen to impose additional exclusion criteria. Treasury's HHF Program Director described the Dodd-Frank exclusion to SIGTARP as "pretty narrow." Besides the Dodd-Frank Act exclusion for mortgage fraud, HHF Georgia precludes aid to individuals where the applicant has any federal or Georgia tax liens and the home must be unencumbered by federal or state tax liens.

It is possible that individuals with other types of serious convictions could make HHF vulnerable to fraud. This could include persons convicted of a felony within the last 10 years for crimes of dishonesty unrelated to mortgages, such as embezzlement, forgery, bank fraud, welfare fraud, unemployment compensation fraud, and false statements. These types of crimes have the same concerns regarding integrity and truthfulness as the mortgage fraud exclusion, which should at a minimum require a more focused review to ensure the truth about statements of assets and income. For example, according to a 2014 Florida HFA Office of Inspector General investigative report, a homeowner who had applied for HHF in September 2012, claimed to be unemployed. A Google search of the

[43] For example, the Lee County Sheriff's website allows anyone to search arrest records by name http://www.sheriffleefl.org/main/index.php?r=crimeActivity/inmateIndex.

applicant's name reveals a July 23, 2012 press release by Florida Chief Financial Officer Jeff Atwater, Department of Education Commissioner Gerard Robinson, and State Attorney Stephen Russell of the 20th Judicial Circuit announcing the arrest of the applicant for misappropriating state funds, Federal grant funds, and donations of almost $1 million to fund his extravagant lifestyle, funds that were supposed to fund his prior employer, a Florida non-profit for disabled persons that later shut down where he served as the Executive Director. He was cleared for HHF underwriting in November 2012, but did not receive HHF funds only because he listed the wrong servicer, which delayed funding. He would later be sentenced to 39 years in prison. The arrest and charges were publicly available on Lee County records, but were not searched. That type of crime of misappropriating federal and state dollars should at a minimum require HHF Florida to conduct greater due diligence to ensure the truth about assets and income.[44]

[44] The Florida Housing Finance Corporation Office of Inspector General Annual Report for Fiscal year 2013 reported on one investigation where they found a HHF recipient received funds who had been reported about in the Tampa Bay Times and had been "subject to several previous fraud investigations, charges and convictions and is currently in jail."

Conclusion

When the Administration and Treasury announced that the Hardest Hit Fund would give states flexibility to tailor local solutions, it announced that flexibility would come with strict accountability by Treasury – that program effectiveness would be measured, and that there would be effective oversight by Treasury. At the beginning of HHF, Treasury told all state housing finance agencies that they were required to have a tracking system to measure progress against goals, and report to Treasury. Former Treasury Home Preservation Office Chief Phyllis Caldwell told SIGTARP in 2011, that Treasury could evaluate success in HHF in ways such as, "are we reaching the right number of people, are we reaching them in a sustainable way." After five years, HHF Florida has only used half of the allocated $1 billion in TARP dollars in a 7-year program, has decreased the number of homeowners estimated assisting by 63% from 106,000 to 39,000, and is underperforming compared to the national average of other HHF states.

SIGTARP found that Treasury abandoned its intent to set goals for HHF program effectiveness and to measure progress against those goals. Treasury rejected SIGTARP's 2012 recommendations to set goals for effectiveness and measure progress, stating that any numeric targets are "not well suited to the dynamic nature of HHF." HHF Florida's goals are "preserving homeownership" and "protecting home values," more high-level expectations that could have been considered met in the first year. Treasury has not set any numeric or non-numeric goals that could *measure* program *effectiveness*, except one-time for HHF Florida in 2012, after SIGTARP's report. Instead, Treasury's current HPO Chief Mark McArdle told SIGTARP, "there is no such thing as one set goal that works or doesn't work."

Treasury setting no *measurable* goals or targets over fear of impacting the "dynamic nature" of this TARP program has led to a lack of the strict accountability promised at the launch of HHF, and what is required of all Federal agencies by the Government Performance and Results Act. Flexibility and innovation does not come in a Federal program without accountability that can be measured against targets.

Treasury has tried it their new way, different than announced, with no numeric goals and targets to measure the effectiveness of HHF Florida for five years, and as a result, the numbers have not added up for distressed Florida homeowners.

According to Treasury's data, only 20% of homeowners who applied for help from HHF Florida received assistance. Treasury has not set a goal for what is the right number of people for HHF Florida to reach, as former HPO Chief Caldwell said, instead allowing HHF Florida to decrease the estimate of homeowners to be helped by 63%. SIGTARP found that this estimate has limited usefulness because Treasury has permitted Florida HFA to decrease its estimate several times, creating a shifting baseline that makes it difficult for Treasury to measure HHF Florida's progress and to hold itself or Florida's HFA accountable in getting assistance to homeowners in a crisis.

Treasury has not set a goal for a target homeowner admission rate for HHF Florida, and as a result:

- According to Treasury's data, only 20% (22,400 of 109,774) of homeowners who applied for help from HHF Florida received assistance.
- HHF Florida has the lowest rate of admitting homeowners into HHF than any other HHF state.
- HHF Florida's 20% homeowner admission rate is far below the other 18 HHF states that average providing assistance to about half (48%) 204,111 of the 424,632 homeowners who applied.

HHF Florida has not been as effective in reaching homeowners as other states and has not progressed effectively. By not measuring progress against a target homeowner admission rate, the low homeowner admission rate for Florida has been relatively constant throughout the five-year history of HHF (ranging from 18 to 23%). If Treasury continues to reject setting a goal of the right number of people to reach in Florida, Treasury should at least, publicly, set a goal specific for HHF Florida's homeowner admission rate. This goal would target the particular needs of Florida homeowners, based on the five years of knowledge that Treasury has about HHF Florida, while ensuring that Florida homeowners have as much a chance in HHF as homeowners in other HHF states.

HHF Florida consistently denied homeowners at higher rates (38-45%) than the national average, which improved this year, but is still slightly above the national average. Treasury has not set a goal for a target homeowner denial rate for HHF Florida, and as a result, through the history of the five years of HHF, HHF Florida has denied a higher percentage of homeowners for assistance than the national average in HHF, which showed some improvement this year. After the first year in HHF, according to Treasury's data, as of March 31, 2011, HHF Florida denied 45% of homeowners who applied, compared to the national HHF average of 21%. By the second year, HHF Florida denied 43% of homeowners, compared to the national HHF average of 31%.

Treasury does not have insight into why these homeowners were denied because it does not publicly report on denial reasons. Treasury's HPO Chief told SIGTARP that in 2011, Treasury looked very closely at the reasons why homeowners were denied in Florida. However, Treasury provides no transparency on why HHF Florida denied homeowners. After SIGTARP's April 12, 2012 report, Florida's HFA compiled the reasons homeowners were denied, which gave insight that led to the board of Florida's HFA voting on April 27, 2012, to eliminate four homeowner eligibility requirements that had led to HHF Florida denying half of all homeowners. This led to some improvement (HHF Florida denied 38% of homeowners for the two following years), but was still high compared to the national HHF average of 28%. For the first time this year ended March 31, 2015, there was improvement. HHF Florida reported denying 29,554 (27%) of the 109,774 homeowners who applied, which is slightly over the national average of 26%. However, during this same reporting period, HHF Florida had very high rates of homeowners whose HHF applications were withdrawn (39% compared to the national HHF average of 27%), and 14,800 homeowners whose HHF applications were in process (13% compared to the 5% national HHF average), which requires further Treasury review.

According to Treasury's data, nearly 40% of all homeowners who applied to HHF Florida either withdrew their application or had their application withdrawn by Florida's HFA, which is far higher than the national average. According to Treasury's data, 43,030 of the 109,774 homeowners who applied for HHF Florida either withdrew their application after being approved, or Florida's HFA withdrew their application because the homeowner did not respond to requests for information. Treasury lumps both of these very different situations into one reporting category, not broken down. The rate has escalated from 35% in 2012. The national HHF average is 27% withdrawn applications, but HHF Florida drags the national average up. The average of the other HHF states is 24% withdrawn applications. Neither Treasury nor Florida's HFA follow up with the homeowner to ask why they withdrew their application.

Treasury has not set a goal for HHF Florida for the number of applications withdrawn by Florida's HFA. High numbers of applications that Florida's HFA, or their advisor agencies in counties around Florida, withdraws for homeowners who are not responding to requests for information, raises questions about whether HHF Florida is operating in the most effective way. Treasury also has no goal for how long it takes Florida's HFA to process homeowner applications. According to Treasury's data as of March 31, 2015, HHF Florida takes a median of 167 days (nearly 6 months) to get a homeowner assistance.

SIGTARP found several factors contributed to the Hardest Hit Fund Florida's slowness in getting assistance to homeowners and lack of effectiveness during the height of the crisis when Florida homeowners needed it most:

- HHF Florida lacked comprehensive planning by Treasury, who waited for Florida's HFA to get large servicers to participate. According to a senior Florida HFA official, the lack of big servicer participation was the primary challenge of implementing HHF. That official told SIGTARP in 2011, "The one billion dollars has been a nice carrot to use for servicers in Florida, but there is no stick with the carrot to force servicers to participate," and that if Treasury had a stick to use on servicers, they had not used it. Unemployed homeowners would have to wait more than one year before the statewide rollout of HHF assistance in Florida. A senior Florida HFA official told

SIGTARP that there was no hint of big servicer participation until the Fannie and Freddie (the GSEs) put out guidance, and that the Federal Housing Finance Agency (FHFA), the GSEs, the big servicers, and the first 10 states looked to Treasury to instigate improvement. Treasury expected states to talk to servicers, and "wanted to let that process work out," according to Treasury's HPO Chief. Treasury would later intervene to "change the game" according to Treasury's HPO Chief, holding a servicer summit in September 2010, after which the program started to gain traction. Treasury's servicer summit was "the first big step" according to a senior Florida HFA official, and only after that did Fannie Mae and Freddie Mac issue guidance directing servicers to accept HHF funds (in November 2010). Florida started 2010 with an 11.8% unemployment rate, and by the time the HHF program rolled out, Florida's unemployment rate, although still high at 10.1%, had already started to improve.

- SIGTARP found that despite choosing Florida for HHF because it had the third highest home price decline in the nation, the Hardest Hit Fund in Florida suffered from a lack of comprehensive planning by Treasury to provide assistance to underwater homeowners when home price declines were at their highest. There was no HHF Florida program targeted to underwater homeowners for the first three years (2010 – September 2013). Treasury left it to Florida HFA, acting deferentially, only taking action in response to a state's request. Treasury could have intervened to change the game, by proposing and pressuring Florida's HFA to start a program targeting underwater homeowners, but Treasury did not do so until November 2012, after SIGTARP's report. By September 2013, when HHF Florida started principal reduction, home values had already increased by more than 22% from second quarter 2011 lows.

- The first two years of HHF Florida were plagued by the fact that nearly half of all homeowners were denied as ineligible. By April 1, 2012, Florida's HFA denied 12,516 of 27,541 homeowners (45%) as ineligible. Treasury's HPO Chief told SIGTARP that Treasury looked closely at the reasons why homeowners were denied, and that Florida's HFA had rejected a large number of borrowers because they could not be more than some number of months in arrears, and that because Florida has a long foreclosure timeline, there was an abnormal number of people in that bucket. Treasury's HPO Chief told SIGTARP, "as long as they have…state a justification, you know, we're trying to basically help people who can still be helped." Two weeks after SIGTARP's April 12, 2012 report, the board of Florida's HFA voted to eliminate the eligibility requirement that a homeowner not be more than 180 -days delinquent (the reason why 2,929 homeowners were denied) and three other eligibility requirements that had led to HHF Florida denying half of all homeowners who had applied.

- The effectiveness of HHF assistance to unemployed/underemployed Florida homeowners suffered early on due to a lack of comprehensive planning to ensure that the assistance lasted long enough for a homeowner to become reemployed at a level where they could afford to pay their mortgage – the measure of effectiveness stated in Treasury's term sheet for HHF Florida. Although in July 2010, Treasury extended unemployment assistance in HAMP from 6 months to 12 based on SIGTARP's warning that nearly 43% of unemployed workers have been out of work for 27 weeks or longer, months later (in December 2010), Treasury allowed Florida's HFA to drop the duration of HHF unemployment assistance from 18 months to 6 months. Treasury knew that six months was the shortest duration of unemployment assistance provided in HHF. Treasury's HPO Chief told SIGTARP that Treasury "leaves it to the states that are closer to the situation to decide," and that the state had a rationale. In October 2011, California and Nevada, who also had six months of assistance, would extend their assistance, leaving HHF Florida as the only state at six months. But still, Treasury took no action. Two weeks after SIGTARP's 2012 report, Florida's HFA found that 6 months was not sufficient time for 88% of HHF-assisted homeowners to achieve a successful outcome, and they would extend to 12 months. They would make the change retroactive, which according to Treasury HPO Chief, "totally froze up their operations."

Treasury also took strong action to increase the effectiveness of HHF Florida after SIGTARP's 2012 report and recommendations, by issuing an Action Memorandum to Florida's HFA in November 2012, instructing them to increase the low number of homeowners assisted, raise the ratio of approved homeowners to denied homeowners, increase inadequate staffing levels, and create a program to address negative equity. Treasury asked for a written plan and set a minimum target of an average of 750 funded homeowners a month, warning, "If Florida Housing fails to achieve these goals, Treasury will consider additional steps, including possible remedial actions, to improve performance." Treasury told Florida's HFA to lengthen assistance, to "widen the net," according to Treasury's HPO Chief.

The improvements made after Treasury intervened to change the game by taking a stronger role after SIGTARP's 2012 report prove that the action SIGTARP recommended can make a difference over whether a state flourishes or flounders. Treasury described its action as "pressure" or "pushing." Treasury's HPO Chief told SIGTARP that Florida "made dramatic changes under pressure." Treasury would not issue any Action Memorandums after 2012, and would return to deference to the states, no goals for effectiveness, and no measurement of progress against goals aimed at effectiveness.

Despite the improvements made in 2013, from Treasury's intervention, HHF Florida continues to lag behind other HHF states. Treasury missed an opportunity to apply what it had learned about the delays and other obstacles HHF Florida faced in its first two programs when Treasury left it to the state to design and implement the programs. Treasury lost opportunities with new programs to get involved in the planning stage to identify obstacles that could drag the effectiveness of the new programs down. SIGTARP found several factors contribute to this lag.

- HHF Florida struggled with implementation issues that delayed homeowners from getting principal reduction assistance when Florida's HFA stopped receiving applications for eight months after receiving a flood of in the first week (September 2013). According to Treasury's guidelines issued to the HHF states at the start of the program, Treasury intended to be involved in identifying and mitigating obstacles to program effectiveness, but Treasury did not anticipate the flood despite knowing the need and that this was the first HHF program for underwater homeowners. Treasury did not mitigate the obstacle that Florida's HFA was unable to handle the volume of applications. At that time the program reopened, only 1,756 homeowners had received assistance. Treasury has set no goals for this program. Underwater Florida homeowners do not have time for Treasury to defer to Florida for the effectiveness of this program. With such a great demand, HHF Florida principal reduction can address a great need for Florida homeowners with underwater homes, but only if it operates effectively. Only 14% of homeowners who applied have received assistance, and more than one-third of homeowners were denied. Already, fewer homeowners have received assistance in the last two quarters compared to earlier quarters, and it is taking longer (210 days) for a homeowner to get assistance than it took in the past (154 days). Treasury should reconsider which eligibility requirements it really needs to see if it can widen the net to target the typical underwater Florida homeowner.

- In the HHF program for senior citizens with reverse mortgages that began in November 2013, Treasury and Florida lacked comprehensive planning to identify and mitigate obstacles that senior citizens faced applying to the program and providing supporting documents. As a result, Treasury's data shows that 46% of all seniors who applied had their application withdrawn, and it takes a median 280 days (9 to 10 months) for a senior citizen to obtain approval for this HHF assistance. Flexibility and innovation does not excuse Treasury planning for obstacles. Comprehensive planning to identify obstacles unique to seniors should not take so long that it delays assistance, but does require critical thinking. Florida's HFA told Treasury that they were having issues trying to reach seniors who are not sophisticated in applying and submitting documents online. HHF Florida now works with a state agency on aging to help go into seniors' homes to help gather documents, and Treasury has streamlined the underwriting process. Treasury will need to be actively involved to ensure this program moves as fast as it can to get help to Florida seniors who need the money now, not in 9 to 10 months. Treasury has no goal for the length of time Florida's HFA takes to process an application. Senior citizens do not have the time for marginal improvements in application processing times each quarter. Seniors deserve extraordinary effort and care to ensure that the program is effective, and that effort and care should come from Florida's HFA and Treasury.

- SIGTARP found that Treasury and Florida's HFA lacked comprehensive planning in a program for a non-profit to buy mortgages on underwater homes and use HHF funds to modify those mortgages by not identifying the obstacle that the non-profit might not be the successful bidder at Department of Housing and Urban Development (HUD) sales. After a 2-year pilot program, only 92 homeowners have been helped. Rather than take action to hold HHF Florida accountable or setting performance targets, Treasury's HHF Program Director told SIGTARP that Treasury is not at a point to shut the program down, and that the state "has a tremendous amount of latitude to design and fund their own programs." The states are not funding these programs, TARP is. In the meantime, the $50 million in TARP funds is not being used for other programs effectively reaching homeowners.

SIGTARP also found that although the Dodd-Frank Act precludes anyone convicted of a mortgage-related crime within the last 10 years from receiving HHF funds, Treasury shifts the burden of complying with the Dodd-Frank Act to homeowners to self-report, not conducting any due diligence to check readily available public databases for convictions. The Dodd-Frank Act precludes HHF for those convicted of a mortgage-related crime, not those who *say* they were convicted. This makes HHF vulnerable to fraud and thwarts the intent of the Dodd-Frank Act. Treasury can strengthen HHF even further against fraud by searching for arrests, as well as convictions for non-mortgage related crimes of dishonesty that could make HHF vulnerable to fraud such as misrepresented income and assets. Treasury should also require regular background checks of those who work on HHF programs.

Despite HHF announced as a TARP program to "help address urgent problems facing homeowners at the center of the housing crisis," SIGTARP found that Treasury has not conducted oversight with a sense of urgency to ensure that HHF Florida is effective. Instead, Treasury looks for either a change to HHF Florida or steady growth quarter-to-quarter – "one or the other" – according to Treasury's HPO Chief. Treasury only tracks and measures against the goal of HHF Florida spending their allocated $1 billion in TARP funds by the end of the program in December 31, 2017. Treasury HPO Chief McArdle told SIGTARP in 2013, "I believe they're going to utilize their funds with [the HHF principal reduction program]." Some HHF states have already reached that capacity. After five years, HHF Florida still has half of their HHF funds, despite Florida's homeowners experiencing a critical need.

Rather than bring strict accountability by measuring program effectiveness as promised, Treasury has allowed HHF Florida to underperform compared to other

HHF states, consistently. Although there has been some improvement, it is not enough to address the urgent needs of Florida homeowners. Underperforming numbers show areas for Treasury to set goals specific to HHF Florida, rather than hope for marginal improvement each quarter. The lowest homeowner admission rate, the highest withdrawn application rate, failure to meet Treasury's only minimum benchmark to help 750 homeowners a month, an eight-month stop in accepting applications for principal reduction assistance, a two-year pilot program with only 92 homeowners helped, 280 days to get assistance to senior citizens, are all areas where Treasury has allowed HHF Florida to proceed without accountability. Treasury's HHF Program Director told SIGTARP that if it's not working, the state HFAs "tweak it." She said Treasury's role is to support them in those efforts. However, Treasury's role is to conduct oversight and ensure the effectiveness of HHF in each state by intervening to change the game when a program underperforms. That is what Treasury promised to do at the start of the program, and what has driven any improvement in HHF Florida.

Treasury allowing HHF Florida to underperform is not because of a lack of communication or close contact with Florida's HFA. Treasury's HHF Program Director told SIGTARP that she talks to the HHF states every day. Treasury officials told SIGTARP that they seek insight behind the quarterly performance numbers by asking Florida's HFA questions. Treasury's HHF Program Director has described how Treasury communicates constantly with "stakeholders" in HHF to share best practices, refine programs, and identify obstacles, among other things. She described how Treasury holds a monthly conference call with all HHF states, and an annual in- person summit with all states, large servicers, and the GSEs, to understand their issues and concerns. Despite Treasury's constant contact, collaboration, and sharing, Treasury has allowed HHF Florida to lag behind other HHF states in program effectiveness, consistently, according to Treasury's own performance numbers. Treasury's HHF Program Director told SIGTARP, "there is so much going on that we just can't see based on a quarterly performance report." If Treasury cannot see what is going on, then neither can the public. There should be greater transparency as to the specific improvement (goal) that Treasury wants HHF Florida to meet and how Treasury will measure the state HFA getting there. To the extent those discussions happen between Treasury and state HFAs, they are not memorialized, which allows the HHF states to escape accountability from Treasury, Congress, and the American taxpayers that fund TARP.

There is one significant stakeholder that Treasury did not mention – Florida homeowners. As times have improved for most, it can be tough for those with a job, an income sufficient to pay their mortgage, and who do not owe more than their home is worth, to understand the struggles and frustration of a homeowner still going through tough times looking to the TARP bailout for help. Without regular contact and communication with those homeowners, it can be hard for Treasury officials to put a face to a HHF performance statistic, hard to understand how an unsophisticated homeowner can get confused about all the documents required, hard to understand the desperation of a homeowner who could not wait months while their application was "in process" and had to go elsewhere for help or entered into foreclosure, and hard to understand what it is like for a senior citizen to face a world that has gone online, and face their own forgetfulness about where documents are to be found.

To make HHF Florida as effective as possible, Treasury should increase its contact and communication with the stakeholders that matter the most – Florida homeowners who take part in the HHF application process, who can give Treasury the best insight into areas that need improvement. Treasury should not just communicate with those who received assistance, but homeowners who were denied or had their application withdrawn. Only regular communication and contact with Florida homeowners who have been part of the HHF Florida application process will give Treasury a true picture of what lies behind the performance numbers, what Florida's HFA might not be able to tell them, and what obstacles stand in the way of HHF Florida being as effective as possible.

It can be natural with such close contact with a state HFA for Treasury to not want to come down hard on them. Oversight is not easy or comfortable. There is a natural tension with holding someone accountable. It is more comfortable to give deference – "leave it to the states" as Treasury officials told SIGTARP, to be satisfied with some steady improvement and a state HFA justification for worse performance than other states. It can be easier for Treasury's program staff to leave oversight to Treasury compliance staff, but Treasury's compliance staff responsibility relates to following program rules, not the effectiveness of program performance. Treasury's approach to oversight has led to HHF Florida not being as effective as it could be, or as effective as other HHF states. Otherwise, HHF Florida's performance numbers would not be lagging behind HHF national averages. If not Treasury, then who will bring that accountability that was promised, accountability that could help more Florida homeowners?

The people who have gotten help from HHF Florida have received real assistance in a critical time of need, and while no program will assist all struggling homeowners, Treasury should strive for a program that will help the typical struggling Florida homeowner. As HHF Florida lags behind other HHF states, with only two years left for HHF, the time for Treasury giving tremendous latitude and deference to Florida's HFA without the "*strict accountability*" Treasury promised must be over. HHF is not designed to be so dynamic and give such latitude and deference to the states that state HFAs are allowed to administer a program that lags well behind other HHF states in providing effective assistance to Florida homeowners.

Florida homeowners in distress need help now, not by the end of 2017. According to RealtyTrac, Florida had the nation's highest foreclosure rate at 2.3% in 2014. Five years into the program, these are not homeowners who have time for Treasury and Florida's HFA to watch for steady improvement that while needed, is not enough to stop HHF Florida from lagging behind other HHF states. Even with improvements made in HHF, Florida homeowners still need Treasury to push and pressure and demand that HHF Florida is the most effective it can be right now, by setting targets and measuring progress against those targets, rather than measuring against the prior quarter. That is the role Treasury signed up for.

Treasury should go back to its roots – how it described HHF – state flexibility with strict Treasury accountability through goals for effectiveness and measuring progress against those goals. To change a future outcome for the underperforming HHF Florida, it is time for Treasury to change the game. Otherwise, HHF Florida may spend the $1 billion by December 2017, but it risks not being as effective as it can be to help the urgent needs of Florida homeowners now. All TARP programs are emergency program designed to help during times of crisis. That includes HHF Florida.

Recommendations

Making recommendations to improve the effectiveness of Government, and prevent fraud, waste, and abuse, is the traditional role of an office of inspector general. Given that SIGTARP is a Special OIG, our role is not to improve the effectiveness of Treasury, but to improve the effectiveness of TARP programs, and protect TARP programs from fraud, waste, and abuse.

1. To improve the effectiveness of the Hardest Hit Fund Florida on an urgent basis, and to ensure that Florida homeowners have the same chance of Hardest Hit Fund assistance as homeowners in other HHF states, Treasury should improve the homeowner admission rate in HHF Florida to a targeted level that would bring it closer to the average homeowner admission rate of the other HHF states. Treasury should set numeric targets that HHF Florida must meet each quarter to reach the targeted homeowner admission rate and include those targets in an action memorandum to Florida's housing finance agency.

2. To improve the effectiveness of the Hardest Hit Fund in all states on an urgent basis, Treasury should form a HHF performance committee to meet each quarter to assess performance by each state housing finance agency in comparison to other state HHF programs, identify obstacles and risks, and develop strategies to mitigate those obstacles and risks. Treasury should memorialize the work of that committee through meeting minutes, and report on those obstacles and risks, as well as mitigation strategies to the Treasury Deputy Secretary twice a year.

3. To improve the effectiveness of the Hardest Hit Fund Florida in reaching homeowners in Florida on an urgent basis, Treasury should, within 60 days, reassess eligibility requirements of each HHF Florida program to ensure that programs target the typical Florida homeowner, keep only those requirements that are absolutely necessary, and eliminate those that are not. Treasury should memorialize the findings of this reassessment.

4. To give Treasury insight into areas to improve the effectiveness of the Hardest Hit Fund on an urgent basis, Treasury should require all participating state housing finance agencies to report on an overall state HHF level as well as individual HHF program level: the reasons why homeowners were denied assistance along with the corresponding number of homeowners denied for that reason. Treasury should require this reporting on a quarterly and cumulative basis and post that information on its website for transparency and accountability.

5. To give Treasury insight into areas to improve the effectiveness of the Hardest Hit Fund on an urgent basis, Treasury should require each state housing

finance agency to report county-level data for all HHF programs and individual state HHF program on: the number of homeowners who have applied for HHF, the number of homeowners denied, the number of homeowners who withdrew their application after being approved for assistance, the number of homeowners who the state housing finance agency withdrew their application, the number of homeowners whose applications are in process, and the median number of days to process homeowner applications. Treasury should require this reporting on a quarterly and cumulative basis and post this information on its website for transparency and accountability.

6. To improve the effectiveness of the Hardest Hit Fund Florida on an urgent basis, and ensure that homeowners throughout Florida have the same chance of HHF assistance as homeowners in other counties within the state, Treasury should assess whether HHF Florida is operating in the most effective manner in each county. This should include, at a minimum, Treasury analyzing, within 60 days, which Florida counties have the lowest homeowner admission rates, the highest homeowner denial rates, the highest rate of homeowner applications withdrawn by an advisor agent for Florida's housing finance agency, and the longest application processing times, Treasury setting targets and milestones for improvement in an action memorandum to Florida's housing finance agency. Treasury program staff should, within six months, visit with advisor agents of Florida's housing finance agency in counties hit the hardest but where HHF Florida is least effective, not for a compliance review, but to get an understanding of eligibility requirements that may be too strict to target the typical Florida homeowner seeking HHF assistance, and the challenges and obstacles the advisor agents face in making a decision to deny or withdraw a homeowner.

7. To give Treasury insight into areas to improve the effectiveness of the Hardest Hit Fund on an urgent basis, Treasury should require that state housing finance agencies report separately the number of homeowners who withdrew their HHF application from the number of homeowners whose HHF application was withdrawn by the state housing finance agency. Treasury should require that reporting on a quarterly and cumulative basis and post that reporting on its website for transparency and accountability.

8. To improve the effectiveness of the Hardest Hit Fund on an urgent basis, Treasury should reduce to a targeted level the length of time to process a senior citizen's application and give assistance in the Hardest Hit Fund Florida's senior citizen program known as ELMORE. Florida's housing finance agency should view a targeted length of time to process an application under ELMORE not as an excuse to deny a homeowner, but instead as a target for their own improvement in helping homeowners make it through the approval process. Treasury should set numeric targets that HHF Florida must meet each quarter to reach the targeted processing time, and include those

targets in an action memorandum to Florida's housing finance agency, and measure progress quarterly.

9. To improve the effectiveness of the Hardest Hit Fund Florida on an urgent basis, including the median 280 days to process a homeowner's application and the fact that 46% of applications have been withdrawn, Treasury should identify with more detail the obstacle to senior citizens getting assistance from the Hardest Hit Fund Florida's program known as ELMORE by determining which documents senior citizens are having trouble providing. To assist in identifying these documents, Treasury should, within 60 days, separately meet with Florida's Department of Elderly Affairs, and advisor agencies for Florida's housing finance agency in targeted counties with low ELMORE participation in comparison to the number of senior citizens in those counties with reverse mortgages. After identifying the documents that are causing obstacles to homeowner participation, Treasury should determine whether those documents are essential for HHF Florida to provide assistance, and mitigate that obstacle by further reducing required documents (beyond what Treasury and Florida's housing finance agency have already reduced) to only those documents that are essential.

10. To improve the effectiveness of the Hardest Hit Fund Florida on an urgent basis, Treasury should preclude Florida's housing finance agency from withdrawing a senior citizen's application to the HHF program known as ELMORE based on homeowner non-responsiveness unless Florida's Department of Elderly Affairs has stated in writing that it has done all it can to help the homeowner complete the application and find the required documents.

11. To identify obstacles to the effectiveness of the Hardest Hit Fund Florida on an urgent basis, Treasury should increase its contact and communication with Florida homeowners, particularly those who have gone through HHF Florida's application process by: (1) within 90 days, Treasury begin communications with Florida homeowners who withdrew their application or had their application withdrawn to understand the reasons why; (2) inviting homeowner advocacy groups representing homeowners who have applied for HHF to an annual summit with Treasury officials similar to Treasury's servicer summit; (3) holding targeted Treasury-sponsored outreach events, for example, at Florida senior citizen centers, and in areas of high underwater Florida homeowners with limited participation in the principal reduction program; and (4) having the new HHF performance committee review and discuss homeowner complaints about HHF Florida at each meeting.

12. To ensure that HHF Florida is effective and ensure that homeowners throughout Florida have the same chance of HHF assistance as homeowners in other counties within the state, Treasury should hold HHF Florida accountable to maintaining its improvement in homeowner denial rates, by

setting a targeted homeowner denial rate that keeps HHF Florida in line with the national average for HHF. Treasury should provide that targeted rate in an action memorandum to Florida's housing finance agency and each quarter ensure that it meets that target.

13. To improve the efficiency of the Hardest Hit Fund Florida on an urgent basis, Treasury should reduce the length of time HHF Florida takes to process an application from the median of 167 days to a targeted length of time. Treasury should provide that target in an action memorandum to Florida's housing finance agency and each quarter measure progress against that target.

14. To improve the effectiveness of the Hardest Hit Fund Florida on an urgent basis, Treasury should reduce the rate of homeowner applications withdrawn by the state housing finance agency to a targeted level. Treasury should provide that target in an action memorandum to Florida's housing finance agency and each quarter measure progress against that target.

15. To improve the effectiveness and efficiency of the Hardest Hit Fund Florida on an urgent basis, Treasury should, within 90 days, determine to either convert the Hardest Hit Fund pilot program known as the Modification Enabling Project to a full program or close it and put the funds to better use in existing HHF Florida programs.

16. To prevent fraud, waste, and abuse in the Hardest Hit Fund and non-compliance with the Dodd-Frank Act, Treasury should ensure HHF funds do not go to felons convicted of mortgage-related crimes by searching or requiring state housing finance agencies to search federal, state, and county databases for an applicant homeowner's criminal history, prior to the release of any funds to the applicant, given the fact that convictions are public records. Treasury should make efforts to gain access to other criminal databases.

17. To prevent fraud, waste, and abuse in the Hardest Hit Fund and non-compliance with the Dodd-Frank Act, Treasury should monitor applicants (and existing recipients) for subsequent mortgage-related convictions that would disqualify the homeowner from receiving HHF funds (or additional HHF funds). If an applicant has been arrested but not yet convicted of a crime that falls within the Dodd-Frank Act exclusion, Treasury should ensure that the state housing finance agency checks to see if the applicant (or existing recipient) has been convicted as a final underwriting step prior to releasing any funds (or further funds) to the homeowner.

18. To prevent fraud, waste, and abuse in the Hardest Hit Fund, Treasury should ensure that state housing finance agencies conduct regular criminal history background checks on staff or contractors who are paid, either directly or indirectly, with HHF funds by searching federal, state, and county databases.

19. To prevent fraud, waste, and abuse in the Hardest Hit Fund, Treasury should conduct due diligence by searching public records for an applicant's conviction for non-mortgage related crimes of dishonesty (such as embezzlement, forgery, bank fraud, welfare fraud, unemployment compensation fraud, tax fraud, money laundering, and fast statements), and, if found, conduct further due diligence, including looking into potential misrepresentations of assets and income based on the nature of the crimes.

20. To increase nationwide stakeholder communication and address obstacles on an urgent need basis, Treasury should hold its servicer summit with the 19 Hardest Hit Fund states on a bi-annual instead of an annual basis to keep proactively apprised of the obstacles and limitations the HHF states are experiencing, and to make timely interventions to better the performance and increase effectiveness in every HHF state in getting assistance to homeowners.

Management Comments and SIGTARP's Response

Treasury provided comments to the draft report. SIGTARP addressed those comments where applicable. Treasury generally disagreed with SIGTARP's findings, and said that "Treasury believes it would hamper progress and slow the pace of assistance by substantially increasing the administrative burden to operate these programs." Treasury did not agree to implement SIGTARP's recommendations, but said they would "review all of SIGTARP's recommendations and respond to each one in the ordinary course."

Appendix A – Objective, Scope, and Methodology

SIGTARP performed this evaluation under authority of Public Law 110-343, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended. SIGTARP initiated this evaluation in response to a request from Senator Bill Nelson. The evaluation's objective was to assess Florida Housing Finance Corporation's (Florida HFA) implementation and Treasury's oversight of the programs that comprise Florida's HHF program.

The scope of this evaluation covered Florida HFA's Unemployment Mortgage Assistance Program, Mortgage Loan Reinstatement Payment Program, Principal Reduction Program, Elderly Mortgage Assistance Program, Modification Enabling Pilot Program, and Down Payment Assistance Program from each program's inception through March 31, 2015. SIGTARP conducted this evaluation from June 2013 through September 2015 in Washington, D.C. and Tallahassee, Florida.

SIGTARP interviewed Treasury and Florida HFA officials, analyzed quarterly performance and financial data, performed a limited review of Florida HFA's underwriting, and reviewed other program documents such as FL HFA's program proposals, readiness assessment, and Florida HFA and Treasury emails and memoranda. In addition, SIGTARP reviewed Treasury and Florida HFA press releases and obtained information from Treasury's and Florida HFA's websites.

SIGTARP conducted this evaluation in accordance with the "Quality Standards for Inspection and Evaluation," January 2012 edition, 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 on Treasury and Florida HFA to provide email communication and certain documentation related to Florida's HHF Programs. It is possible that the documentation provided did not reflect a comprehensive response to SIGTARP's documentation requests, potentially limiting SIGTARP's review.

Use of Computer-Processed Data

SIGTARP relied on computer-processed data for this evaluation. Specifically, SIGTARP relied on Florida HFA's and Treasury's quarterly performance reports to determine the numbers and percentages of HHF applications approved, denied, withdrawn, and in process; and the quarterly financial reports to determine the status of HHF funding across each state HHF program. SIGTARP did not validate the accuracy of the data.

Internal Controls

To address the reporting objective in this evaluation, SIGTARP performed a limited review interviewing Treasury and Florida HFA officials, and reviewing selected Federal and state laws and regulations, and Treasury and state policies and procedures to determine the extent to which policies and procedures existed.

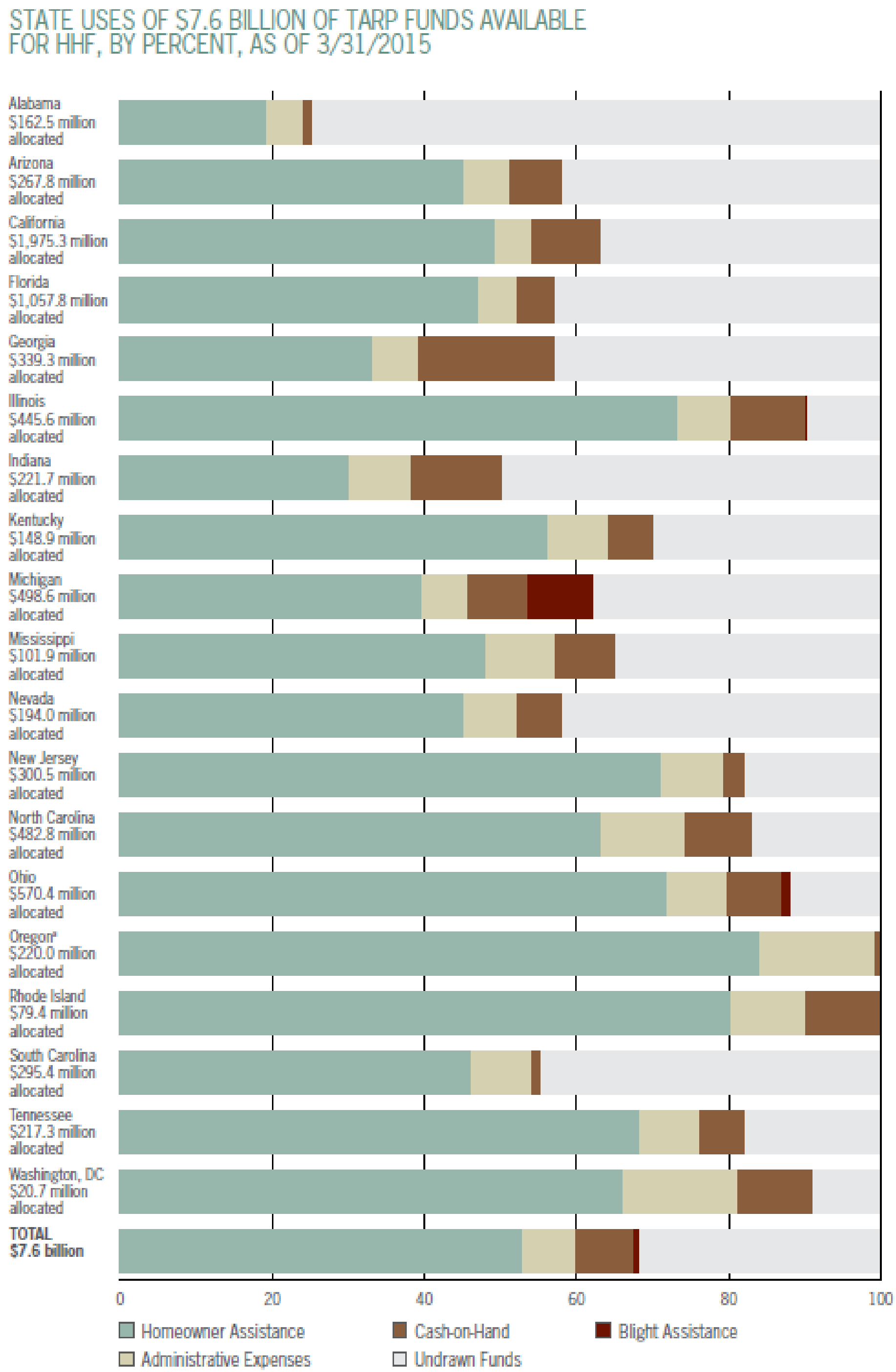
Prior Coverage

SIGTARP has covered the HHF program in two previous audit reports. On April 12, 2012, SIGTARP released an audit report titled, "Factors Affecting Implementation of the Hardest Hit Fund Program." On April 21, 2015, SIGTARP released an audit report titled, "Treasury Should Do Much More to Increase the Effectiveness of the TARP Hardest Hit Fund Blight Elimination Program."

Appendix B – Acronyms and Abbreviations

19 jurisdictions or states	18 states and the District of Columbia
ELMORE	Elderly Mortgage Assistance Program
Fannie Mae	Federal National Mortgage Association
Florida's HFA	Florida Housing Finance Corporation
Freddie Mac	Federal Home Loan Mortgage Corporation
Ginnie Mae	Government National Mortgage Association
GSE	Government-sponsored enterprise
HAMP	Home Affordable Modification Program
HFA	housing finance agency
HHF	Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (also "Hardest Hit Fund")
MEP	Modification Enabling Pilot Program
OFS	Office of Financial Stability
PR	Principal Reduction Program
SIGTARP	Office of the Special Inspector General for the Troubled Asset Relief Program
TARP	Troubled Asset Relief Program
Treasury	U.S. Department of the Treasury

Appendix C – Utilization of TARP HHF Funding, By State



Source: SIGTARP analysis of Treasury Quarterly Financial Reports.

Appendix D – HHF Florida Assistance by County Over the Last 12 Months and Program to Date – As of 3/31/2015

HHF FLORIDA ASSISTANCE BY COUNTY

County	Homeowners that Started Receiving Assistance Over the Last 12 months	Homeowners that Received Assistance Program to Date
Dixie	0	6
Jefferson	0	6
Calhoun	0	3
Hamilton	0	1
Taylor	0	1
Madison	1	9
Bradford	1	8
Glades	1	7
Lafayette	1	3
Union	1	1
Washington	2	15
Holmes	2	10
Gulf	2	5
Liberty	2	5
Sumter	3	17
Franklin	3	8
Hardee	4	25
Levy	5	25
Columbia	5	23
Jackson	5	23
Walton	5	20
Gilchrist	6	22
Baker	6	19
DeSoto	7	29
Hendry	7	29
Suwannee	7	21
Monroe	8	20
Okeechobee	9	61
Putnam	12	49
Wakulla	12	47
Nassau	14	71
Okaloosa	23	132
Highlands	23	65
Gadsden	25	77
Martin	26	126
Santa Rosa	27	91
Flagler	29	146
Indian River	34	151
Citrus	42	140
Bay	43	133
Alachua	52	143
Collier	57	313
Escambia	61	259
St. Johns	61	259

Clay	62	255
Charlotte	67	223
Leon	80	296
Manatee	83	254
Marion	87	335
Sarasota	87	309
Lake	87	299
Hernando	108	242
St. Lucie	124	506
Osceola	133	388
Seminole	145	539
Volusia	170	604
Lee	192	862
Polk	199	497
Brevard	268	931
Pasco	284	709
Pinellas	341	988
Duval	401	1,586
Orange	440	1,555
Palm Beach	480	1,825
Hillsborough	482	1,367
Miami-Dade	683	2,255
Broward	738	2,951

Source: SIGTARP analysis of Florida Housing Finance Corporation, Q1 2014 and Q1 2015 Quarterly Performance Reports.

Appendix E – HHF Application Volume Over Time by Application Status – Florida Compared to Other HHF States

HHF APPLICATION VOLUME BY APPLICATION STATUS		March 2011	March 2012	March 2013	March 2014	March 2015
Florida	Homeowners Receiving Assistance	150	4,745	8,592	16,025	22,400
	Homeowners Denied Assistance	288	11,352	15,729	26,334	29,544
	Homeowners Withdrawn from Program	6	9,243	15,300	25,191	43,030
	Homeowners in Process	195	940	2,269	1,048	14,800
	Total Applications	**639**	**26,280**	**41,890**	**68,598**	**109,774**
	Application Approval Rate	**23%**	**18%**	**21%**	**23%**	**20%**
Other States	Homeowners Receiving Assistance	2,043	38,832	101,282	162,772	204,111
	Homeowners Denied Assistance	2,607	33,804	62,991	93,266	109,991
	Homeowners Withdrawn from Program	723	25,513	49,486	79,689	100,588
	Homeowners in Process	7,627	22,296	21,517	18,236	9,942
	Total Applications	**13,000**	**120,445**	**235,276**	**352,768**	**424,632**
	Application Approval Rate	**16%**	**32%**	**43%**	**46%**	**48%**
All States	Homeowners Receiving Assistance	2,193	43,577	109,874	178,797	226,511
	Homeowners Denied Assistance	2,895	45,156	78,720	119,600	139,535
	Homeowners Withdrawn from Program	729	34,756	64,786	104,880	143,618
	Homeowners in Process	7,822	23,236	23,786	19,284	24,742
	Total Applications	**13,639**	**146,725**	**277,166**	**421,366**	**534,406**
	Application Approval Rate	**16%**	**30%**	**40%**	**42%**	**42%**

Source: SIGTARP analysis of Treasury, Housing Finance Agency Aggregate Report as of March 31, 2015, March 31, 2014, and March 31, 2013. HFA performance data from March 31, 2012 was obtained from each states Q1 2012 HHF quarterly performance report, the websites containing these reports can be accessed through Treasury's "Hardest Hit Fund: State-By-State Information" website at: http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/Pages/Program-Documents.aspx.

Appendix F – Application Denial Rate by State

HARDEST HIT FUND HOMEOWNER DENIAL RATE BY STATE

State	Homeowners Denied Assistance	Total Applicants	Application Denial Rate
Arizona	10,711	15,619	69%
New Jersey	6,951	13,093	53%
Georgia	8,815	22,695	39%
South Carolina	7,887	22,113	36%
Michigan	16,363	54,230	30%
Rhode Island	1,425	4,833	29%
California	32,262	119,453	27%
Florida	29,544	109,774	27%
Mississippi	1,296	5,096	25%
Illinois	4,072	20,294	20%
Nevada	2,694	13,694	20%
North Carolina	5,363	28,787	19%
Kentucky	1,816	9,881	18%
District of Columbia	124	861	14%
Ohio	4,841	34,778	14%
Tennessee	1,300	9,352	14%
Alabama	1,476	14,766	10%
Oregon	2,136	28,269	8%
Indiana	459	6,818	7%

Source: SIGTARP analysis of Treasury's Aggregate QPR Report for March 31, 2015, obtained from Website, http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Housing-Finance-Agency-Aggregate-Report.aspx.

Appendix G – Application Withdrawal Rate by State

HARDEST HIT FUND HOMEOWNER WITHDRAWAL RATE BY STATE

State	Homeowners Withdrawn from Program	Total Applicants	Application Withdrawal Rate
Alabama	9,200	14,766	62%
Oregon	14,298	28,269	51%
Nevada	5,665	13,694	41%
Florida	43,030	109,774	39%
Georgia	6,555	22,695	29%
California	33,377	119,453	28%
Michigan	11,327	54,230	21%
South Carolina	4,433	22,113	20%
Ohio	5,113	34,778	15%
North Carolina	3,773	28,787	13%
Indiana	828	6,818	12%
Kentucky	1,131	9,881	11%
Illinois	2,192	20,294	11%
Mississippi	469	5,096	9%
Tennessee	697	9,352	7%
Rhode Island	333	4,833	7%
Arizona	1,033	15,619	7%
District of Columbia	28	861	3%
New Jersey	136	13,093	1%

Source: SIGTARP analysis of Treasury's Aggregate QPR Report for March 31, 2015, obtained from Website, http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Housing-Finance-Agency-Aggregate-Report.aspx.

Appendix H – Treasury Action Memorandum to Florida HFA

U.S. DEPARTMENT OF THE TREASURY

Memorandum

November 20, 2012

TO: Florida Housing Finance Corporation

FROM: U.S. Department of the Treasury

SUBJECT: **Florida Housing Finance Corporation Hardest Hit Fund Performance to Date and Request for Additional Information**

This memorandum formally requests a written plan from the Florida Housing Finance Corporation ("Florida Housing") identifying measurable targets for homeowners assisted per month over the next two quarters and the actions required to meet those goals with respect to its Florida Hardest-Hit Fund Program ("Florida HHF Program"). It also discusses the current performance of the Florida HHF Program, provides trending based on this performance, and highlights areas needing improvement.

Background: The U.S. Department of the Treasury ("Treasury") allocated Florida Housing approximately $1.06 billion from its Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets program ("Hardest Hit Fund" or "HHF") to help prevent avoidable foreclosures. Of this amount, approximately $952.4 million is designated for direct assistance to homeowners ("Program Funds"). As of September 30, 2012, Florida Housing has assisted 6,379 homeowners (roughly 14 percent of its program target of 45,000 homeowners) and has spent approximately $51 million on borrowers (approximately 5 percent of its Program Funds). At current participation and spending rates, Treasury estimates that Florida Housing will not utilize a significant amount of its allocated funds. The table below shows the allocation, number of homeowners assisted, the targeted number of homeowners Florida Housing intends to assist, percentage of goal achieved and Program Funds spent to date:

Program	Allocation	Homeowners Assisted (09/30/2012)	Homeowners Assisted by 2017 Target (minimum)	Percentage of Homeowners Assisted Goal (09/30/2012)	Program Funds Spent (09/30/2012)
Florida Hardest-Hit Fund	$ 1,057,839,136	6,379	45,000	14.2%	$50,698,815

Florida Housing currently lags behind other HHF states on key measures, including progress toward stated targets, loan approvals, and pull-through rate.[1] During the third quarter of 2012 Florida Housing assisted 833 borrowers and registered a pull-through rate of 26.3 percent. Florida Housing must achieve a combination of high volumes and a higher ratio of approved homeowners to denied homeowners to meaningfully increase the current pull-through rate. It is noted that the Florida HHF Program currently has only an unemployment and reinstatement program. Although 43 percent of

[1]Treasury defines the pull-through rate as borrowers receiving assistance/(applications denied + applications withdrawn + borrowers receiving assistance).

Florida mortgages are underwater, the Florida HHF Program has no program to address negative equity or to address long-term affordability issues.

Earlier this year, Florida Housing sought Treasury approval for and implemented program changes that have renewed interest in the program, but the number of homeowners approved to receive assistance still lags behind what Florida needs in order to achieve its targeted homeowners assisted goal. Florida Housing's cumulative assistance rate suggests that it has helped an average of 375 homeowners per month. Assuming the same level of need, Treasury estimates suggest that Florida Housing would assist only 25,516 homeowners by December 31, 2016, the time by which Florida Housing would need to start winding down its intake process, given that the Florida HHF program offers benefits for twelve months. These statistics indicate that Florida Housing would need to double the number of homeowners assisted per month to meet its target. To achieve its target, Florida Housing needs to fund a minimum of 2,272 additional homeowners each quarter (~757/mo). Florida Housing's recently submitted spending plan assumes an average of 800 newly funded homeowners a month. At the current quarter pull-through rate, Florida Housing would need to process over 8,648 applications per quarter (~2,883/mo) to achieve the 2,272 newly-funded homeowners per quarter. Treasury reiterates its concerns about the program's current performance and pull-through rates and strongly recommends that Florida Housing take immediate action to improve its performance.

In addition, Treasury Compliance staff noted 14 observations during their review in April 2012. Although Florida Housing addressed some of these observations when program guideline changes were implemented and others through the hiring of a new HHF Compliance Officer, Treasury expresses concern over Florida Housing's staffing level to effectively oversee the Florida HHF Program and its partners. A recent staffing survey demonstrated that the Hardest Hit Fund program-wide average allocation amount per FTE is approximately $9 million; in Florida, the allocation amount per FTE exceeds $31 million, almost double the next highest allocation amount per FTE.

Florida Housing must show substantial progress over the next two quarters and clearly demonstrate that it can effectively utilize these funds and reach its target for the number of homeowners assisted. Treasury will be closely monitoring Florida Housing's performance to achieve these goals.

Request for Information: Treasury formally requests a written plan from Florida Housing **no later than December 21, 2012** identifying measurable targets for homeowners assisted per month over the next two quarters and the specific actions Florida Housing will take to reach these goals. As a minimum benchmark, the proposed strategy should achieve an average of 750 funded homeowners a month over this timeframe and increase the percentage of funds utilized substantially. The plan should establish action steps that will help Florida Housing achieve those targets, including new programs (if applicable). If Florida Housing fails to achieve these goals, Treasury will consider additional steps, including possible remedial actions, to improve performance.

Florida still faces elevated unemployment, high delinquency rates, and oppressive negative equity. Treasury and Florida Housing share the goal of maximizing the number of qualified Florida homeowners who receive assistance from the Hardest Hit Fund. It is urgent that Florida Housing take steps now to increase volume while the need is critical.

Appendix I – Evaluation Team Members

This evaluation was conducted and the report was prepared under the direction of Bruce S. Gimbel, Deputy Special Inspector General for Audit and Evaluation, and Jenniffer F. Wilson, Assistant Deputy Special Inspector General for Audit and Evaluation, Office of the Special Inspector General for the Troubled Asset Relief Program.

Staff members who conducted the evaluation and contributed to the report include Craig Meklir, Michael Davitt, Gerardo Lopez, Dennis Lee, and Yusuf House.

Appendix J – Management Comments

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 18, 2015

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

Re: Treasury Response to SIGTARP Report

Dear Ms. Romero:

I write in response to the Special Inspector General for the Troubled Asset Relief Program's (SIGTARP) draft report titled "Factors Impacting the Effectiveness of Hardest Hit Fund Florida" (Report).[1] We thank you for conducting this review and look forward to working with SIGTARP as we continue to support the programs designed and administered by the Florida Housing Finance Corporation (Florida) pursuant to the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (HHF).

The Report, commissioned in 2013, does not find any evidence of waste, fraud or abuse but does discuss some of the difficulties faced by Florida early in the implementation of its HHF programs. Since that time, however, Florida has made significant progress assisting homeowners under its original programs as well as pioneering new types of HHF programs responsive to its evolving housing markets and homeowner needs. Between June 2013 and June 2015, the number of homeowners Florida assisted more than doubled and Florida is now second among HHF states in the amount of assistance it has provided to homeowners.

SIGTARP included a number of recommendations in this report intended to improve Florida's HHF programs. Many of these recommendations, however, would require a centralized management approach at Treasury and, thus, would violate the fundamental principal of the HHF program of allowing state housing finance agencies (HFAs) to develop creative, effective approaches that consider local conditions to help prevent foreclosures and stabilize housing markets. We also believe that a number of the recommendations would hamper the significant progress Florida has made to date. This letter provides Treasury's official response to the Report. Pursuant to our customary protocol, we will review all of SIGTARP's recommendations and respond to each one in the ordinary course.

I. Florida Has Shown Significant Progress Over the Last Two Years

The Report details issues Florida faced early in the development and implementation of its programs. Florida faced a number of challenges at that time, including a relatively slow rate of

[1] We note that Treasury was not provided a full draft report prior to publication—the executive summary was omitted, for example.

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assistance prior to 2012. As noted in the Report, however, Treasury was already in close communication with Florida regarding these issues and worked with Florida to improve its HHF programs. In 2012, Treasury requested a written plan from Florida, identifying specific actions to improve performance.

Florida responded by expanding its definition of eligible hardships and successfully launching four new programs to better assist homeowners. As a result of these changes, Florida has since disbursed approximately $388 million (74 percent of all funds disbursed to date) and more than doubled the number of homeowners assisted (from 9,745 to 23,234). Florida has provided more financial assistance to homeowners than any other HHF state except California (over $520 million in total assistance as of Q2 2015), and ranks among the top four states in terms of number of homeowners assisted. Florida has also been at the vanguard of HHF in many ways. It was one of the first states to offer principal reduction to deeply underwater homeowners who have remained current (thereby reducing these homeowners' long-term risk of default). It pioneered the use of HHF for down payment assistance, helping to stimulate demand in particularly distressed counties and provide stability in lagging housing markets. It also developed the first program to assist senior homeowners with reverse mortgages (the ELMORE program). Importantly, Florida has resolved most of the issues highlighted by SIGTARP in its Report, and Treasury continues to support Florida as it adapts its programs to best respond to evolving housing markets and homeowner needs.

II. SIGTARP's Findings and Recommendations Demonstrate a Misunderstanding of HHF

The Report and the twenty recommendations relating to Florida's HHF Program contain numerous instances in which SIGTARP suggests that Treasury act in ways that run counter to the design of HHF. These recommendations relate to, among other things, targets for Florida and expanded reporting requirements.

By way of background, HHF was created in February 2010 under the Emergency Economic Stabilization Act of 2008 (EESA) to provide aid to the District of Columbia and 18 states designated "hardest hit" because they had experienced the nation's steepest home price declines and most severe unemployment. The underlying principle of HHF is to allow the participating HFAs to develop creative, effective approaches that consider local conditions to help prevent foreclosures and stabilize housing markets. As President Obama said when announcing the program in 2010, HHF "will allow housing finance agencies in the places hardest-hit by the housing crisis find innovative ways to help homeowners stay afloat, and empower local agencies that know these communities best."[2] HHF is designed to provide the greatest possible flexibility to eligible HFAs in designing programs that are responsive to the needs of their specific states.

Under HHF, HFAs are responsible for designing, administering and monitoring their own programs. The HFAs are required to develop and manage their programs subject to the contracts they signed with Treasury. These contracts also require them to establish monitoring

[2] "President Obama Announces Help For Hardest Hit Housing Markets, February 19, 2010, retrieved at https://www.whitehouse.gov/the-press-office/president-obama-announces-help-hardest-hit-housing-markets

mechanisms and implement a system of internal controls to minimize the risk of fraud, mitigate conflicts of interest, and maximize operational efficiency and effectiveness, which Treasury monitors.

In the Report, SIGTARP suggests that Treasury dictate approval and denial rates to Florida, determine which eligibility requirements Florida should use in targeting its assistance, specify what documents Florida should require to determine eligibility, identify which counties in Florida are "underserved," and personally contact borrowers to ask why they withdrew or did not complete their applications.

The level of Treasury involvement requested by SIGTARP would fundamentally alter the design and structure of HHF. Moreover, Treasury believes it would hamper progress and slow the pace of assistance by substantially increasing the administrative burden to operate these programs. While Treasury does closely track HFA performance—including denial rates, withdrawal rates, and overall progress towards goals (which are published in our website)—there is no one metric or benchmark that is appropriate for every HFA, each of which has different programs and operates in different housing markets. When appropriate, Treasury works with HFAs to adapt their programs to make them more effective, and to revise their goals to reflect those changes, as we have done with Florida. As previously described, Florida has significantly revised its programs over time (eleven major program changes, nine of which have been implemented since 2012), as is true for all the HFAs in the Hardest Hit Fund. This approach has allowed HFAs to develop flexible, dynamic programs to stabilizing their housing markets.

We will carefully review all of SIGTARP's recommendations and respond to each one as is customary with all oversight recommendations.

Sincerely,

Mark McArdle
Chief Homeownership Preservation Officer
Office of Financial Stability

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SIGTARP Hotline

If you are aware of fraud, waste, abuse, mismanagement, or misrepresentations associated with the Troubled Asset Relief Program, please contact SIGTARP.

By Online Form: www.SIGTARP.gov

By Phone: Call toll free: (877) SIG-2009

By Fax: (202) 622-4559

By Mail:
Office of the Special Inspector General
for the Troubled Asset Relief Program
1801 L Street., NW, 3rd Floor
Washington, D.C. 20220

Press Inquiries

If you have any inquiries, please contact our Press Office:

Kyra Daley
Deputy Director of Communications
Kyra.daley@treasury.gov
202-927-1852

Legislative Affairs

For Congressional inquiries, please contact our Legislative Affairs Office:

Joseph Cwiklinski
Director of Legislative Affairs
Joseph.Cwiklinski@treasury.gov
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.