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# Congress of the United States

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June 23, 2010

The Honorable Neil Barofsky  
Special Inspector General for the Troubled Asset Relief Program  
1801 L Street NW  
Washington, D.C. 20220

Dear Mr. Barofsky:

On May 21, 2010, I sent a letter to Treasury Secretary Timothy Geithner (attached) requesting that Treasury strengthen the transparency and accountability of the housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("Hardest Hit Fund"). The Hardest Hit Fund is slated to turn over \$2.1 billion in funds, originally authorized to Treasury under the Emergency Economic Stabilization Act of 2008 ("EESA"), to state housing finance agencies in certain selected states. Because serious questions have arisen about the transparency and effectiveness of the state programs on which Hardest Hit Fund monies will be spent, I am writing to request that your office conduct an appropriate audit, pursuant to its authority under EESA.<sup>1</sup>

First, Treasury has not revealed, in a fully transparent manner, the scope and objectives of the state programs that will receive Hardest Hit Fund monies. Treasury has required the state housing finance agencies to submit detailed proposals describing the programs on which they intend to spend Hardest Hit Fund monies,<sup>2</sup> but has not published those proposals, though some state housing finance agencies have voluntarily done so. Nor has Treasury solicited public comment or announced when it will approve or deny the proposals. As with other foreclosure-mitigation programs, taxpayers are in the dark about how their money will be spent.<sup>3</sup> Similarly, Treasury has neither published detailed

<sup>1</sup> Pub. L. 110-343 § 121(c) (Oct. 3, 2008) (providing that the office of the Special Inspector General for the Troubled Asset Relief Program shall have the duty of conducting, supervising, and coordinating audits and investigations of the conduct of programs established under the Emergency Economic Stabilization Act).

<sup>2</sup> Department of the Treasury, Guidelines for HFA Proposal Submission, March 5, 2010, available at <http://www.makinghomeaffordable.gov/docs/HFA%20Proposal%20Guidelines%20-%20030510%20FINAL%20%28Clean%29.pdf>.

<sup>3</sup> See, e.g., Letter from Darrell Issa and Jim Jordan to Timothy Geithner, Feb. 17, 2010; Letter from Darrell Issa and Jim Jordan to Timothy Geithner, March 16, 2010; Special Inspector General for the Troubled Asset Relief Program, Factors Affecting Implementation of the Home Affordable Modification Program,

objectives for the state housing finance agencies' programs nor revealed the criteria by which their success will be judged. Treasury has published only vague guidelines that do not provide taxpayers with the means to understand how their money will be spent. For example, Treasury's guidelines call for "innovation," but are vague enough that programs which substantially duplicate existing federal and private initiatives appear to qualify.<sup>4</sup>

Second, the details of Hardest Hit Fund programs that have so far emerged suggest that they will not effectively address the national foreclosure crisis, and in some cases might leave some distressed homeowners worse off. For example, the California Housing Finance Agency ("CalHFA") proposes to spend the majority of its \$700 million Hardest Hit Fund allocation – over \$419 million – on a mortgage principal reduction program that, by design, will assist only 5,500 homeowners.<sup>5</sup> The program will not provide assistance to bring loan to value (LTV) ratios lower than 125%,<sup>6</sup> which means that even the few homeowners assisted will remain deeply underwater, with a high statistical likelihood of default and a strong incentive to abandon their mortgages later. Furthermore, California's \$700 million spending plan is not only wasteful but also uncoordinated. For example, CalHFA has admitted it has no idea how its programs would be coordinated with existing federal ones, such as Treasury's own Home Affordable Modification Program.<sup>7</sup>

As a further example, the Florida Housing Finance Corporation plans to use part of its deficit-funded federal allocation on a down payment assistance program that will subsidize new home purchases.<sup>8</sup> In other words, Florida plans to encourage new buyers to purchase homes they otherwise could not afford – just like the government policies that, on the federal level, caused the housing bubble in the first place.<sup>9</sup>

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March 25, 2010, *available at* [http://www.sig tarp.gov/reports/audit/2010/Factors\\_Affecting\\_Implementation\\_of\\_the\\_Home\\_Affordable\\_Modification\\_Program.pdf](http://www.sig tarp.gov/reports/audit/2010/Factors_Affecting_Implementation_of_the_Home_Affordable_Modification_Program.pdf), at 30 (finding Treasury's primary metric for measuring the success of HAMP to be neither meaningful nor useful).

<sup>4</sup> Treasury's guidelines include a non-exhaustive list of the types of programs that would be eligible for the Hardest Hit Fund; several of these types seem to overlap with programs already being conducted by the federal government and by private servicers. *See* Guidelines for HFA Proposal Submissions, *supra*, at 2.

<sup>5</sup> California Housing Finance Agency, California Submission for HFA Hardest-Hit Fund, April 16, 2010, *available at* <http://www.keepyourhomecalifornia.com/proposal.pdf>, at 11, 44.

<sup>6</sup> *Id.* at 4-5 ("CalHFA will require that the current first mortgage loan-to-value (LTV), *after principal reduction*, does not fall below 125%" (emphasis added)).

<sup>7</sup> Carolyn Said, "Federal program will help struggling homeowners," SAN FRANCISCO CHRONICLE, May 10, 2010, *available at* [http://articles.sfgate.com/2010-05-10/business/20891847\\_1\\_underwater-mortgages-median-income-foreclosure-process](http://articles.sfgate.com/2010-05-10/business/20891847_1_underwater-mortgages-median-income-foreclosure-process).

<sup>8</sup> Florida Housing Finance Corporation, Florida Hardest-Hit Fund Frequently Asked Questions, April 16, 2010, *available at* <http://www.floridahousing.org/FH-ImageWebDocs/HousingResources/HFAHardest-Hit/Florida%20Hardest-Hit%20Fund%20Proposal%20FAQs-final.pdf>, at 4.

<sup>9</sup> *See, e.g.*, Oversight and Government Reform Committee minority staff, "The Role of Government Affordable Housing Policy in Creating the Global Financial Crisis of 2008," updated May 12, 2010, *available at* <http://republicans.oversight.house.gov/images/stories/Reports/20100512affordablehousingpolicyandthefinancialcrisis.pdf>.


The Honorable Neil Barofsky  
June 23, 2010  
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In view of the need for both full transparency and effectiveness in Treasury's operation of the Hardest Hit Fund, I request that your office conduct an audit addressing questions including the following:

- To what extent did Treasury apply consistent and transparent criteria, including applicable provisions of the Emergency Economic Stabilization Act of 2008, in selecting the states and programs to receive money from the Hardest Hit Fund?
- To what extent has Treasury determined the programs to be funded by Hardest Hit Fund monies are not duplicative of existing federal and state programs?
- Has Treasury put sufficient mechanisms in place to prevent waste, fraud, and abuse of money distributed from the Hardest Hit Fund?
- What goals and metrics have Treasury adopted and reported to the public in its operation of the Hardest Hit Fund?
- Are the state housing finance agencies' programs to be funded by Hardest Hit Fund monies likely to be effective in addressing the national foreclosure crisis and in pursuing the goals of Congress in passing the Emergency Economic Stabilization Act of 2008?

Thank you for your consideration of this request. Should you or your staff have any questions with regard to this request, you may contact Christopher Hixon or Hudson Hollister of the Committee staff at (202) 225-5074.

Sincerely,



Darrell Issa  
Ranking Member

cc: The Honorable Edolphus Towns, Chairman

Attachment