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Chairman Meadows, Chairman Palmer, Ranking Member Connolly, Ranking Member Raskin, and Members of the Subcommittees, thank you for the opportunity to testify today about Treasury's efforts to mitigate the effects of the financial crisis on American homeowners through the Housing Finance Agency Innovation Fund for Hardest Hit Housing Markets, also known as the Hardest Hit Fund or HHF.

In 2008, Congress passed the Emergency Economic Stabilization Act of 2008, 12 U.S.C. 5201, *et seq*., (as amended, EESA). This legislation provided Treasury with immediate authorities and resources to restore liquidity and stability to the nation's financial system in the wake of an historic economic crisis. Using its authorities under EESA, Treasury established the Troubled Asset Relief Program, known as TARP, an initiative that was unprecedented in both its design and scale. Congress initially authorized up to $700 billion for TARP programs, though Congress later reduced that authority to $475 billion.

In the following years, Treasury disbursed nearly $412 billion of TARP funds under a variety of programs designed to help stabilize banks, automobile manufacturers, and other institutions integral to the nation's economy. Treasury reserved additional funds for programs designed to protect home prices and prevent foreclosure. The first, and largest, of these housing programs was the Making Home Affordable® program, or MHA. Launched in 2009, MHA was a nationwide effort to help struggling homeowners avoid foreclosure by lowering mortgage payments to affordable levels. However, it soon became clear that a one-size-fits-all approach would not be sufficient to address all of the specific needs of homeowners and communities in the states that were hit hardest by the housing crisis.

Treasury established HHF in 2010 as part of TARP in order to help prevent foreclosure and to stabilize housing markets in states hit hardest by the housing crisis. State housing finance agencies, (together with certain designated entities, HFAs) in eighteen states and the District of Columbia were selected to participate, as these areas experienced unemployment rates at or above the national average, and/or home price declines of greater than 20 percent.[1]

[1] The eighteen participating states consist of Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, and Tennessee.

Unlike MHA – a national program based on uniform criteria set by the Federal government – HHF was designed to give the participating HFAs the maximum flexibility to design and administer their own programs, each tailored to local conditions in their respective communities. As a part of this flexibility, the states have been able to adapt their programs in order to address the changing needs of their communities over time.

As of December 31, 2017, states had assisted approximately 350,000 homeowners and funded the demolition and greening of nearly 24,000 blighted properties in distressed communities.

However, the flexibility afforded to HFAs by the Hardest Hit Fund has made Treasury's oversight a critical aspect of the program. Treasury maintains a strong commitment to ensure that the program achieves its goals and that federal taxpayer funds are used for their intended purpose.

Treasury requires each HFA to set specific goals for its HHF program, and to demonstrate steady progress toward meeting these goals. Treasury works with each of the HFAs to identify and address barriers that would keep the HFA from achieving its goals. Subject to Treasury approval, the HFAs may also modify their programs as needed in order to address the changing needs of their communities. Treasury also maintains an ongoing dialogue with the HFAs through in-person meetings and regularly scheduled calls, and it hosts annual summits where the various participating HFAs can meet and share best practices.

Treasury has also conducted more than 100 on-site compliance reviews across the participating HFAs, as well as additional, targeted reviews to address specific programmatic risks. These reviews evaluate a number of critical program functions, such as whether homeowners are evaluated in accordance with the HFA's guidelines, program disbursements and administrative expenditures are appropriate, the information reported to Treasury is accurate, and the HFA's internal controls are functioning as intended to minimize the risk of non-compliance.

Treasury takes corrective action when instances of non-compliance arise. This includes, for example, requiring HFAs to re-evaluate homeowners that were improperly denied, to reimburse HHF for improper expenditures, and to strengthen internal controls in order to prevent further non-compliance.

In addition to compliance reviews, Treasury also takes SIGTARP's role seriously. We share this Committee's and SIGTARP's commitment to preventing fraud, waste, and abuse in all TARP programs, and we carefully consider recommendations in that regard.

Treasury responds to SIGTARP recommendations in writing, and our responses are made available to the public. We work hard to address the concerns raised by these recommendations, in a manner that allows the programs to function as intended and in the context of TARP's wind-down. With respect to HHF in particular, this has included, for example, issuing written guidance to clarify HFA obligations, recovering funds that were improperly spent, and requiring states to strengthen internal controls to prevent non-compliance in the future.

For example, Treasury thoroughly reviewed the $2.2 million of costs questioned in SIGTARP's August 2017 Audit Report. This involved analyzing thousands of individual transactions incurred by all 19 HFAs, dating back to the program's inception in 2010. Following this review, Treasury determined that $656,141 of the questioned costs did not comply with the Federal government's cost principles. The HFAs were required to reimburse HHF. For the reasons set forth in our April 6, 2018, letter to SIGTARP—a copy of which has been provided to the Committee and is available on our website—Treasury determined that the remaining costs questioned by SIGTARP were allowable under Federal cost principles.

As is the case with all TARP programs, HHF is winding down. Although Congress authorized additional funding in 2015, the program remains a temporary one. As of the end of April 2018, Treasury has disbursed $8.8 billion (or 92 percent) of the $9.6 billion obligated under HHF. Although HFAs may continue issuing new approvals through December 31, 2020, most of the states have already begun to close down HHF programs or will do so this year as they exhaust their available funds. This includes California and Florida, the two largest states in the program.

Treasury's outstanding commitments under TARP represent just one percent of the $475 billion authorized by Congress. As TARP winds down, Treasury remains committed to robust oversight and monitoring of all of its TARP programs, including HHF.

As part of this wind down, the Office of Financial Stability, which oversees HHF and other TARP programs, was recently realigned to report to Treasury's Assistant Secretary for Financial Institutions. This realignment will enable our office to oversee an orderly and successful wind down of HHF that is in line with the wind down of other programs that are also overseen by this office, such as the State Small Business Credit Initiative and the Small Business Lending Fund.

I thank you again for the opportunity to testify today and welcome your questions.