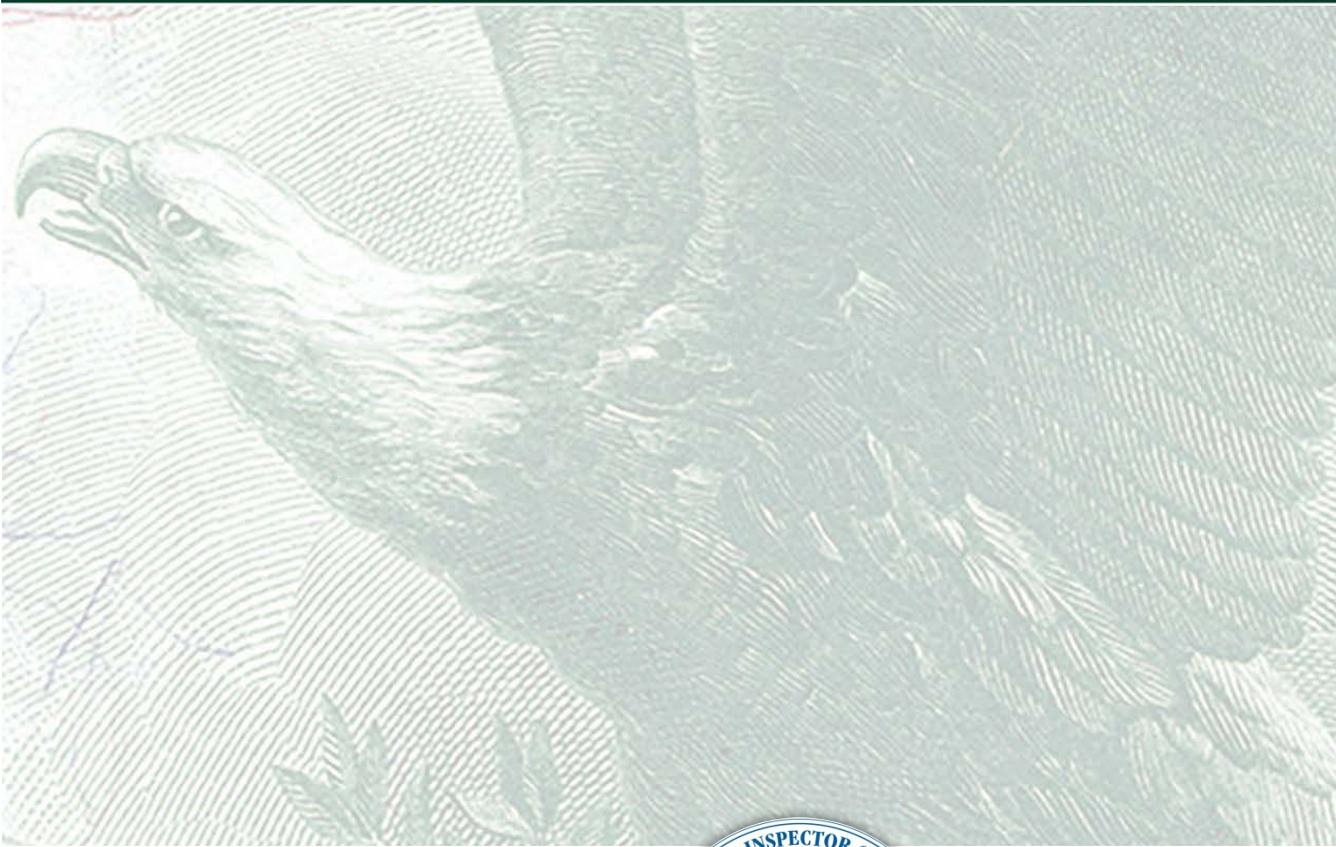




Audit Report

Mismanagement of the Hardest Hit Fund in Georgia



SIGTARP



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



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WASHINGTON, D.C. 20220

MEMORANDUM FOR: Honorable Steven T. Mnuchin – Secretary of the Treasury

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

SUBJECT: Mismanagement of the Hardest Hit Fund in Georgia
(SIGTARP 18-001)

We are providing this report for your information and use. SIGTARP found that the Georgia agency mismanaged the Hardest Hit Fund.

The Office of the Special Inspector General for the Troubled Asset Relief Program conducted this audit (engagement code 034) under the authority of the Emergency Economic Stabilization Act of 2008, which also incorporates certain 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 its entirety.

We appreciate the courtesies extended to our staff. For additional information on this report, please contact me at any time.



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Executive Summary

SIGTARP conducted this audit upon request by Congressman John Lewis. SIGTARP found that TARP's Hardest Hit Fund (HHF) program has not adequately served those most in need in Georgia counties in Congressman Lewis' district in Atlanta and surrounding areas.

The Georgia Department of Community Affairs (the Georgia agency) has consistently ranked among the least effective state agencies in the nation in disbursing Hardest Hit Funds to homeowners. In 2010, it told Treasury that it planned to distribute Hardest Hit Funds to 18,625 homeowners (9,000 homeowners in the first year, and 9,500 homeowners in the second year). But it has taken more than 6 years for the Georgia agency to provide Hardest Hit Funds to 9,061 Georgia homeowners.¹ The Georgia agency has provided less than half of the available dollars (\$173.8 million out of \$370.1 million) to homeowners.

The problem was not a lack of need. Many Georgia communities have experienced slow recovery from the housing crisis, including DeKalb, Clayton, and Fulton counties. Neighborhoods in these counties like Forest Park, Lakewood Heights, and Lithonia have been the subject of nationwide and local reporting on pervasive poverty and an uneven housing market.

The problem was also not a lack of interest. There were 29,750 Georgians who applied. However, the Georgia agency turned away two-thirds (20,051 of 29,750) of Georgians who applied, one of the worst rates nationwide. The Georgia agency turned away 6,200 people living in DeKalb, Clayton, and Fulton counties, counties that throughout these 6-plus years experienced high numbers of foreclosures, mortgage delinquencies, and underwater homes, coupled with above-average unemployment, and Georgia has above-average underemployment. All three counties have above-average poverty rates.

Many hard-hit Georgians applied. Three out of every four Georgians the Georgia agency turned away earned less than \$30,000, and most earned less than \$20,000.² In Clayton County, 8 of every 10 people the Georgia agency turned away earned less than \$30,000. In DeKalb County, nearly 8

¹ As of March 31, 2017, the latest data available as of the drafting of this report.

² The Georgia agency denied 11,922 people, and 8,129 people had withdrawn applications. A senior official with the Georgia agency told SIGTARP that 99% of withdrawn applications were withdrawn by the agency. The Georgia agency withdraws a homeowner's application if the homeowner does not provide all documents in 30 days or less. Throughout this report, SIGTARP combines denied homeowners and withdrawn homeowners under those "turned away." The other 1% of applications was withdrawn by the homeowner. This can be an indication of overly strict program criteria or a burdensome application process.



of every 10 people the Georgia agency turned away earned less than \$30,000. Most turned away in these counties earned less than \$20,000. The Georgia agency also turned away 71 percent of all veterans who applied, despite Georgia having one of the largest military populations in the country.

The problem SIGTARP found was that the Georgia agency mismanaged the Hardest Hit Fund. The Government Accountability Office (GAO) defines mismanagement as “creating substantial risk to an agency’s ability to accomplish its mission.” The mission of HHF is to preserve homeownership. The mission is accomplished by state housing finance agencies (HFAs), like the Georgia agency, providing aid to families through local programs tailored to the urgent needs of the communities.

The Georgia agency’s mismanagement of HHF included that it:

- ***Failed to act with urgency in distributing this Federal aid, and withheld it from Georgians.*** The Georgia agency did not meet its own target of providing assistance to 18,500 Georgians in the first 2 years (by September 2012). Instead, after 2 years (as of September 30, 2012), the Georgia agency provided this aid to less than 10% of that target—assisting only 1,708 homeowners. The Georgia agency slow walked this aid to Georgians over the years, meeting less than 50% of its own target as of March 31, 2017, the latest data available during the drafting of this report.
- ***Designed overly strict criteria not required by Treasury or used by other state agencies in HHF that did not reflect the local conditions of most Georgians.*** For example, when in 2012 the Georgia agency required that a homeowner be no more than 6 months delinquent on their mortgage to qualify, people all but stopped applying. This, and other overly strict criteria, makes it harder for a Georgia homeowner to obtain this aid compared to homeowners in other states.
- ***Failed to eliminate overly strict criteria despite repeated warnings and recommendations.*** The Georgia agency was repeatedly warned by SIGTARP (25 times in 5 years) about its severe underperformance in the program, and by Treasury (in 2012). Congressman Lewis, Congressman Henry “Hank” Johnson, and local non-profit groups recommended dropping strict criteria that did not match the reality facing many Georgians.
- ***Required significant red tape, had a confusing online application, provided very little in-person help to apply, and had burdensome document requirements.*** More than 8,000



Georgians could not provide burdensome documents like 4 years of tax transcripts stamped by the IRS, and 2 years of payment history generated by their mortgage servicer within 30 days, so the Georgia agency withdrew their HHF application.

The Georgia agency limited distributing HHF aid to only those whom it viewed as being “responsible” homeowners. The Georgia agency added more limitations and red tape than Treasury required or that existed for homeowners in other states for these same funds, putting Georgians at a disadvantage. This program lost a significant opportunity to fulfill its mission to preserve homeownership in Georgia. Georgia has been slow to recover from the crisis, particularly in DeKalb, Clayton, and Fulton counties. HHF did not adequately address the housing needs in these communities, which could have sped up recovery.

SIGTARP found that Treasury also mismanaged HHF by failing to hold the Georgia agency accountable to the Georgia agency’s target or to Treasury’s own target of funding 250 new homeowners each month. Despite severe underperformance by the Georgia agency, including a failure to meet these targets, Treasury continued to fund the Georgia agency’s \$12 million in salaries and \$20 million in other administrative expenses.

The Georgia agency set a very high bar for Georgians to receive Hardest Hit Funds, and a very low bar for itself to receive these funds. The Georgia agency's track record is so poor that while other states took advantage of an additional \$2 billion that Congress approved starting in 2016 for HHF, Treasury turned down Georgia for \$33.5 million, out of concern that the Georgia agency would not spend the HHF dollars already set aside for Georgians.

The question SIGTARP was left with was, “what are they waiting for?” For many Georgians, it is too late for HHF to help. However, there is still an opportunity that should not be lost. SIGTARP makes 30 recommendations for improvement that are designed to stop the mismanagement, and can change the course to distribute the remaining \$164 million with urgency.³ If the Georgia agency reacts defensively to this report and sticks with the status quo, Georgians will continue losing out on a crucial aid that can speed their recovery from the housing crisis—aid that homeowners in other states have had access to for years. SIGTARP implores the state agency and Treasury to adopt these recommendations fully and immediately.

³ SIGTARP conducted this audit in accordance with GAO generally accepted government auditing standards. For a complete discussion of the audit scope and methodology, see Appendix A.



In response, Treasury said that HHF's structure has maximum flexibility including in the rate of disbursing funds. In 2012, Treasury set numerical targets for HHF disbursement in Georgia. Rather than hold the Georgia agency accountable to Treasury-set targets, Treasury continued to pay the Georgia agency nearly \$32 million for salaries and other expenses. Treasury also responded saying that SIGTARP is recommending uniform eligibility criteria, which is not true. SIGTARP's recommendations are designed to hold the Georgia agency accountable to Treasury targets and stop mismanagement.



Background

Then-President Obama announced a series of programs for “Responsible Homeowners” including TARP’s Making Home Affordable and TARP’s Hardest Hit Fund, which provides TARP dollars to the mortgage servicers of homeowners in 19 states.⁴ Making Home Affordable, a national program administered by Treasury, has provided TARP dollars to 80,026 Georgians. The President Obama White House described an irresponsible homeowner, stating, “The housing market suffered a dramatic collapse caused by irresponsible lenders who tricked buyers into signing subprime loans and in some cases irresponsible homeowners who took out loans they knew they could not afford.” Treasury capped both programs to houses with mortgages under the Government Sponsored Enterprise (GSE) conforming loan limit—\$424,100 for a single-family house in Georgia.⁵

The Obama White House promised the program would be under strict transparency and accountability. In 2011, Treasury Home Preservation Office Chief Phyllis Caldwell told SIGTARP that Treasury would evaluate: “are we reaching the right number of people.” She said, “The HFAs set targets for the number of homeowners they plan to assist, if they didn’t reach the target, we’ll learn and adjust.” On April 12, 2012, SIGTARP issued an audit on the slow progress of distributing HHF to homeowners. In that audit, SIGTARP recommended that Treasury set targets for the number of people to be helped, measure progress, and make changes if targets were not met, including putting the funds to better use.⁶ SIGTARP also recommended that Treasury develop an action plan for state agencies to increase the number of homeowners assisted.

The Georgia agency has a contract with Treasury to distribute \$370.1 million in HHF to Georgia homeowners. When applying for the program in 2010, the Georgia agency estimated providing HHF aid to 18,625 homeowners, most in the first 2 years as follows:

Year 1	9,000 homeowners assisted
Year 2	9,500 homeowners assisted
Year 3	50 homeowners assisted
Year 4	50 homeowners assisted
Year 5	25 homeowners assisted

⁴ See White House, Helping Responsible Homeowners, <https://obamawhitehouse.archives.gov/economy/middle-class/helping-responsible-homeowners>, 9/21/2017.

⁵ In one Georgia County, Greene County, Georgia, the GSE conforming limit is \$515,200.

⁶ See SIGTARP, *Factors Affecting Implementation of the Hardest Hit Fund Program*, April 12, 2012.



Treasury approved the Georgia agency's application and HHF opened in Georgia in September 2010. The agency started with HHF unemployment/underemployment assistance, which was the only program until 2014, when the Georgia agency opened two small programs for reinstatement of past due amounts and a mortgage recast.

On April 9, 2012, three days before SIGTARP issued its audit and while Treasury had the draft report, Treasury implemented one of SIGTARP's recommendations in the audit by issuing an Action Memorandum to the Georgia agency. At that point, the Georgia agency had distributed HHF aid to only 524 homeowners; far below the 9,000 homeowners it estimated assisting in the first year. Treasury set a target that the Georgia agency would fund 250 new homeowners per month.



SIGTARP Found That the Hardest Hit Fund Did Not Meet the Urgent Local Needs Affecting the Housing Recovery of Georgia Homeowners Living in DeKalb, Clayton, and Fulton Counties

The Obama Administration announced that HHF would “help address urgent problems facing homeowners at the center of the housing crisis.” There have been serious problems affecting housing recovery across pockets of Georgia, including in DeKalb, Clayton, and Fulton counties. These problems continue today.

Homeowners in DeKalb, Clayton, and Fulton Counties—Counties that Include Atlanta and Its Suburbs—are the People the Hardest Hit Fund was Intended to Assist

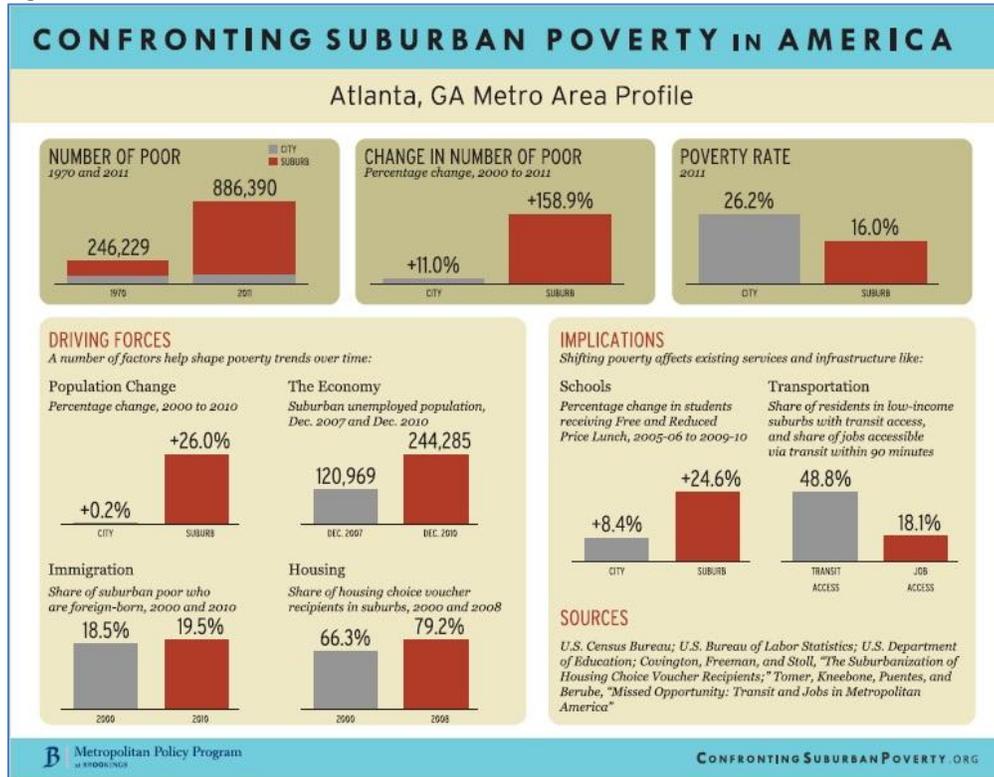
Georgians in these three counties were at the center of the housing crisis and have remained there, while many other homeowners across the nation have recovered. According to CoreLogic, since September 2008, 95,232 homeowners in these three counties lost their homes to foreclosure—nearly one quarter of all Georgia foreclosures.

Public Broadcasting Atlanta’s Kate Sweeney reported in March 2016,⁷ that between 2000 and 2013, poverty in Atlanta’s suburbs had the highest rate of change of any metro region of its size:

⁷ Kate Sweeney, “Suburban Poverty: Atlanta’s Hidden Epidemic,” *WABE*, March 28, 2016, <http://news.wabe.org/post/suburban-poverty-atlantas-hidden-epidemic>, accessed 9/12/2017.



Figure 1: Atlanta Metro Area



Source:
http://mediad.publicbroadcasting.net/p/wabe/files/styles/x_large/public/201603/atlantapoverty_brookingsgraph_2_032516.jpg, accessed 9/12/2017.

While there has been some improvement in Atlanta, recovery has been slower than in many other cities. Recent data shows a continuing need for HHF in these three counties. As of March 31, 2017, around 22,000 DeKalb, Clayton, and Fulton County homeowners are behind on their mortgage payments (9,495 DeKalb homeowners, 3,666 Clayton homeowners, and 9,038 Fulton homeowners). More than 8,000 Georgians in these counties are 3 months behind on their mortgages. Residents of these three counties also continue to suffer from above-average unemployment, and Georgia has above-average underemployment.⁸ All three counties have above average poverty rates.

Year after year, the Georgia agency ranked among the least effective state agencies in disbursing Hardest Hit Funds to homeowners to preserve homeownership—the goal of the program.⁹ The Obama White House promised hard-hit homeowners help through this program, announcing, “This new innovation fund will help housing finance agencies in the hardest-hit areas and localities further respond to the most pressing

⁸ Clayton County has a 5.9 percent unemployment rate compared to the national 4.5 unemployment rates.

DeKalb County and Fulton County also have above average unemployment rates at 4.9 percent each.

⁹ Phyllis Caldwell, Treasury’s Chief of the Home Preservation Office, told SIGTARP in a 2011 interview that the goal of the program is “preserving homeownership.”



problems in their communities.” Rather than respond to the most pressing problems of their communities, the Georgia agency has consistently turned away homeowners at one of the highest rates in the nation. As a result, almost half of the available funds are unspent after 6 years. Seven other state agencies closed their programs to new homeowners years ago because the funds were already scheduled to be distributed.

The Georgia Agency’s Ineffectiveness Is Particularly Acute in Meeting the Local Needs Impacting Housing Recovery for Hard-Hit Neighborhoods in Atlanta-Based Counties

Those most in need of HHF assistance in these counties include those in 16 hard-hit neighborhoods that have and continue to experience high levels of poverty, low median house values, and/or above-average unemployment or underemployment, but have low levels of homeowners who received Hardest Hit Funds. Some of these neighborhoods have predominantly minority residents. These 16 hard-hit neighborhoods include Forest Park (zip code 30297), Conley (zip code 30288), Lakewood Heights and nearby neighborhoods in south Atlanta (zip code 30315), Atlanta neighborhoods of Washington Park, Dixie Hills, Bankhead, Grove Park, Westview, Penelope (zip code 30314), Jonesboro (zip code 30238), Rex (zip code 30273), Riverdale (zip code 30274), Decatur (zip code 30032), Lithonia (zip codes 30038 and 30058), Stone Mountain (zip code 30088), Ellenwood (zip code 30294), Fairburn (zip code 30213), Union City (zip code 30291), West End of Atlanta (zip code 30310), and East Point (zip code 30349).¹⁰

The Georgia Agency Can Be Improved with More Outreach in 16 Hard-Hit Neighborhoods in DeKalb, Clayton, and Fulton Counties, and in Other Hard-Hit Neighborhoods in Georgia

The Georgia agency should conduct more outreach through in-person events in these 16 hard-hit neighborhoods. In July 2011, Congressman Lewis raised concerns to the Georgia agency about “ineffective constituent outreach.” In 2012, Treasury told the Georgia agency that it needed to “better target marketing and outreach efforts.” The Georgia agency then held two in-person events to assist with applications in Atlanta in the fall of 2012, and an event in Lithonia sponsored by Congressman Henry “Hank” Johnson in December 2012. The Georgia agency held only limited in-person outreach events in the 16 hard-hit neighborhoods. Instead, the Georgia agency relied heavily on its website.

¹⁰ Some neighborhoods, including East Point and Riverdale, cross more than one zip code.



A Georgia agency official told SIGTARP that, following a local television story, the number of applications shot up, showing that marketing and outreach can increase the effectiveness of the program. However, this was not followed up with sustained efforts by the Georgia agency to conduct outreach in the hard-hit neighborhoods in these three counties.

Despite the fact that \$164 million in the Hardest Hit Fund remains available for Georgia homeowners, the Georgia agency's marketing and outreach employee position has been vacant since October 1, 2016. The head of the Georgia HHF program told SIGTARP that the agency has no plans to fill the position, despite \$164 million remaining to be distributed.

Treasury should require the Georgia agency to increase in-person outreach events in hard-hit neighborhoods, including public service advertisements on television and the radio, as well as billboards and in-person events in hard-hit neighborhoods throughout Georgia.

Nearly Two of Every Three Homeowners in DeKalb, Clayton, and Fulton Counties Who Applied for the Hardest Hit Fund Were Turned Away, a Rate that Must Be Improved to Meet Local Needs

The Georgia agency provided Hardest Hit Funds to 3,316 residents of these counties, but turned away nearly two-thirds (6,200) of the 9,516 residents of these counties who applied.¹¹ The Georgia agency turned away 2,476 DeKalb County residents, 2,342 Fulton County residents, and 1,382 Clayton County residents who applied, according to records the Georgia agency provided to SIGTARP. Some examples of hard-hit neighborhoods in these counties include:

Forest Park

Forest Park is a neighborhood in Clayton County, Georgia, that is 5 miles east of the airport and was the site of Fort Gillem, an Army base that closed in September 2011. Forest Park is near Clayton State University, and has one of the largest farmers markets in the country, which is a major distribution hub for produce. Forest Park was the subject of a December 28, 2015, *Washington Post* story, "A lonely road: For the poor in the Deep South's cities, simply applying for a job exposes the barriers of a particularly pervasive and isolating form of poverty."¹² Median

¹¹ According to the 2015 census, there are 734,871 people living in DeKalb County, 1,010,562 people living in Fulton County, and 273,955 people living in Clayton County. The Georgia agency provided Hardest Hit Funds to 673 people in Clayton, 1,379 people in DeKalb, and 1,264 people in Fulton.

¹² Michael S. Williamson, "A lonely road: For the poor in the Deep South's cities, simply applying for a job exposes the barriers of a particularly pervasive and isolating form of poverty," *Washington Post*, December



household income is \$31,228, and the median house value is \$54,100. Almost every child (99.6%) is eligible for free or reduced lunch. *In Forest Park, one of every three residents lives in poverty, but the Georgia agency turned away 50 of the 78 people living in Forest Park or surrounding neighborhoods in the same zip code who applied for the Hardest Hit Fund.*

Conley

The small community of Conley is near Forest Park. Median household income is \$32,132, and the median house value is \$53,500. Almost every child (99.5%) is eligible for free or reduced lunch. Although there are a number of trucking companies near Conley, the neighborhood has above-average unemployment. *In Conley, about one out of every three residents lives in poverty, but the Georgia agency turned away 52 of the 81 people living in Conley or surrounding neighborhoods in the same zip code who applied to HHF.*

Lakewood Heights

Lakewood Heights is a south Atlanta suburb in Fulton County that was the subject of a May 9, 2015, PBS special, "Here's What Concentrated Poverty Looks Like in South Atlanta."¹³ This is a hard-hit neighborhood that housed General Motors workers until GM closed the plant in 1990. It was home to the car racing circuit at Lakewood Speedway until it closed in 1979. Today it is home to the Screen Gems Studios & Lakewood Amphitheater. Around thirty percent of residents in Lakewood Heights live below the poverty line, which is higher than the national average of 14.7%. Vacant houses are a characteristic of the neighborhood with a 38% vacancy rate. Median household income is just over \$25,000. The median real estate price is \$97,576. The Lakewood Heights neighborhood has more single mother households than 96.6% of the neighborhoods in the United States. There are more people who ride the bus in this neighborhood each day to get to work than 97.4% of U.S. neighborhoods, and 92% of students are eligible to receive free or reduced lunch. *The Georgia agency turned away 69 of the 110 people living in Lakewood Heights and surrounding neighborhoods in the same zip code who applied for the Hardest Hit Funds.*

28, 2015, http://www.washingtonpost.com/sf/business/2015/12/28/deep-south-4/?utm_term=.e342a5e1e165, accessed 9/13/2017.

¹³ Ivette Feliciano, "Here's what concentrated poverty looks like in South Atlanta," Public Broadcasting System, May 9, 2015, <http://www.pbs.org/newshour/updates/heres-concentrated-poverty-looks-like-south-atlanta/>, accessed 9/13/2017.



Lithonia

Lithonia is a hard-hit neighborhood in DeKalb County that was the subject of a June 23, 2015, *Wall Street Journal* story, “Why the U.S. Housing Recovery is Leaving Poorer Neighborhoods Behind.”¹⁴ Lithonia, with its rock quarries and 40,000 acres of the Arabia Mountain National Heritage Area, is called the “City of Granite.” Lithonia is a small, lower-income, working-class suburb that prides itself on being “faith-based.”¹⁵ The *Wall Street Journal* reported on June 23, 2015, that poorer towns such as Lithonia are stuck with a housing crisis that drags on, calling it an “uneven market.” Lithonia suffers from boarded-up homes, and had 6,079 foreclosure sales in 7 years—the 3rd highest in Georgia. There are 2,502 Lithonia residents with delinquent mortgages. The *Wall Street Journal* reported that roughly 10,000 homeowners in Lithonia owe more than their house is worth. *The Georgia agency turned away 780 of 1,256 people living in Lithonia and surrounding neighborhoods in the same zip codes who applied for the Hardest Hit Fund.*

Jonesboro

Jonesboro in Clayton County is said to be the town portrayed in *Gone with the Wind*. Unemployment is above average, and almost every child (99.7%) qualifies for free or reduced lunch. Jonesboro had 2,966 foreclosure sales over the last 7 years. *The Georgia agency turned away 227 of the 341 people living in Jonesboro who applied for the Hardest Hit Fund.*

* * *

The Georgia agency turned away two-thirds of people from these 16 hard-hit neighborhoods that applied for Hardest Hit Funds. HHF lost an opportunity to speed these neighborhoods’ recovery from the housing crisis. It is too late for HHF to help those homeowners who lost their homes. However, with \$164 million available, and a continuing great need, there is still an opportunity. Stopping mismanagement will require major changes from turning away two-thirds of all who apply to instead accepting at least two-thirds of all who apply.

Treasury and the Georgia agency should take steps to increase the percentage of applicants receiving Hardest Hit Funds to at least two-thirds of all who apply.

¹⁴ Joe Light, “Why the U.S. Housing Recovery is Leaving Poorer Neighborhoods Behind,” *Wall Street Journal*, June 23, 2015, <https://www.wsj.com/articles/in-u-s-poorer-areas-have-yet-to-see-housing-rebound-1435091711>, accessed 9/14/2017.

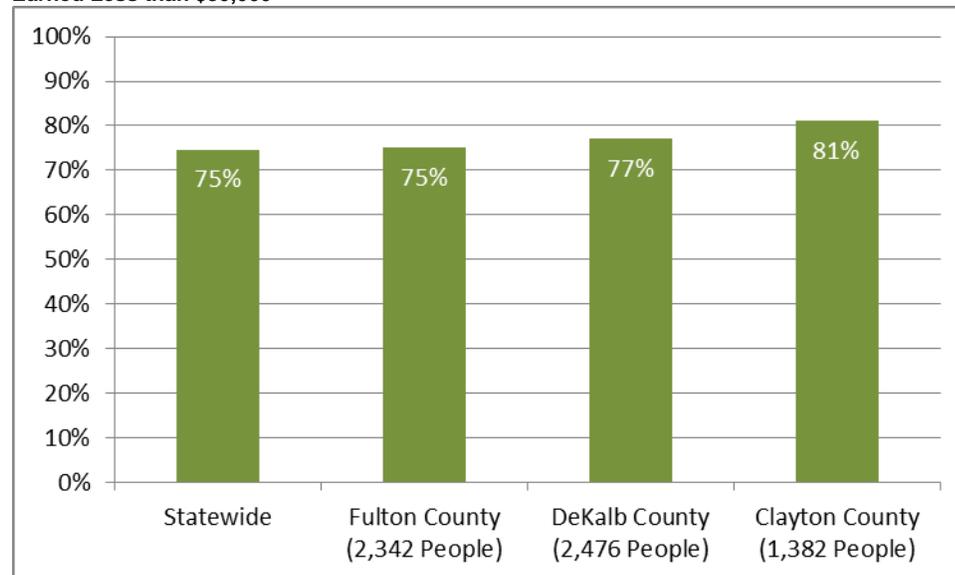
¹⁵ See <http://www.cityoflithoniaga.org>, accessed 9/18/2017.



8 Out of 10 Clayton County Residents and Nearly 8 Out of 10 DeKalb County Residents the Georgia Agency Turned Away Earned Less Than \$30,000 (and Most Earned Less Than \$20,000)

SIGTARP found that it was very difficult for people living in DeKalb, Clayton, and Fulton counties to obtain Hardest Hit Funds, despite these counties experiencing high unemployment, foreclosures sales, mortgage delinquencies, and underwater homes. All three counties have above average poverty rates. For example, the 16 hard-hit neighborhoods experienced high foreclosures sales, mortgage delinquencies (as high as 20%), and underwater homes (on average 27%). As reflected in Figure 2, large percentages of those who were turned away lived on a limited income.

Figure 2. Percentage of Georgia’s Hardest Hit Fund Applicants Denied or Withdrawn Who Earned Less than \$30,000



Source: SIGTARP analysis of applicant data provided by the Georgia agency.

According to the records the Georgia agency provided to SIGTARP, in Clayton County, 8 out of 10 (81%) of the 1,382 people turned away by the Georgia agency earned less than \$30,000 per year (957 of them earned less than \$20,000). DeKalb County had similar results. Nearly 8 out of 10 (77%) of the 2,476 people turned away by the Georgia agency earned less than \$30,000 per year (1,626 applicant earned less than \$20,000). In Fulton County, 3 out of 4 (75%) of the 2,342 people turned away by the Georgia agency earned less than \$30,000 per year (1,512 applicants earned less than \$20,000).



Treasury and the Georgia agency should change the Hardest Hit Fund in Georgia to increase the percentage of homeowners with limited incomes in hard-hit counties who qualify.



The Georgia Agency Failed to Provide HHF Assistance to Underwater Homeowners for 6 Years When Other State Agencies Were Already Providing That Assistance

The Georgia agency's failure to provide HHF assistance to underwater homeowners who owe more than their house is worth (also called "negative equity"), when other state agencies in HHF were providing that assistance, undercut the effectiveness of the program's ability to address local needs of Georgian communities. Georgia has experienced one of the highest levels of underwater homeowners in the nation, and it has been a contributing factor to Georgia's slow recovery from the crisis.¹⁶ As of March 31, 2017, there were 101,734 Georgians who owed more than their house was worth, including 34,583 Georgians living in DeKalb (13,513), Fulton (18,782), and Clayton (2,288) counties.

Non-profits and even a senior Treasury official suggested that the Georgia agency expand HHF assistance to underwater homeowners as early as 2013. In 2013, the Atlanta Legal Aid Society, Inc. and the Georgia state Senate recommended an HHF underwater program. On March 17, 2015, the then-Chief of Treasury's Home Preservation Office said on a panel at a conference in Atlanta with the Executive Director of the Georgia agency, "In a state like Georgia, which still has significant negative equity, has unemployment above the national average, there seems to be opportunities here to... get more payment relief to folks."¹⁷ A non-profit, Georgia ACT, in January 2016 also recommended underwater assistance.

In August 2016, the Georgia agency shifted money from the main HHF program for unemployed/underemployed homeowners, the Mortgage Payment Assistance program, and its reinstatement assistance program to make up to \$113 million in funding available for a new HHF program for underwater homeowners—a move long overdue given that other state agencies in HHF had been providing this assistance for years. As soon as the program opened, there was a flood of applications, including in DeKalb, Clayton, and Fulton counties. The Deputy Commissioner of the Georgia agency reportedly told the press, "Not surprisingly, there has

¹⁶ As of the first quarter of 2016, Atlanta, Georgia had the fourth-highest negative equity rate (16.6%) of all U.S. metropolitan areas, only surpassed by Chicago, Illinois (20.3%); Las Vegas, Nevada (20.2%); and Baltimore, Maryland (17.2%).

¹⁷ See Piece by Piece, Underwater Atlanta, *Helping Underwater Homeowners – Moderated Panel Discussion, Q&A*. March 17, 2015, <http://www.piecebypieceatlanta.org/events/ua/audio/5-Helping%20Underwater%20Homeowners%20-%20Panel%20-%20PBP%20-%202013-17-15.mp3>, accessed 10/5/2016.



been a huge response from metro (Atlanta) counties where there's a concentration of underwater homes."¹⁸

Despite finally providing HHF underwater assistance, the Georgia agency has not been effective in distributing this HHF aid. The Georgia state agency has provided HHF underwater assistance to only 5% of Georgians who applied (460 out of 9,117) as of March 31, 2017. Thousands of remaining homeowners (89%) still await a decision and the state agency has only begun to review an additional 659 homeowner applications. SIGTARP found that the criteria for the program are overly strict, and do not reflect the reality of many Georgians. For example, the homeowner had to have purchased their home before January 1, 2012, and the homeowner must be less than 90 days delinquent. Also, unlike in other HHF states, such as Florida, Michigan, California, and North Carolina, the Georgia agency does not require the mortgage company to modify the homeowner's mortgage payment through a recast of the principal balance after receiving HHF assistance. The lack of a recast could lead to homeowners paying more each month for their house. Treasury can help with dealing with mortgage servicers.

Treasury should direct the Georgia agency to eliminate criteria for underwater assistance that the home had to be purchased prior to 2012, and that a homeowner cannot be more than 90 days delinquent.

Treasury should work with mortgage servicers to ensure homeowners' mortgages are recast after they receive Hardest Hit Funds to reduce their principal balances.

¹⁸ Mike Kanell, "Underwater mortgage, want help? You're not alone in Atlanta – or Georgia," *The Atlanta Journal-Constitution*, September 30, 2016, <http://www.ajc.com/business/underwater-mortgage-want-help-you-not-alone-atlanta-georgia/ZloTu87ezXA12F8aVTa8DJ/>, accessed 9/18/2017.



The Georgia Agency Does Not Report County-Level Information, Limiting Transparency, Accountability, and the Ability to Take Urgent Action to Increase HHF's Effectiveness

SIGTARP found that Treasury and the Georgia agency should have taken more urgent action to understand the slow housing recovery in Atlanta-based counties and tailor the program to address those local needs. The Hardest Hit Fund can be improved through assessing program performance on a county level and tailoring the program to fit county-level needs. In October 2015, SIGTARP issued an audit finding a lack of transparency and accountability with the lack of county-level reporting to Treasury and to the public in all 19 HHF states. The only county-level information that the Georgia agency reports to Treasury is how many people per county have participated in each HHF program (1,371 in DeKalb, 672 in Clayton, and 1,251 in Fulton), not how many people were turned away. SIGTARP recommended in October 2015:

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 programs 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.¹⁹

Treasury and state agencies in HHF did not implement SIGTARP's 2015 recommendation. As a result, HHF's ability to address local conditions at the county level was impeded. The public, including members of Congress, should have ready access to county-level program data.

Treasury should require, for all Hardest Hit Fund state agencies, county-level public reporting of performance, including all who applied and were denied or had withdrawn applications (breaking out the numbers of applications withdrawn by the state agency).

¹⁹ See SIGTARP, *Factors Impacting the Effectiveness of Hardest Hit Fund Florida*, October 6, 2015.



Treasury and state agencies should conduct county-level analysis, and implement steps resulting from that analysis, to increase the effectiveness of Hardest Hit Fund distribution to homeowners.



SIGTARP Found that Statewide the Georgia Agency Mismanaged the Hardest Hit Funds by Withholding Funds from Georgia Homeowners, and Turning Away Two of Every Three People, While Keeping \$32 Million for Itself

The problems SIGTARP found with the Hardest Hit Fund in Georgia extend beyond the three counties to the entire state. SIGTARP found that the Georgia agency mismanaged the Hardest Hit Fund by withholding HHF dollars from Georgians and turning away two of every three Georgians who applied for HHF. GAO defines mismanagement as “creating a substantial risk to an agency’s ability to accomplish its mission.” The mission of this program is to preserve homeownership. This mission is accomplished by state agencies providing aid to families through local programs tailored to the urgent needs of the communities. Conversely, the mission is not accomplished if the state agency does not provide the aid. While some families received assistance, the Georgia agency did not provide this aid with any urgency, and did not provide it to enough families. SIGTARP was left with the question, “what were they waiting for?”

The Georgia Agency Mismanaged the Program by Failing to Respond to Urgent Needs, Instead Withholding These Foreclosure Prevention Funds from Georgians

The Georgia agency mismanaged HHF by creating a substantial risk to accomplishing its mission of preserving Georgia homeownership by failing to respond to urgent needs, instead withholding these foreclosure prevention funds from Georgia homeowners. In 2010, President Obama announced the program would address “urgent problems facing homeowners.” Treasury issued a 2010 press release announcing relief to struggling homeowners was coming “as soon as possible.” In August 2010, the Treasury Assistant Secretary over TARP said, “we are committed to doing everything we can to immediately help those who are hurting the most during these tough times.” A Treasury spokesperson in March 2013 reportedly said, “We are all very committed to getting the assistance out the door as quickly as possible.”²⁰

The Georgia agency slow walked this Federal aid, as shown in Table 1.

²⁰ See Yun Long, “Hardest Hit Fund slow to help distressed homeowners,” *USA Today*, March 15, 2013, <https://www.usatoday.com/story/money/business/2013/03/15/federal-mortgage-help/1990473/>, accessed 9/21/2017.



Table 1. Treasury’s Target of 250 Georgia Homeowners Assisted per Month, as of the April 2012 Action Memorandum

Date	Georgia Agency’s Initial Target of Georgia Homeowners Assisted	Treasury’s Target of Georgia Homeowners Assisted*	Georgia Homeowners Provided Hardest Hit Funds
9/30/11	9,000	NA	232
9/30/12	18,500	2,024	1,708
9/30/13	18,550	5,024	4,004
9/30/14	18,600	8,024	5,556
9/30/15	18,625	11,024	7,083
9/30/16	18,625	14,024	8,415

*The number of homeowners the Georgia agency would have assisted had it met Treasury’s target of assisting 250 new Georgia homeowners per month with the Hardest Hit Fund. At that time of Treasury’s Action Memorandum, the Georgia agency had most recently reported assisting 524 homeowners (as of December 31, 2011).

Source: SIGTARP analysis of applicant data provided by the Georgia agency.

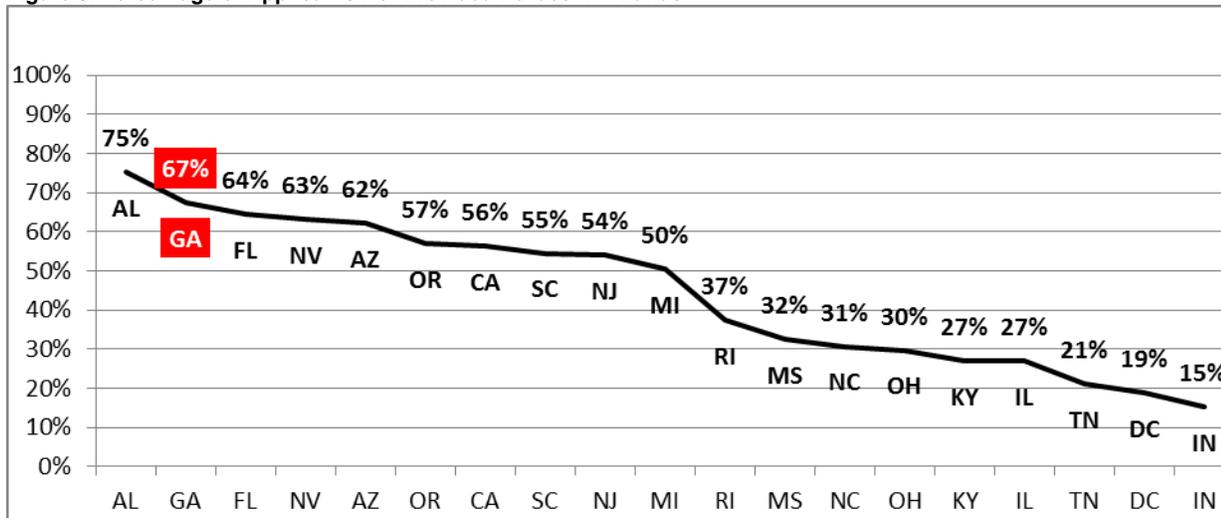
These results show that instead of providing HHF aid urgently, immediately, or as soon as possible, as Treasury said, the Georgia agency slow-walked the aid. In comparison, seven other state agencies closed their HHF programs in 2013 or 2014, estimating that they would distribute all HHF funding to homeowners. Georgians had an urgent need for this Federal aid given the local conditions they faced, and the fact that banks can foreclose on a Georgia homeowner quickly without having to go through the courts.

The Georgia Agency Turned Away Two-Thirds of the 29,750 Georgians Who Applied—One of the Highest Rates in the Program

The Georgia agency mismanaged the program by turning away so many people, contrary to the urgent home preservation mission of HHF. As shown in Figure 3, 67% (20,051 of 29,750) of homeowners who applied were turned away for assistance. The Georgia agency turned away homeowners at one of the highest rates of any state agency.



Figure 3. Percentage of Applicants Not Provided Hardest Hit Funds



Source: SIGTARP analysis of data as of March 31, 2017 provided by the state agencies; Treasury data used for Nevada, Oregon, and Tennessee, which had not published updated state data as of the drafting of this report.

Year after year, the Georgia agency turned away applicants at higher rates than other state agencies in the program, a fact known to the state agency. SIGTARP reported on the severe underperformance of the Georgia agency in comparison to other state agencies 25 times since April 2012, and made recommendations to change. On March 27, 2013, Congressmen Lewis and Congressman Johnson, joined by 27 other Congressmen, sent a letter to President Obama expressing concern that after 3 years HHF had consistently failed to meet benchmarks. In that letter, the Congressmen requested that Treasury implement SIGTARP’s recommendations, stating that these and other changes could expand program eligibility.²¹

Again, in March 2016, Congressman Lewis and 10 other Congressmen including Congressmen David Scott and Congressman Hank Johnson wrote to President Obama. They requested that the Hardest Hit Fund be redirected, given that the assistance had been provided to far fewer than half the applicants, and many had been denied or had their applications withdrawn. Rather than improve since that letter, in the past year, the Georgia agency denied homeowners at one of the highest rates in the nation.

²¹ The Congressmen who signed the letter included Representative John Lewis, Representative Henry “Hank” Johnson, Representative Suzanne Bonamici, Representative Corrine Brown, Representative Andre Carson, Representative Kathy Castor, Representative John Conyers, Representative Danny Davis, Representative Ted Deutch, Representative Bill Enyart, Representative Raul Grijalva, Representative Ruben Hinojosa, Representative Rush Holt, Representative Barbara Lee, Representative Zoe Lofgren, Representative James McDermott, Representative Patrick Murphy, Representative Eleanor Holmes Norton, Representative Charles Rangel, Representative Loretta Sanchez, Representative Linda Sanchez, Representative Jan Schakowsky, Representative David Scott, Representative Terri Sewell, Representative Albio Sires, Representative Eric Swalwell, Representative Bennie Thompson, Representative Juan Vargas, and Representative Frederica Wilson.



The Georgia Agency's Low Performance Caused Georgia Homeowners to Lose Access to \$33.5 Million in New Funding

After December 2015, when Congress approved an additional \$2 billion for the Hardest Hit Fund, Treasury denied the Georgia agency's application for an additional \$33.5 million. Treasury was concerned with the Georgia agency's track record in not utilizing funds, low production in meeting Treasury-set targets, and inability to utilize the funding already available.

After Losing Access to an Additional \$33.5 Million in 2016, the Georgia Agency Took Action to Shutter Its Main HHF Program for Unemployed and Underemployed Homeowners, and Move the Money, Including Moving \$15 Million to Homebuyers

After Treasury turned down the Georgia agency for new funding, the Georgia agency then took action to shut down the main Mortgage Payment Assistance unemployment/underemployment program, rather than fix its mismanagement of the program. The Georgia agency had moved \$15 million to a new down payment assistance program for homebuyers, and also shifted money to increase funding for a new underwater home program to \$113 million. According to a senior Georgia agency official, because unemployment returned to pre-recession levels, the focus would be on underwater homes. While assistance for underwater homes is much needed and long overdue, housing conditions in Georgia are complex, and do not have a "one-size-fits-all" solution.

The local conditions in pockets across Georgia such as in DeKalb, Clayton, and Fulton counties show above-average unemployment and underemployment and, therefore, a continuing need for assistance to unemployed and underemployed Georgians. All three counties have above-average poverty rates. A surge of more than 700 homeowners applying for the unemployment/underemployment program before it closed to new applications on June 30, 2017, further evidences the continuing need for unemployment/underemployment assistance. The Georgia agency already made decisions on many of these applying homeowners, and is reviewing 442 homeowner applications.

The Georgia agency should change its process for the remaining homeowners who applied, and reassess homeowners recently turned away.

Before closing the Hardest Hit Fund's unemployment/underemployment program, Treasury and the Georgia agency should review the Georgia counties that are continuing with above-average unemployment and underemployment, and re-allocate sufficient funds from other programs



back to unemployment/underemployment assistance to address the local need in those counties.

Despite Withholding Hardest Hit Funds from Homeowners, the Georgia Agency Continued to Keep Hardest Hit Funds for Itself

While distributing less than 50% of available TARP dollars to homeowners, the Georgia agency kept for itself \$32 million, which is about 70% of its administrative expense budget of \$48 million. This includes \$11.8 million for state agency employee salaries.

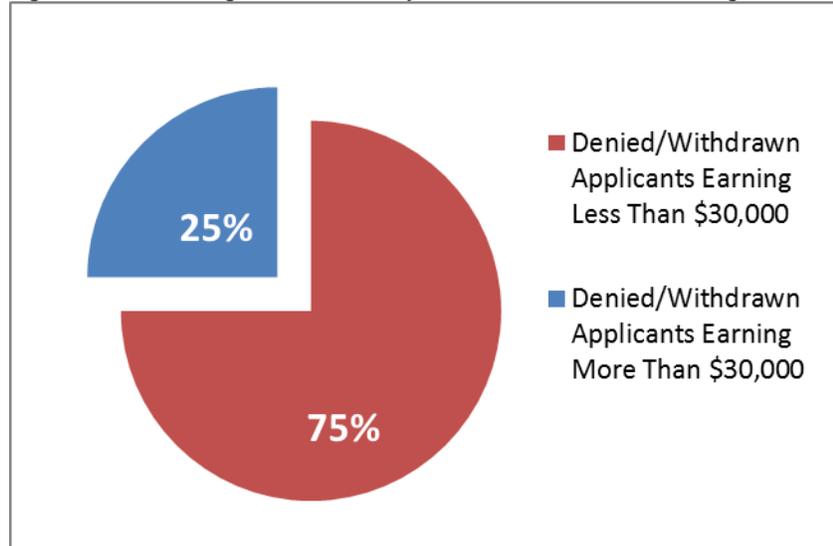
Despite setting a high bar for homeowners to obtain Hardest Hit Funds for housing expenses, the Georgia agency set a low bar for itself to obtain Hardest Hit Funds for its own administrative expenses.



3 Out of Every 4 Georgians Turned Away by the State Agency Earned Less Than \$30,000 Per Year, Most Earning Less Than \$20,000, While Millions of TARP Dollars Sat Idle

According to the records the Georgia agency provided to SIGTARP, 75% (14,977) of the people turned away for HHF earned less than \$30,000 per year, as shown in Figure 4, and most of them (12,704) earned less than \$20,000.

Figure 4. 20,054 Georgians Turned Away From Hardest Hit Fund, Through March 31, 2017.



Source: SIGTARP analysis of applicant data provided by the Georgia agency.



The Georgia Agency Turned Away More Than 2,300 Veterans Who Applied for Hardest Hit Funds—71% of Veterans Who Applied—While Millions of TARP Dollars Sat Idle

Despite Georgia having one of the largest populations in the United States of military and veterans, the Georgia agency turned away 2,310 veterans, according to state agency records.²² That means the Georgia agency turned away 71% of the 3,248 veterans who applied for the Hardest Hit Fund.

Georgia has the sixth-largest population in the United States of active and reserve military members, a population of more than 88,000.²³ According to the Georgia Department of Economic Development, “Georgia ranks fifth in the U.S. for total Department of Defense military, civilian direct-hire, reserve, and national guard employment. The Army employs 63 percent of Georgia’s military personnel, while the Air Force employs 23 percent, the Navy and Marine Corps employ 11 percent, and other defense activities employ 3 percent.”²⁴ Georgia has 8 active military bases representing the Army, Navy, Air Force, and Marine Corps, and closed two bases, Fort McPherson (closed September 2011) and Fort Gillem.

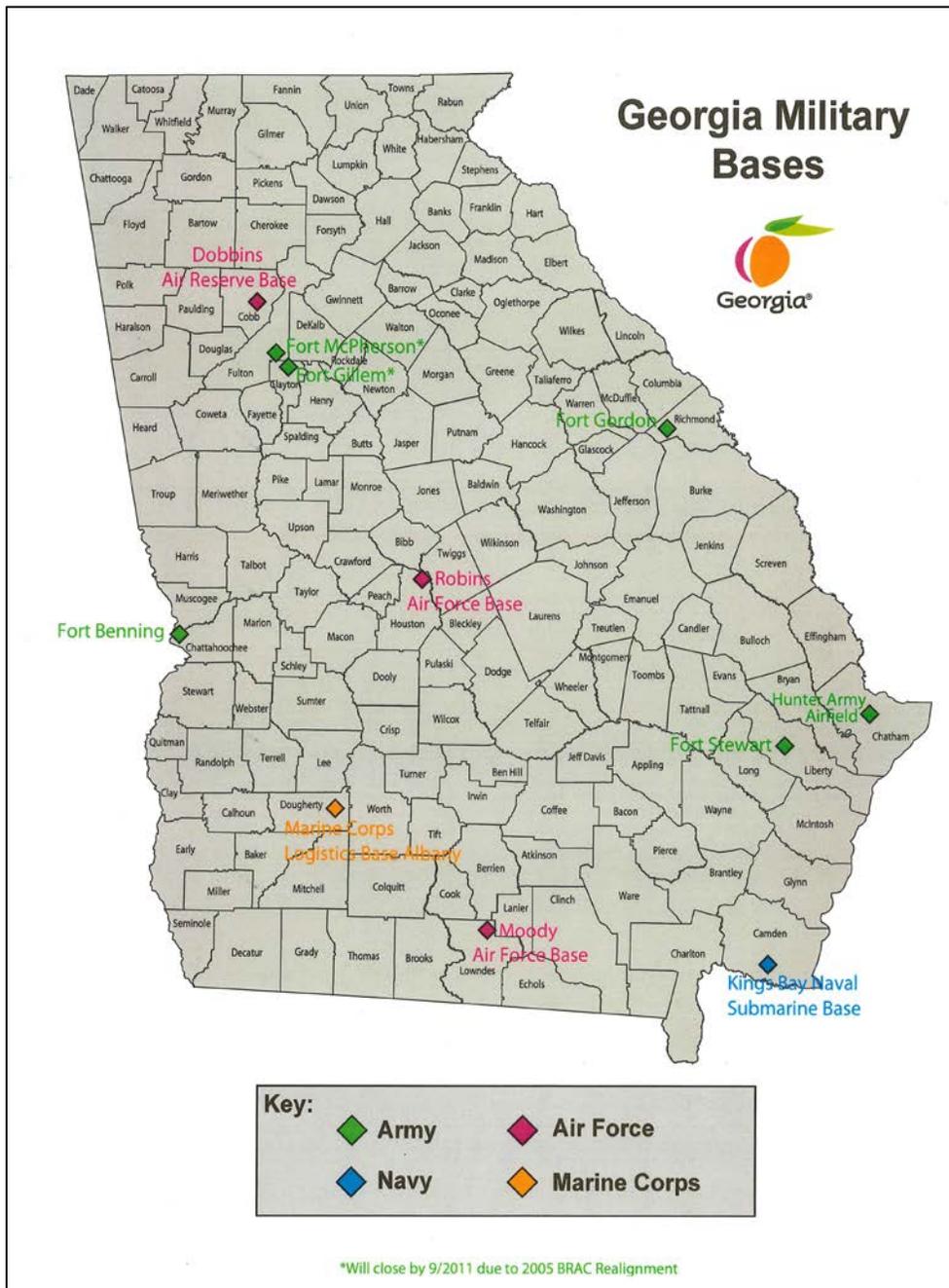
²² The Georgia agency denied 1,332 of these veterans for HHF, and an additional 978 veterans had withdrawn applications.

²³ [Governing.com/gov-data/military-civilian-active-duty-employee-workforce-numbers-by-state.html](http://www.governor.com/gov-data/military-civilian-active-duty-employee-workforce-numbers-by-state.html), as of May 31, 2016, accessed 9/15/2017.

²⁴ See <http://www.georgia.org/industries/defense/military-presence-georgia/>, accessed 9/12/2017.



Figure 5. Map of Military Bases in Georgia



Source: <http://www.georgia.org/wp-content/uploads/2013/09/Military-Bases-Map.pdf>, accessed 9/12/2017.

Of 2,310 applicant veterans turned away in Georgia, 250 lived in DeKalb County, 158 lived in Clayton County, and 196 lived in Fulton County, counties near Dobbins Air Force Base and the closed bases Fort McPherson and Fort Gillem. Of the Clayton County veterans who applied, 70% were turned away. In DeKalb, 73% of veterans were turned away, and in Fulton, 63% of veterans were turned away. Some turned away lived in hard-hit communities. For example, the Georgia agency turned



away 49 of the 72 veterans living in Lithonia who applied for Hardest Hit Funds. Veterans in the Forest Park and Conley neighborhoods near the closed Fort Gillem were turned away.

The Georgia agency also turned away veterans living near other bases. Near Fort Stewart and Hunter Army Airfield, there were 156 veterans turned away by the Georgia agency out of 229 that applied. The Georgia agency turned away 118 veterans living near Fort Gordon, out of 151 veterans who applied. Of the 85 veterans living near Robins Air Force Base that applied, the Georgia agency turned away 67 veterans. Near Fort Benning, 54 of 72 veterans were turned away. There were 24 of 35 veterans living near Marine Corp Logistics Base Albany turned away by the Georgia agency, and 19 of 25 veterans living near Moody Air Force Base were turned away. Finally, the Georgia agency turned away 14 of 19 veterans living near King Bay Naval Submarine Base.

Foreclosure and mortgage delinquency have been a concern with military families. According to www.Military.com, a military and veteran online organization:

Most military families that face foreclosure did not make bad choices. There seems to be an assumption that anyone who chose an adjustable rate mortgage (ARM) made a huge mistake and should suffer the consequences. ARMs were "invented" by the mortgage industry in the late '70s and early '80s when 30-year fixed rates were above 15 percent and, today they work very well for thousands of families. In comparison to ARMs, VA loans had higher interest rates, thus higher monthly payments. They had significantly higher settlement costs due to the VA funding fees (2 percent - 3 percent of the loan amount), and in high-cost areas, they simply weren't an option as the maximum loan amounts were considerably lower than the cost of the average home. So the 3/1 or 5/1 ARM made tons of sense for someone with three-year orders who would be waiting one year or more for base housing. So how did we get here? Well, it wasn't through thousands of "bad decisions." Military families need homes. Base housing and rentals are not always available or may not meet families' needs in terms of schools and other considerations.²⁵

The Georgia agency did not adequately consider the local housing and employment conditions of veterans and civilians who work on bases. For example, a base closure impacts jobs and real estate values, and that is not the fault of homeowners. When Fort McPherson, near the East Point neighborhood in southwest Atlanta, closed in September 2011, the base

²⁵ See Joe Gladden, "More on the Foreclosure Problem," Military.com. <http://www.military.com/money/home-ownership/selling-your-home/more-on-the-foreclosure-problem.html>, accessed 9/13/2017.



was one of the largest command centers in the U.S. military—and Atlanta's seventh-largest employer. It takes time to replace lost jobs. It was not until 2015 that Tyler Perry Studios purchased 330 acres of the base property to build a studio that local officials say “will deliver a jolt of jobs and investment not seen since the post’s closure.”²⁶ According to state agency records, there were 110 people who applied for HHF in the 30315 zip code, which is near the East Point neighborhood, including 6 veterans, some of whom may have been employed at the base. However, the Georgia agency provided HHF aid to only one-third, including only two of the six veterans who applied.

The other TARP housing program known as Making Home Affordable (MHA) recognizes the special status of military personnel and veterans, with a special MHA subprogram called VA-HAMP specifically to lower mortgage payments for veterans with VA-insured mortgages.

Unlike MHA, Treasury left decisions to state agencies, which are supposed to tailor the program to address local conditions. The Georgia agency should have taken into consideration Georgia’s heavy military population and the impact that two base closures can have on local communities.

The California state agency recognizes a military homeowner’s hardship, but the Georgia agency does not for the HHF underemployment program, which was the only program until 2014, and subsequently, the largest HHF program in Georgia. The state agency denied 24 homeowners claiming a military hardship, and may have turned away many more for the same reason. The Georgia agency does not maintain records on withdrawn applications. Atlanta Legal Aid recommended in 2015, that the Georgia agency expand eligible hardship to include military orders. The non-profit Georgia ACT in January 2016 made the same recommendation. The Georgia agency did not open up a qualifying hardship for the underemployment program for a military hardship, but did open up that hardship for the much smaller reinstatement program (\$7 million program, compared to the hundreds of millions of dollars in the underemployment program).

Treasury should require state agencies in the Hardest Hit Fund to recognize military hardships, and take action to increase distribution of this aid to veterans.

Treasury should require state agencies to maintain records on why homeowner applications are withdrawn when the state agency has relevant information.

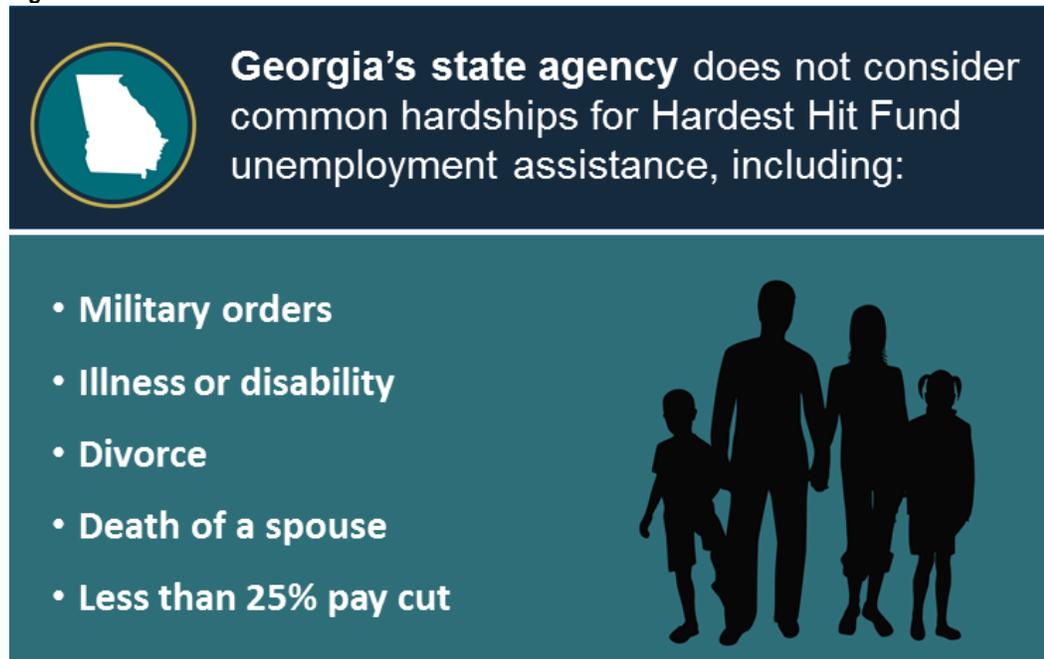
²⁶ See J. Scott Trubey, “Developer Named for Atlanta’s Fort McPherson,” *The Atlanta Journal Constitution*, May 17, 2017, <http://www.ajc.com/news/local/developer-named-for-atlanta-fort-mcpherson/m9qggcKaaDXn6h6Ue0FYUM/>, accessed 9/14/2017.



The Georgia Agency Mismanaged its Largest HHF Unemployment Program by Designing Overly Strict and Unnecessary Criteria That Made It Harder for a Georgia Homeowner to Receive This Assistance Than Homeowners in Other States

SIGTARP found that the Georgia agency mismanaged HHF by creating a substantial risk to its ability to accomplish its mission by designing overly strict criteria and disqualifying conditions for the HHF unemployment/underemployment program that made it extremely difficult for a Georgia homeowner to receive this assistance. The criteria are unnecessary because they are not required by Treasury, and do not exist in many HHF states. The Georgia agency refused to eliminate overly strict criteria despite repeated recommendations to do so. The Georgia agency's use of overly strict and unnecessary criteria makes it harder for Georgians to obtain this aid compared to homeowners in other states. These criteria do not reflect the reality of many Georgians who have and still struggle to pay their mortgage, as illustrated in Figure 6.

Figure 6:



Source: SIGTARP analysis of the Georgia agency's Hardest Hit Fund eligibility requirements.

Despite repeated recommendations, the Georgia agency failed to eliminate overly strict criteria for the Mortgage Payment Assistance



program. This was the only HHF program in Georgia until 2014, and after that, the largest HHF program.

- In July 2011, U.S. Congressman John Lewis' office raised concerns about "overly strict eligibility criteria."
- Treasury issued an "Action Memorandum" on April 9, 2012, recommending that the Georgia agency revise eligibility criteria.
- On April 10, 2012, U.S. Congressman Henry C. "Hank" Johnson wrote to the Governor recommending easing the "over strict eligibility criteria," including being 6 months behind on payments, in foreclosure, or in bankruptcy.
- Non-profits like Atlanta Legal Aid (in 2013 and 2015), and Georgia ACT (in January 2016) recommended eliminating overly strict criteria.
- In 2013, the Georgia Senate issued a resolution for the same.
- In January 2017, SIGTARP issued an audit recommending that Treasury require state agencies to eliminate HHF criteria that did not exist in other states and criteria that did not reflect the reality of workers in that state.

In response, the Georgia agency made very few of these changes, choosing in action or delay, while turning away large percentages of Georgians. Where the Georgia agency made some changes to relax certain criteria, there was an increase in homeowners in the program. However, the agency did not go far enough. Ten examples include:

1) Why is a Georgia homeowner so limited in what qualifies as a hardship for the main HHF program, when homeowners in other state agencies can qualify by showing the same hardships Georgians face?

Treasury requires homeowners to show a hardship for both MHA and HHF. For MHA, hardships can include reduced income due to reduced pay, decline in earnings, death, disability, divorce, increased expenses due to medical costs, uninsured losses, increased utilities or taxes, unemployment, excessive debt, and low cash reserves. For HHF, Treasury leaves it to state agencies to tailor the aid to local conditions. The Georgia agency took a very narrow view, not recognizing common hardships facing Georgians that lead to difficulty paying the mortgage and foreclosure, and often accompany unemployment and underemployment, such as illness, disability, death, or divorce.



For example, one homeowner fell behind on her mortgage while undergoing breast cancer treatment. Her employer phased out her position, and offered her a different position that required training. The homeowner was unable to take the new position and train while undergoing chemotherapy. The Georgia agency turned down the homeowner for Hardest Hit Funds on the grounds that her hardship was medical, not unemployment. Her house was scheduled for foreclosure, and stopped by a state program for transplant patients.

The lack of a qualifying hardship was the top reason why the Georgia agency denied homeowners for HHF, denying at least 2,643 homeowners.²⁷ The limitation on hardships was so pervasive a problem that the Georgia Senate and non-profit agencies asked the Georgia agency to allow additional hardships. Atlanta Legal Aid recommended twice, beginning in February 2013, that the Georgia agency expand eligible hardships to include illness, disability, death, divorce, and military orders on the basis that hardships can result in unemployment or underemployment. On March 21, 2013, the Georgia Senate issued a resolution to expand eligible hardships to include illness, disability, death, and divorce. In 2014, the Georgia agency allowed military, death, or medical hardships to count for the much smaller reinstatement program (currently \$7 million) and the mortgage recast program (currently \$3 million²⁸), but did not allow those hardships to count for the largest HHF program, the Mortgage Payment Assistance program, that had hundreds of millions of dollars allocated.

Treasury should ensure that state agencies allow common hardships that prevent Americans from paying their mortgages on time, such as illness, disability, death, and divorce, and other hardships that Treasury recognizes in the Making Home Affordable program to qualify for the Hardest Hit Fund.

2) Why should a Georgia worker have to show that they lost their job in the last 3 years (later expanded in 2015 to 4 years) for the HHF unemployment program, when workers in Arizona, Florida, Nevada, Rhode Island, South Carolina, and Oregon have no time limitation?

Despite a recession marked by long-term unemployment and underemployment, the Georgia agency limits HHF

²⁷ The 2,643 Georgians that the state agency denied for HHF based on a lack of an eligible hardship include 189 people in Clayton County, 339 people in DeKalb County, and 313 people in Fulton County. This number does not reflect homeowners whose applications the state agency withdrew because they did not show a qualifying hardship, and those who may not have applied because they could not meet this overly strict criteria.

²⁸ An additional \$110 million is reserved for the underwater mortgage assistance component opened in 2016.



unemployment/underemployment assistance to homeowners who lost their job or became underemployed in the last 3 years (expanded to 4 years in 2015). Treasury does not require this timeframe. The Georgia agency denied at least 652 homeowners for HHF for missing that timeframe. This number does not reflect homeowners whose applications the state agency withdrew because they did not meet the criteria, and those who may not have applied because they could not meet these overly strict criteria.²⁹

This criterion penalizes homeowners who tried to avoid taking Federal aid by using savings, family help, retirement funds, or other responsible measures. This criterion creates an unlevel playing field for Georgia workers. Homeowners in six states do not have a limit on when their hardships occurred. Homeowners in Indiana, Mississippi, and Tennessee only have to show a hardship that began on or after January 1, 2008.

Two non-profits recommended that the Georgia agency change this criterion. On March 13, 2015, Atlanta Legal Aid requested that the Georgia agency eliminate the 3-year hardship cutoff. Georgia ACT recommended in January 2016 that the Georgia agency extend the cutoff to 2008. In 2015, the Georgia agency did not eliminate it, but extended it to 4 years.

Treasury should require all state agencies in the Hardest Hit Fund to recognize hardships dating back to at least 2008.

3) Why should a Georgia worker have to show they were current on their mortgage when they lost their job or saw their pay cut, when homeowners in other states do not have to show that to receive HHF?

To obtain HHF unemployment/underemployment assistance, a Georgia homeowner must prove they were current on their mortgage at the time they lost their job or had their pay cut, which is more restrictive than other state agencies, and not required by Treasury. The Georgia agency denied 1,093 homeowners who failed this criterion. This number does not reflect homeowners whose applications the state agency withdrew because they did not meet the criteria, and those who may not have applied because they could not meet these overly strict criteria.³⁰

²⁹ The at least 652 people the Georgia agency denied based on this criteria include 56 people in Clayton County, 87 people in DeKalb County, and 89 people in Fulton County.

³⁰ The at least 1,093 people the Georgia agency denied based on this criteria include 86 people in Clayton County, 158 people in DeKalb County, and 122 people in Fulton County.

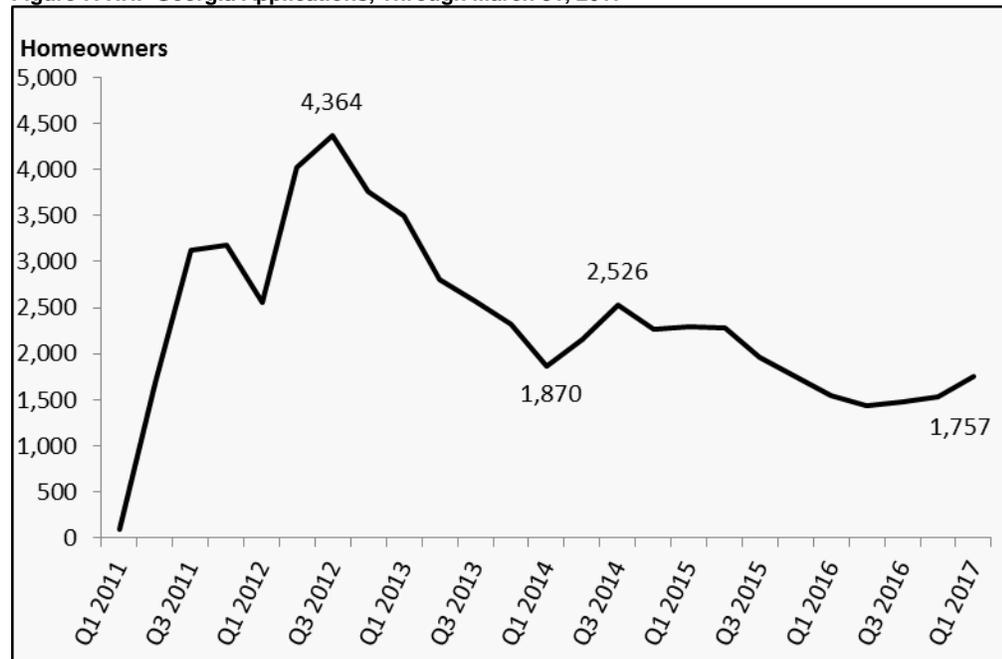


Treasury should direct state agencies in the Hardest Hit Fund not to disqualify homeowners who were delinquent on their mortgages at the time of their hardship.

4) Why should a Georgia homeowner have to show that they are no more than 6 months behind on their mortgage (and later 12 months), when homeowners in Alabama, California, Florida, Kentucky, Michigan, Ohio,³¹ South Carolina, Tennessee, and other states would not be disqualified?

HHF is a program to prevent foreclosures. It is often the case that people at risk of foreclosure are 6 months delinquent. Treasury does not require this disqualifier. Other state agencies do not have this limitation. As Congressman Johnson said in a 2012 letter to Georgia’s governor, these are the people this program was designed to help. The Georgia agency denied 1,168 Georgians for HHF for not meeting this criterion.³² There are likely many more who were withdrawn from the program or did not apply because they could not meet it. After the Georgia agency added this restriction in May 2012, the number of HHF applications plummeted, as shown in Figure 7.

Figure 7. HHF Georgia Applications, Through March 31, 2017



Source: SIGTARP analysis of Georgia HHF performance data records from Q1 2011 to Q1 2017.

³¹ In Ohio, there is no timeframe. Instead, homeowners can apply as long as they are not more than \$25,000 delinquent on their mortgage.

³² The at least 1,168 people the Georgia agency denied based on this criteria include 100 people in Clayton County, 134 people in DeKalb County, and 144 people in Fulton County.



Delinquencies of 6 months or more would have been common to Georgia homeowners. In 2012, Congressman Johnson requested that the Georgia agency eliminate this overly strict criterion. On March 21, 2013, the Georgia Senate issued a resolution to open up the 6-month-past-due disqualification to 9 months. The Georgia agency was slow to adapt, relaxing it to 12 months only on in December 12, 2013.

As an example, the Georgia agency denied one unemployed homeowner for being more than 6 months delinquent, a homeowner who had applied for Social Security disability. The homeowner complained that the bank had stopped accepting their payments and made mistakes related to a mortgage modification. After the agency extended the delinquency cap, the homeowner called back and asked to be reconsidered but, by that time, was more than 12 months delinquent and was turned away.

Treasury should direct state agencies in the Hardest Hit Fund not to disqualify homeowners based on the length of their delinquency.

5) Why should a Georgia worker have to be substantially underemployed with a 25% pay cut to receive these funds while a worker in Florida, Arizona, or Oregon has to suffer only a 10% pay cut and a worker in California, Rhode Island, or Indiana does not have to show any specific percentage?

The Georgia agency tightened its definition of underemployment to substantial underemployment with a 25% pay cut on May 3, 2012, and saw applications plummet. This restriction is not required by Treasury, and is more restrictive than other states. This criterion was the reason why the Georgia agency denied at least 632 homeowners for HHF, a number that does not reflect homeowners whose applications the state agency withdrew because they did not meet the criteria. There could be many who did not apply because they could not meet these overly-strict criteria, given the drop off in applications after this criterion was added.³³

In January 2017, SIGTARP warned that this criterion was too strict. In an evaluation, "Improving TARP's Investment in American Workers," SIGTARP reported that in Florida and Oregon a 10% pay cut counts for HHF, a worker in California, Arizona, or Indiana does not have to show any specific percentage, and workers in seven other states have to show less than a 20% cut in income. SIGTARP recommended, "...Treasury and state agencies should eliminate unnecessary program eligibility criteria that prevent low-income homeowners from getting Hardest Hit Fund assistance, including those criteria that do not reflect the reality of the state's working class and those that do not apply to homeowners in other

³³ The Georgia agency denied at least 632 people based on this criterion, including 47 people in Clayton County, 84 people in DeKalb County, and 74 people in Fulton County.



states for these Federal dollars.” Atlanta Legal Aid (repeatedly) and the Georgia Senate requested this criterion be reduced to 10%, and Georgia ACT recommended that it be eliminated.

The Georgia agency refused to change this criterion, even to reduce it to 10%. When asked about reducing this criterion, the head of the HHF Georgia program told SIGTARP that the average mortgage payment in Georgia is about \$1,000 and if someone were to lose 10 percent of their income, they could “get a lot of money” from HHF Georgia.

Treasury should direct state agencies in the Hardest Hit Fund with available funds to define underemployment as requiring not more than a 10% reduction in income.

6) Why should a Georgia homeowner be automatically disqualified if they resigned from their job, when they may have resigned due to age, health, disability, medical reasons, or military orders?

The Georgia agency provides assistance only to homeowners who lost their job “through no fault of their own,” but takes a very narrow view of what qualifies. Many state agencies in the HHF provide HHF assistance for people who received unemployment benefits. The Georgia agency disqualifies a homeowner who resigned even if they are not at fault for resigning. This criterion is the second largest reason why the Georgia agency denied homeowners. The Georgia agency denied at least 1,977 homeowners for HHF on this criterion. It is unknown how many of those homeowners may have resigned based on age, health or disability, medical reasons, or military reasons.³⁴ This number does not reflect homeowners whose applications the state agency withdrew because they did not meet the criteria, and those who may not have applied because they could not meet this overly strict criteria.

Treasury should direct state agencies in the Hardest Hit Fund to consider the full circumstances of the homeowner’s reasons for unemployment or underemployment.

7) Why should a Georgia homeowner be disqualified if their mortgage payment is less than 25% of their income after they lost their job or saw their pay cut?

The Georgia agency requires that the mortgage payment must be greater than 25% of income. This is not a Treasury requirement. This is the fourth most common reason why the Georgia agency denied homeowners. This criterion was the reason why the Georgia agency

³⁴ The Georgia agency denied at least 1,977 people based on this criterion, including 152 people in Clayton County, 249 people in DeKalb County, and 243 people in Fulton County.



denied 1,129 homeowners for HHF, a number that does not reflect homeowners whose applications the state agency withdrew because they did not meet the criteria, and those who may not have applied because they could not meet these overly strict criteria.³⁵ This requirement does not consider that homeowners may have other bills (for example, medical bills) that cause difficulty in paying the mortgage. This criterion can hurt seniors, who have lived in their home for a long time and paid down their mortgage, or someone who inherited a family house with a very low mortgage.

8) Why should a Georgia homeowner be prohibited from combining HHF assistance when homeowners in other states routinely combine assistance?

The Georgia agency prohibits homeowners from participating in multiple Georgia HHF programs when that is commonly done in other states. For example, a homeowner in another state may receive principal reduction assistance to cover negative equity amounts, and also receive HHF mortgage assistance to stay current on monthly payments, but that is not allowed in Georgia. This is not a Treasury requirement. On March 13, 2015, Atlanta Legal Aid requested that the Georgia agency permit homeowners to combine Georgia HHF assistance. In January 2016, Georgia ACT also recommended combining Georgia HHF assistance with a per-homeowner cap of \$45,000. Once there is already an investment in a homeowner, combined assistance can provide the best chance of preventing foreclosure. This particularly makes sense where so much of the available TARP dollars are unspent in Georgia.

Treasury should direct all state agencies in the Hardest Hit Fund to allow homeowners to combine all forms of applicable Hardest Hit Fund assistance in that state, where sufficient funds are available.

9) Why should a Georgia homeowner be disqualified from receiving assistance from HHF and TARP's Making Home Affordable Program?

The Georgia agency has criterion that a homeowner cannot receive assistance while participating in a HAMP trial modification. Treasury does not require this. Many state agencies allow HHF and HAMP to work together. For example, a homeowner may receive HHF assistance to reinstate past due amounts, and then permanently lower their mortgage payment in HAMP. SIGTARP recommended in July 2014 that state agencies combine HHF and HAMP.

³⁵ The Georgia agency denied at least 1,129 people based on this criterion, including 59 people in Clayton County, 133 people in DeKalb County, and 106 people in Fulton County.



Treasury should direct state agencies to allow a homeowner who received HAMP or MHA assistance to also receive Hardest Hit Fund assistance.

10) *Why should a Georgia homeowner in bankruptcy be disqualified if homeowners in Arizona, Washington D.C., Illinois, Indiana,³⁶ Michigan, North Carolina, and Rhode Island are not disqualified?*

Bankruptcy does not disqualify homeowners in seven other states from receiving HHF, and it is not a Treasury requirement. This criterion creates an unlevel playing field for Georgia homeowners. U.S. Congressman Henry Johnson asked Georgia's governor in April 2012 to drop this criterion because, in a non-judicial state like Georgia, homeowners have limited options to stop scheduled foreclosure sales other than bankruptcy.³⁷ Atlanta Legal Aid made the same request in February 2013 given that foreclosure notices have to be sent only 30 days before a foreclosure sale. The Georgia Senate recommended removing this disqualification by resolution in March 2013. Bankruptcy is not a disqualifying event under the other TARP program, Making Home Affordable.³⁸

Housing counselors under contract with the Georgia state agency told SIGTARP that it is difficult for homeowners who are in bankruptcy to obtain HHF assistance. This criterion was the reason why the Georgia agency denied at least 554 homeowners for HHF, a number that does not reflect homeowners whose applications the state agency withdrew because they did not meet the criteria, and those who may not have applied because they could not meet these overly-strict criteria.³⁹ One housing counselor told SIGTARP in an interview that some homeowners filed for bankruptcy to keep their home while waiting for the Georgia agency's approval on their application. However, once the homeowner filed for bankruptcy, they became ineligible for the program.

Treasury should prohibit state agencies from automatically disqualifying a homeowner who filed for bankruptcy from receiving Hardest Hit Funds.

Treasury should immediately require the Georgia agency to eliminate criteria that do not exist in other states and eliminate criteria that do not

³⁶ In Indiana, homeowners in bankruptcy may be allowed HHF assistance at the lender/servicer's discretion.

³⁷ The Georgia agency records also reflect that 27 homeowners were denied because their mortgage servicer or mortgage investor objected. Servicer/investors included a number of TARP recipient banks including Wells Fargo Home Mortgage, J.P. Morgan Chase Bank, Bank of America, GMAC Mortgage, Sun Trust Mortgage, as well as servicers participating in TARP's HAMP program like Ocwen, and Select Portfolio Servicing.

³⁸ In its application for new HHF funding in 2016, the Georgia agency acknowledged that Georgia is a non-judicial foreclosure state, and that a homeowner can be foreclosed upon after five missed payments.

³⁹ The Georgia agency denied at least 554 people based on this criterion, including 43 people in Clayton County, 72 people in DeKalb County, and 64 people in Fulton County.



reflect the reality of Georgians (as defined by the reasons why homeowners were denied for HHF).

Treasury should direct the Georgia agency to review and reconsider all homeowners whose applications were denied or withdrawn in the last year with the eliminated criteria.



The Georgia State Agency Mismanaged the Program by Failing to Fix a Confusing Application Process, and Requiring Unnecessary Red Tape

The Georgia agency mismanaged the program by creating a substantial risk to its ability to accomplish its mission by failing to fix a confusing application process, and by requiring unnecessary red tape. As a result, 8,129 people who started applications never finished them. Georgia was well aware that homeowners were starting applications and not finishing them because it was in the agency's data. Treasury told the agency in April 2012 that this should be a key focus of the Georgia agency to fix. At that time, there were 604 "start and stop" homeowner applications. Treasury recommended the state agency enlist housing counselors or community partners to gain an understanding of the problems facing Georgia homeowners during the application process. Georgia did that and found that 138 homeowners stated they were unable to complete their applications because they were "Referred back to the [state agency]"/needed help with application. This should have been a red flag that the application process was broken and needed to be fixed.

The Online Application Is Confusing and Difficult to Navigate

According to the head of the HHF Georgia program, homeowners apply for HHF assistance online. Homeowners who do not have access to a computer can schedule a walk-in appointment at the Georgia state agency's main office in Atlanta, which takes about 10 appointments per week. Not everyone lives near Atlanta or is able to travel there. Homeowners who use the non-profit counselor D&E can have the counselor create an online account for the homeowner to complete the application.

The use of online-only applications does not accommodate those in the hardest hit areas who do not have access to or experience using the Internet or computers. According to a housing counselor, many clients were older and did not have access to a computer. Atlanta Legal Aid told SIGTARP that the online application process is cumbersome and does not accommodate homeowners who are disabled, Internet illiterate, or who do not speak English as their first language.⁴⁰

⁴⁰ There is currently a general link for homeowners who understand Spanish; however, the link only provides information and is not an application. The application is only in English. See <http://www.homesafegeorgia.com/Spanish>, accessed 9/21/2017.



SIGTARP found that the Georgia agency mismanaged the program by having an online application that is overly complicated and confusing. SIGTARP officials tried to navigate the online application and had problems at every step. The application required detailed information that might not be readily available to a homeowner. Several times, SIGTARP officials were routed to error pages. Any homeowner would have difficulty completing the online application process without help.

SIGTARP found that the Georgia agency mismanaged the program by providing very little in-person assistance to homeowners trying to apply to HHF. As one homeowner told SIGTARP, the message from the Georgia agency was "We can't help you." According to a news article, one frustrated homeowner voiced the difficulty of the Georgia HHF application process, saying, "It's a really hard process. They provide you with a packet, they send it in the mail but for all the follow-up there's no way in the world you can do it without any type of Internet...It was just like giving birth. You get hopeless."⁴¹ Congressman Johnson recommended in 2012 that the Georgia agency help people with limited Internet access. He even held an in-person event to assist people with applications.

The Georgia agency should have done much more. Instead, it watched thousands of Georgians start and stop applications, without fixing the problem.

Treasury should require the Georgia agency to streamline its online application so that a homeowner only has to provide basic information.

Treasury should require the Georgia agency to provide every homeowner the option to receive application intake counseling, and the choice of receiving that assistance either in-person or telephonically.

The Georgia Agency Set an Artificial and Unnecessary 30-Day Window for a Homeowner to Complete Their Application and Provide Documents

SIGTARP found the Georgia agency mismanaged the program by creating a 30-day timeline for homeowners to provide all information and documents, which is artificial, unnecessary, and unrealistic. The Georgia agency forced the withdrawal of more than 8,000 homeowner HHF applications because the homeowner did not complete the full process and provide all documents within 30 days. If all required documents are

⁴¹ WSB-TV, "Applicants say process for mortgage help like 'giving birth,'" April 4, 2012, <http://www.wsbtv.com/news/local/applicants-say-process-mortgage-help-giving-birth/242533943>, accessed 6/21/2017.



not provided by the homeowner within 30 days, the Georgia agency's intake counselor, ClearPoint, automatically removes the homeowner's application without providing any meaningful counseling to the homeowner.⁴² This deadline is not required by Treasury, and not feasible given the red tape that the Georgia agency requires that other state agencies do not.

SIGTARP found that Georgia's unnecessary and artificial 30-day timeframe for homeowners to complete their online application coupled with unnecessary and burdensome red tape led to the state agency withdrawing thousands of homeowners' applications. Instead of working with the homeowner to be able to provide necessary information, the Georgia agency kicked out their application with no help. Housing counselors told SIGTARP and the Georgia agency that homeowners complained they have a problem with the tight 30-day application timeframe.

In 2014 and 2016, D&E, a non-profit counselor for the Georgia agency, started a "second look" program looking into applicants that were withdrawn. This resulted in 22 homeowners receiving HHF assistance despite initially being turned away. These homeowners received a second chance, showing the benefit to in-person assistance.

Treasury should require the Georgia agency to eliminate the underwriting requirement that a homeowner's Hardest Hit Fund application is withdrawn after 30 days, even when a grace period is added.

Treasury should eliminate all state agencies' forced withdrawal of a homeowner's Hardest Hit Fund application for one year from the time the homeowner begins an application.

The Georgia Agency Requires Unnecessary Red Tape

SIGTARP found that the Georgia agency mismanaged the program by requiring red tape that is complicated, burdensome, and unnecessary, as it is not required by Treasury or by other state agencies in HHF. Treasury told the Georgia agency to streamline its underwriting. Lawyers at Atlanta Legal Aid found a confusing HHF application process. Homeowners found the red tape to be very difficult to pass.

One counselor told SIGTARP that it is so hard to get an applicant approved, that they suggest HHF as a last resort to homeowners. One counselor told SIGTARP that the Georgia agency wanted "cumbersome documents," would not accept documents, and would request half the

⁴² According to ClearPoint, homeowners may be afforded a limited grace period.



documentation, rather than all up front. The counselor said that once the homeowner provided the documents, the Georgia agency would ask for something else but give only 3 days to provide it.

Some of the most onerous conditions of the red tape include:

- ***IRS tax transcripts for the last 4 years***

According to the IRS website, it could take between 1 to 6 weeks for the transcript to be available. One homeowner told SIGTARP they visited the IRS four times for the transcript only to have the Georgia agency send them back to the IRS because the IRS did not stamp it. Treasury does not require IRS tax transcripts. Other state agencies accept tax returns or other proof of income.

- ***Mortgage payment history from the mortgage servicer for the last 2 years***

Homeowners should not have to rely on mortgage servicers for any documents to receive this aid. A homeowner whose mortgage was transferred to different servicers would have a very difficult time obtaining payment histories from all servicers, even with more than 30 days. One homeowner told SIGTARP that her HHF application was stalled because the initial mortgage servicer lost her client's payment history and the servicer changed multiple times.

The Georgia agency denied Leticia Liggins for HHF because she was more than 6 months delinquent after being laid off in 2011. However, she was on a 12-month forbearance plan with her lender that should have been credited. Legal Aid represented Ms. Liggins and negotiated with the Georgia agency to admit her into the program if she immediately paid 7 months of payments. But the Georgia agency then required a payment history that Legal Aid was unable to get from her lenders Nationstar or Dovenmuehle. Without the full payment history, the Georgia agency would not approve Ms. Liggins before her scheduled December 2013 foreclosure sale, so Ms. Liggins filed for bankruptcy, which would disqualify her for HHF. Nationstar admitted that they could not find Ms. Liggins' payment history, which Legal Aid used to appeal to the Georgia agency. The Georgia agency then agreed to accept Ms. Liggins' credit reports and bank statements. But then, Nationstar refused to accept the Hardest Hit Funds unless the account was brought current. This continued until Legal Aid wrote to Nationstar's General Counsel. HHF was used as a bridge until Ms. Liggins was able to get new income. However, it took significant legal advice and representation.



This red tape is unnecessary, as it is not used by other states that accept other documents such as credit histories and tax returns. More egregious is the Georgia agency could obtain much of the information on its own instead of making the homeowner struggle to have the IRS and mortgage servicers respond within the 30 days.

- ***Separation letter from an employer showing unemployment/underemployment not the homeowner's fault***

Employers may not be willing to send in forms, or to draft the forms to meet the red tape of the Georgia agency.

According to one homeowner, she tried for 7 months to get assistance from HHF but could not get through the red tape and eventually lost the home she had lived in for decades to foreclosure. The state agency withdrew her application when she could not provide a separation letter to their liking, even though the former employer, a construction company, provided a letter that said, "notice of cancellation of contract."

According to one homeowner, the Georgia agency withdrew his HHF application when he could not provide a separation letter to prove that he was not at fault for losing his job. The homeowner told the Georgia agency that his former employer was unwilling to provide the letter. Two years later, the homeowner sought HHF assistance again, but was denied because by that time he was too delinquent on his mortgage, so the Georgia agency turned him away again.

Treasury should direct state agencies to eliminate requirements that a homeowner provide tax transcripts or mortgage payment histories from servicers in order to qualify for the Hardest Hit Fund.

Treasury should work with each state agency to streamline document requirements to match what other state agencies require for Hardest Hit Fund assistance.

Offering Personalized Support During the HHF Application Process Can Help Provide HHF Assistance to Struggling Georgia Homeowners

SIGTARP found that the Georgia state agency automatically sends homeowners' online applications (about 95%) to its statewide application processor (ClearPoint) without personal assistance.

The Atlanta Legal Aid Society and homeowners expressed frustration with the lack of guidance during the application process. Georgia agency personnel rarely meet homeowners in person, and one homeowner



indicated there was “no understanding, analyzing, and meeting the person where they were.” Unlike the automated system, according to Atlanta Legal Aid, they work with the homeowner from “cradle to grave.” Another homeowner stated they would “be on the streets if it was not for Legal Aid” and the guidance they provided.

Housing counselors told SIGTARP that homeowners have complained about the lack of direct, personal support housing counseling can provide during the application process, but the Georgia state agency has not done enough to resolve this issue. Housing counselors as well as Atlanta Legal Aid told SIGTARP that homeowners are more comfortable having personalized guidance, meeting with a housing counselor in their community who can explain program rules and documentation requirements, and assist them in navigating the application process. Additionally, their experience has shown that having a housing counselor involved throughout the process can achieve greater success in getting assistance.

ClearPoint is responsible for making initial approval, ineligibility, or withdrawal determinations for most HHF online applications. D&E is a non-profit housing counselor the Georgia agency uses to process applications. However, the Georgia agency does not send D&E applications to process. Instead, D&E conducts its own outreach to identify potential homeowners and works with these homeowners, guiding them throughout the entire online application process. ClearPoint, on the other hand, provides appointments only in rare, limited circumstances. Moreover, because ClearPoint has only one office in Atlanta that serves the entire state, personal appointments may be inaccessible to many homeowners.

Georgia homeowners who used a non-profit counselor other than ClearPoint to complete and submit their online HHF applications were approved at higher rates for the HHF program. The other non-profit counseling agencies proactively identified homeowners and worked individually with the homeowner to ensure the completeness of the submitted application.

The Georgia Senate and Atlanta Legal Aid recommended in 2013 that the Georgia agency broaden use of counseling services to provide assistance to homeowners applying for HHF.

By comparison, more than half (54%) of homeowners whose applications originated from D&E, which utilizes personalized guidance, were approved while only one-third of homeowners who went through ClearPoint were approved. Between 2014 and 2016, ClearPoint withdrew 33% of all applications it reviewed.



However, there is no accountability requiring ClearPoint to increase the number of people admitted to the program. The Georgia agency has paid the non-profit D&E \$352,725 in HHF. The Georgia agency has paid ClearPoint \$2.99 million in Hardest Hit Fund dollars while ClearPoint has one of the lowest homeowner admission rates in HHF in the nation. Treasury should not continue to pay ClearPoint for severe underperformance.

Treasury should require the Georgia agency to increase its use of non-profit housing counselors, other than ClearPoint, for intake, and divide applications among various counselors rather than send them all through ClearPoint.

Treasury should require the Georgia agency to set target numbers of homeowners assisted through each counselor and have the Georgia agency hold all of its housing counselors accountable, including through performance-based incentives and/or withholding payment, for increasing the number of hard-hit homeowners getting into the Hardest Hit Fund program.



The Georgia Agency Mismanaged the Program by “Guarding” These Funds and Placing “Precautions” So Only Its Version of a Responsible Homeowner Would Receive It, Rather Than Hard-Hit Georgians

The Georgia agency mismanaged the program by creating a substantial risk to its ability to accomplish its mission when it limited Hardest Hit Funds to turning down hard-hit homeowners. The fact that there is \$164 million unspent, that two-thirds of applying homeowners were turned away, that the Georgia agency uses overly strict criteria and unnecessary red tape, and that there is a broken process, raises concerns that the Georgia agency is not trying to provide this Federal aid to hard-hit Georgians.

The Georgia official in charge of the program told SIGTARP that the agency “designed the program to assist *responsible* homeowners who lost their job,” but the Georgia agency added requirements to be a “responsible homeowner” that do not exist in other states for these same Federal dollars and go beyond the Treasury and President Obama’s definition. Treasury already limits the amount of the mortgage, precluding irresponsible homeowners who took out loans they knew they could not afford. The median value of a house in DeKalb, Clayton, and Fulton counties is far under the \$424,100 cap, and 99% of the 20,054 Georgians turned away had a mortgage under that cap.⁴³

The Deputy Commissioner of the Georgia agency reportedly told the press that:

*[T]he program is **guarding** its mission and making sure the funds are appropriated in a way that meets the program’s criteria.... We didn’t want to just throw money out the door. We have to answer for this program. These are taxpayer dollars. We have to make sure that people who are going to get assistance are qualified and meet the criteria, so at the end of the day when we are going through auditing, we can show how effective the program has been [emphasis added].⁴⁴*

⁴³ The cap changed from 417,000 to \$424,100 on November 23, 2016.

⁴⁴ Kerri Ann Panchuk, “Criticism of Georgia foreclosure fund misses the mark,” *Housing Wire*, April 6, 2012, <https://housingwire.com/blogs/1-rewired/post/criticism-georgia-foreclosure-fund-misses-mark>, accessed 9/13/2017.



A Georgia agency spokesperson reported to the press, “It’s a deliberate process. We’re accountable to taxpayers, it’s taxpayer money, so we take what we feel are appropriate *precautions*” [emphasis added].⁴⁵

The severe low performance of the Georgia agency coupled with these statements by Georgia agency officials show that the Georgia agency set a very high bar for homeowners to receive Hardest Hit Funds. This bar was not required by Treasury, and not set by other state agencies for these same funds. In comparison to other states, HHF eligibility for Georgians is overly restrictive, making it difficult for struggling homeowners to qualify.

At the same time it set a very high bar for Georgia homeowners, the Georgia agency set a very low bar for itself to receive these funds. An official from Atlanta Legal Aid told SIGTARP that the Deputy Commissioner of the Georgia agency said in a meeting that the agency needed to make the funds last through 2017 (the program end). While it is unknown whether that statement is true, the slow rate of disbursing HHF made the money last and the Georgia agency benefitted. While other state agencies closed their programs years early, wound down their staff, and closed offices, the Georgia agency remained open with Treasury funding their offices, salaries, and expenses.

⁴⁵ WGCL-TV (CBS), “Changes aid Homesafe Georgia in helping more avoid foreclosure, “August 13, 2014, <http://www.cbs46.com/story/26269777/changes-have-homesafe-georgia-helping-more-avoid-forclosure>, accessed 9/13/2017.



Treasury Mismanaged HHF in Georgia by Failing to Hold the Georgia Agency Accountable for Meeting Targets

Treasury mismanaged HHF in Georgia by creating a substantial risk to achieving the mission of HHF in Georgia by not holding the Georgia agency accountable. Treasury knew the Georgia agency was underperforming, and made some efforts to improve it, but did not do enough to hold the agency accountable to the targets that the Georgia agency and Treasury established.

In its application to Treasury to participate in HHF, the Georgia agency said that HHF would assist 18,625 people, assisting “most of the homeowners in years 1 and 2.” The Georgia agency set a target of assisting 9,000 homeowners in year 1 and 9,500 homeowners in year 2. However, it took the Georgia agency 6 years to provide assistance to 9,000 homeowners.

Treasury set a target in the 2012 Action Memorandum for funding 250 homeowners each month and publicly reported on each state agency’s progress each quarter.

- For example, Treasury reported that as of September 30, 2013, the Georgia agency had only disbursed \$53.4 million (15.7% of the available Hardest Hit Funds), and assisted only 4,004 homeowners. According to the Georgia agency’s targets in its HHF application, it should have already disbursed HHF to more than 18,550 homeowners by then. If Treasury had held the Georgia agency accountable to the 2012 Action Memorandum of funding 250 homeowners per month, the number of homeowners assisted should have been 5,024.
- For example, Treasury reported that as of September 30, 2014, the Georgia agency had disbursed only \$92.9 million (27.4% of the available Hardest Hit Funds), and assisted only 5,556 homeowners. According to the Georgia agency’s targets in its HHF application, it should have already disbursed HHF to 18,600 homeowners by then. If Treasury had held the Georgia agency accountable to the 2012 Action Memorandum of funding 250 homeowners per month, the number of homeowners assisted should have been 8,024.
- Treasury later reported that as of September 30, 2015, the Georgia agency had disbursed only \$127.8 million (37.7% of the available Hardest Hit Funds), and assisted 7,083 homeowners. According to



the Georgia agency's targets in its HHF application, it should have already disbursed HHF to more than 18,625 homeowners by then. If Treasury had held the Georgia agency accountable to the Action Memorandum of funding 250 homeowners per month, the number of homeowners assisted should have been 11,024.

Treasury did not hold the Georgia agency accountable to the targets Treasury set. In Treasury's April 2012 Action Memorandum to the Georgia agency, Treasury warned, "Treasury estimates also indicate [the Georgia Agency] will not utilize significant amounts of allocated HHF funds at current spending rates." This is still true today with almost half of the allocated HHF funds unspent.

Since 2012, the Georgia state agency has not made demonstrable improvement in its performance, as reflected by Treasury rejecting the request for an additional \$33.5 million in HHF. The Georgia agency made some changes, but did not make major changes to implement Treasury's 2012 recommendations.

Rather than hold the Georgia agency accountable, Treasury has paid the Georgia state agency almost \$32 million in administrative expenses. This includes paying the Georgia agency \$12 million for salaries, even though the Georgia agency is severely underperforming.⁴⁶

Although the Georgia state agency lost the opportunity to help thousands of Georgians with HHF, with \$164 million remaining, there remains a chance to address the serious and continuing local problems that have prevented homeowners and workers from getting assistance.

Treasury should hold the Georgia state agency accountable by stopping the Georgia agency's mismanagement, requiring immediate major changes as recommended by SIGTARP and others, to provide the remaining funds to homeowners on an urgent basis, when they need it now, not in the future when it may be too late.

⁴⁶ The Georgia agency employed 20 full-time and 22 temporary employees who work on HHF, as of November 2016.



Conclusion

There are two TARP housing programs that operate in Georgia. The Making Home Affordable Program, a national program administered by Treasury, has provided TARP dollars to 80,026 Georgians. The Hardest Hit Fund administered by the Georgia Department of Community Affairs (the Georgia agency) has provided TARP dollars to only 9,061 homeowners over more than 6 years, while \$164 million, which is more than half of the available HHF dollars, remains unspent. Upon a request by Congressman John Lewis, SIGTARP audited the Hardest Hit Fund in Georgia to determine whether it had adequately served counties in his district, and to identify improvements. SIGTARP found that TARP's Hardest Hit Fund program has not adequately served those most in need in Georgia counties in Congressman Lewis' district in Atlanta and surrounding areas.

The mission of the Hardest Hit Fund is to preserve homeownership, something that hard-hit homeowners in Atlanta and surrounding areas greatly need. This mission is accomplished by state agencies providing Hardest Hit Fund aid to families through local programs tailored to the urgent needs of the communities. If the state agency does not provide the aid, it cannot effectively address local needs.

Homeowners in DeKalb, Clayton, and Fulton counties fit the definition of hard hit. So many in these three counties are hard hit not because of anything that is their fault, but instead because of where they live. These are Georgians caught in a pocket of slow recovery compared to other cities. Neighborhoods like Forest Park, Lakewood Heights, and Lithonia have been the subject of nationwide and local reporting on pervasive poverty and an uneven housing market. Many in these counties owe more than their house is worth. There are not enough jobs.⁴⁷ The jobs that do exist often do not pay enough to cover the mortgage and other bills. There has been, and continues to be, a need for the Hardest Hit Fund.

The need for the Hardest Hit Fund has always been urgent in DeKalb, Clayton, and Fulton counties. Nearly one quarter of all Georgia homeowners who lost their home to foreclosure since 2008 lived in DeKalb, Clayton, or Fulton County. Foreclosures in Georgia can be very fast because banks do not have to go to court to foreclose on a Georgia homeowner. Treasury's promises that the Hardest Hit Fund would provide "urgent," "immediate," help "as soon as possible" meant that the program had an opportunity to prevent these fast foreclosures. Along

⁴⁷ All three counties have above-average unemployment. Clayton County has a 5.9 percent unemployment rate compared to the national 4.5 unemployment rate. DeKalb County and Fulton County also have above average unemployment rates at 4.9 percent each.



with need, there was interest in the program, and many hard-hit Georgians applied. There were 29,750 Georgians who applied for the program, 9,516 from DeKalb, Clayton, and Fulton counties.

SIGTARP found that the Hardest Hit Fund did not meet the urgent local needs affecting the housing recovery of Georgia homeowners living in DeKalb, Clayton, and Fulton counties. The Georgia agency turned away two-thirds of Georgians living in these counties for the Hardest Hit Fund—6,200 people—while more than one hundred million dollars sat idle.⁴⁸

The Georgia agency turned away thousands who could not afford to be turned away. In Fulton County, 75% of all applicants that the Georgia agency turned away earned less than \$30,000 per year. In DeKalb County, 77% of all applicants that the Georgia agency turned away earned less than \$30,000 per year and, in Clayton County, 81% of all applicants that the Georgia agency turned away earned less than \$30,000 per year. Most turned away in these counties earned less than \$20,000.

The problems that SIGTARP found with the Hardest Hit Fund extended beyond these three Georgia counties to the entire state. Year after year, the Georgia agency ranked among the least effective state agencies in disbursing Hardest Hit Funds to homeowners to preserve homeownership—the goal of the program. SIGTARP reported on the severe underperformance of the Georgia agency 25 times in 5 years. Twice, U.S. Congressmen from Georgia wrote to then-President Obama to change or redirect the program.

- Rather than respond to the most pressing problems of their communities, the Georgia agency turned away two of every three (20,051 of 29,750) Georgians who applied for Hardest Hit Funds, one of the worst rates nationwide.
- Three out of every four turned away earned less than \$30,000, most earned less than \$20,000, while millions of TARP dollars sat idle.
- In 2010, the Georgia agency told Treasury that it planned to distribute Hardest Hit Funds to 18,625 homeowners (9,000 homeowners in the first year, and 9,500 homeowners in the second year). However, it has taken more than 6 years for the

⁴⁸ The Georgia agency turned away 2,476 DeKalb County residents, 2,342 Fulton County residents, and 1,382 Clayton County residents who applied. There were 95,232 homeowners in these counties losing their home to foreclosure since September 2008.



Georgia agency to provided Hardest Hit Funds to 9,061 Georgia homeowners.⁴⁹

- The Georgia agency has provided less than half of the available dollars (\$173.8 million out of \$370.1 million) to homeowners.
- Despite Georgia experiencing one of the highest levels of underwater homeowners in the nation, which is a contributing factor to Georgia’s slow recovery from the crisis, the Georgia agency failed to provide underwater home HHF assistance for 6 years.
- Despite Georgia having one of the largest populations in the United States of military and veterans, the Georgia agency turned away 2,310 veterans—71% of all veterans who applied for the Hardest Hit Fund.

Finding statewide ineffectiveness and inefficiency of HHF in Georgia, SIGTARP shifted the audit to determine the source of the problem, and how to fix it.

SIGTARP found mismanagement by the Georgia agency paid by Treasury to provide this urgent aid to Georgia homeowners, and by Treasury in not holding the Georgia agency accountable.⁵⁰ The Government Accountability Office (GAO) defines mismanagement as “creating substantial risk to an agency’s ability to accomplish its mission.” The mission of HHF is to preserve homeownership. The mission is accomplished by state housing finance agencies like the Georgia agency, providing aid to families through local programs tailored to the urgent needs of the communities. Conversely, the mission is not accomplished, given that the Georgia agency withheld aid.

The Georgia agency’s mismanagement of HHF included that it:

- ***Failed to act with urgency in distributing this Federal aid, and withheld it from Georgians.*** While some families received the aid, the Georgia agency did not provide this aid with any urgency, and did not provide it to enough families. The Georgia agency did not meet its own target of providing assistance to 18,500 Georgians in the first 2 years (by September 2012). Instead, after 2 years (as of September 30, 2012), the Georgia agency provided this aid to less

⁴⁹ As of March 31, 2017, the latest data available as of the drafting of this report.

⁵⁰ Treasury did not hold the Georgia agency accountable to the targets set by the Georgia agency of 9,000 homeowners assisted the first year, and an additional 9,500 homeowners assisted the second year. Treasury also did not hold the Georgia agency accountable to targets Treasury set in April 2012 of 250 new homeowners funded each month.



than 10% of that target—assisting only 1,708 homeowners. The Georgia agency withheld this aid to Georgians over the years, meeting less than 50% of its own target as of March 31, 2017 (the latest data available during the drafting of this report). By withholding this aid, and slow walking the aid it did distribute, the Georgia agency cut off Georgians' access to these funds, leaving thousands at risk of foreclosure without help available to homeowners in other states with similar situations.

- ***Designed overly strict and unnecessary criteria for the HHF unemployment program that made it harder for a Georgia homeowner to receive this assistance than homeowners in other states.*** In this audit, SIGTARP provides 10 examples of overly strict criteria. For example, when in 2012, the Georgia agency required that a homeowner be no more than 6 months delinquent on their mortgage to qualify, people all but stopped applying. For the HHF unemployment/underemployment program, the Georgia agency did not recognize common hardships like illness, disability, divorce, and military orders that can lead to unemployment or underemployment. These hardships are recognized in the other TARP housing program (Making Home Affordable), and for HHF by other state agencies. A Georgia worker has to show they lost their job in the last 3 years (later expanded to 4 years), when homeowners in other states do not have this limitation. The Georgia agency disqualifies a homeowner who resigned from their job from getting HHF assistance, even if it was due to illness, disability, or age. The Georgia agency accepts only severe underemployment of a 25% pay cut when other state agencies accept 10%. These and other criteria are not required by Treasury and far stricter than some other state agencies require in HHF.
- ***Failed to eliminate overly strict criteria despite repeated warnings and recommendations.*** The Georgia agency's mismanagement disadvantaged Georgia homeowners, making it harder for a Georgia homeowner to gain access to this Federal aid than homeowners in other states. The Georgia agency was repeatedly warned, and there were many recommendations to eliminate overly strict criteria. These recommendations came from Congressman Lewis, Congressman Henry "Hank" Johnson, SIGTARP, Treasury, and local non-profit groups.
- ***Required significant red tape, had a confusing online application, provided very little in-person help to apply, and had burdensome document requirements.*** The online application was confusing, and there was little personal assistance



available. More than 8,000 Georgians started the application but did not finish it and produce requested documents within 30 days, an artificial and unnecessary cutoff, so the Georgia agency withdrew their HHF application. This may have been due to the Georgia agency's burdensome document requests, for example, 4 years of tax transcripts stamped by the IRS, 2 years of payment history generated by their mortgage servicer, and a separation letter from the prior employer showing that the homeowner lost their job through no fault of their own.

The question SIGTARP was left with was, "what are they waiting for?" The mismanagement of the Georgia agency appears to be rooted in its desire to provide aid to only its overly restrictive view of what is a "Responsible Homeowner." The Obama Administration defined an irresponsible homeowner as someone who took out more of a loan than they could afford, and Treasury capped the mortgage for a homeowner receiving this Federal aid to the GSE conforming limit—around \$424,100 for a single-family house in Georgia. Of the Georgians turned away, 99% had a mortgage below this cap. The Georgia agency added far more limitations and red tape than Treasury required or that existed for homeowners in other states for these same funds, putting Georgians at a disadvantage.

The Georgia agency set a very high bar for Georgians to receive Hardest Hit Funds, and a very low bar for itself to receive these funds. The Georgia agency ran this program "guarding" the dollars and adding "precautions." This made the Federal funds last, which is contrary to the urgent nature of this program, but continues to keep the Georgia agency funded while other state agencies wound down operations. The Georgia agency has kept \$32 million for itself to pay its salaries and other expenses. SIGTARP has serious concerns given that the Georgia agency has distributed only less than half of the funds earmarked for homeowners, but kept 70% of the fund earmarked for its own expenses. If held to its own "responsible" standard, the Georgia agency should not have been paid when it did not meet its targets or Treasury's targets for the number of homeowners assisted. The Georgia agency's track record is so poor that while other states took advantage of an additional \$2 billion that Congress approved starting in 2016 for HHF, Treasury turned down Georgia for \$33.5 million, out of concern that the Georgia agency would not spend the HHF dollars already set aside for Georgians.

The Georgia agency's mismanagement is a significant lost opportunity for Georgians, but a window of opportunity still exists with \$164 million remaining available in the program. This opportunity should not be lost. It will take wholesale changes in the Georgia agency, and in Treasury's oversight, to stop the mismanagement and change course. SIGTARP makes 30 recommendations for improvement, and implores the state



agency and Treasury to adopt these recommendations fully and immediately.

If the Georgia agency reacts defensively to this report and sticks with the status quo, Georgians will continue losing a crucial aid that can speed their recovery from the housing crisis—aid that homeowners in other states have had access to for years. If mismanagement continues, Federal taxpayers will continue paying for underperformance and mismanagement, and Georgia homeowners will be on their own, without effective access to this Federal foreclosure prevention aid. Georgians have been disadvantaged by the Georgia agency for far too long.



Recommendations

1. *Treasury should require the Georgia agency to increase in-person outreach events in hard-hit neighborhoods, including public service advertisements on television and the radio, as well as billboards and in-person events in hard-hit neighborhoods throughout Georgia.*
2. *Treasury and the Georgia agency should take steps to increase the percentage of applicants receiving Hardest Hit Funds to at least two-thirds of all who apply.*
3. *Treasury and the Georgia agency should change the Hardest Hit Fund in Georgia to increase the percentage of homeowners with limited incomes in hard-hit counties who qualify.*
4. *Treasury should direct the Georgia agency to eliminate criteria for underwater assistance that the home had to be purchased prior to 2012, and that a homeowner cannot be more than 90 days delinquent.*
5. *Treasury should work with mortgage servicers to ensure homeowners' mortgages are recast after they receive Hardest Hit Funds to reduce their principal balances.*
6. *Treasury should require, for all Hardest Hit Fund state agencies, county-level public reporting of performance, including all who applied and were denied or had withdrawn applications (breaking out the numbers of applications withdrawn by the state agency).*
7. *Treasury and state agencies should conduct county-level analysis, and implement steps resulting from that analysis, to increase the effectiveness of Hardest Hit Fund distribution to homeowners.*
8. *The Georgia agency should change its process for the remaining homeowners who applied, and reassess homeowners recently turned away.*
9. *Before closing the Hardest Hit Fund's unemployment/underemployment program, Treasury and the Georgia agency should review the Georgia counties that are continuing with above-average unemployment and underemployment, and re-allocate sufficient funds from other programs back to unemployment/underemployment assistance to address the local need in those counties.*
10. *Treasury should require state agencies in the Hardest Hit Fund to recognize military hardships, and take action to increase distribution of this aid to veterans.*



11. *Treasury should require state agencies to maintain records on why homeowner applications are withdrawn when the state agency has relevant information.*
12. *Treasury should ensure that state agencies allow common hardships that prevent Americans from paying their mortgages on time, such as illness, disability, death, and divorce, and other hardships that Treasury recognizes in the Making Home Affordable program to qualify for the Hardest Hit Fund.*
13. *Treasury should require all state agencies in the Hardest Hit Fund to recognize hardships dating back to at least 2008.*
14. *Treasury should direct state agencies in the Hardest Hit Fund not to disqualify homeowners who were delinquent on their mortgages at the time of their hardship.*
15. *Treasury should direct state agencies in the Hardest Hit Fund not to disqualify homeowners based on the length of their delinquency.*
16. *Treasury should direct state agencies in the Hardest Hit Fund with available funds to define underemployment as requiring not more than a 10% reduction in income.*
17. *Treasury should direct state agencies in the Hardest Hit Fund to consider the full circumstances of the homeowner's reasons for unemployment or underemployment.*
18. *Treasury should direct all state agencies in the Hardest Hit Fund to allow homeowners to combine all forms of applicable Hardest Hit Fund assistance in that state, where sufficient funds are available.*
19. *Treasury should direct state agencies to allow a homeowner who received HAMP or MHA assistance to also receive Hardest Hit Fund assistance.*
20. *Treasury should prohibit state agencies from automatically disqualifying a homeowner who filed for bankruptcy from receiving Hardest Hit Funds.*
21. *Treasury should immediately require the Georgia agency to eliminate criteria that do not exist in other states and eliminate criteria that do not reflect the reality of Georgians (as defined by the reasons why homeowners were denied for HHF).*



22. *Treasury should direct the Georgia agency to review and reconsider all homeowners whose applications were denied or withdrawn in the last year with the eliminated criteria.*
23. *Treasury should require the Georgia agency to streamline its online application so that a homeowner only has to provide basic information.*
24. *Treasury should require the Georgia agency to provide every homeowner the option to receive application intake counseling, and the choice of receiving that assistance either in-person or telephonically.*
25. *Treasury should require the Georgia agency to eliminate the underwriting requirement that a homeowner's Hardest Hit Fund application is withdrawn after 30 days, even when a grace period is added.*
26. *Treasury should eliminate all state agencies' forced withdrawal of a homeowner's Hardest Hit Fund application for one year from the time the homeowner begins an application.*
27. *Treasury should direct state agencies to eliminate requirements that a homeowner provide tax transcripts or mortgage payment histories from servicers in order to qualify for the Hardest Hit Fund.*
28. *Treasury should work with each state agency to streamline document requirements to match what other state agencies require for Hardest Hit Fund assistance.*
29. *Treasury should require the Georgia agency to increase its use of non-profit housing counselors, other than ClearPoint, for intake, and divide applications among various counselors rather than send them all through ClearPoint.*
30. *Treasury should require the Georgia agency to set target numbers of homeowners assisted through each counselor and have the Georgia agency hold all of its housing counselors accountable, including through performance-based incentives and/or withholding payment, for increasing the number of hard-hit homeowners getting into the Hardest Hit Fund program.*



Management Comments and SIGTARP's Response

In response, Treasury said that HHF's structure has maximum flexibility including in the rate of disbursing funds. In 2012, Treasury set numerical targets for HHF disbursement in Georgia. Rather than hold the Georgia agency accountable to Treasury-set targets, Treasury continued to pay the Georgia agency nearly \$32 million for salaries and other expenses. Treasury also responded saying that SIGTARP is recommending uniform eligibility criteria, which is not true. SIGTARP's recommendations are designed to hold the Georgia agency accountable to Treasury targets and stop mismanagement.

Treasury also responded to the audit saying the funds are under a "use-or-lose" requirement, meaning that funds not used in a timely fashion will be reallocated to another state agency. That is even more reason for Treasury to stop the mismanagement of HHF in Georgia. Treasury ends its response saying it is winding down TARP. HHF is not winding down, but is instead, ramping up. Treasury expanded and extended the Hardest Hit Fund in 2016 by \$2 billion to be spent by December 31, 2021, four years from the original end date.



Appendix A—Objective, Scope, and Methodology

SIGTARP performed this performance audit under authority of the Emergency Economic Stabilization Act of 2008 (EESA).

SIGTARP conducted this audit upon request by Congressman John Lewis. SIGTARP conducted this audit from September 2016 through September 2017 in Washington, D.C., and at various locations throughout Georgia including Atlanta, Clayton, DeKalb, Fulton, and Gwinnett counties.

SIGTARP's objectives were to determine whether TARP's Hardest Hit Fund program (HHF) has adequately served those most in need of this assistance in selected counties, including homeowners in minority neighborhoods, and to identify areas for improvement at the contractor, county, state, and federal level in Congressman Lewis' district in Atlanta and surrounding areas. The scope of this audit covered a review of Georgia HHF programs and related program and administrative documentation since its inception in 2010. To accomplish the objective of the audit, SIGTARP applied GAO standards to determine mismanagement. GAO defines mismanagement as "creating substantial risk to an agency's ability to accomplish its mission."

The scope of this audit included a review of individual homeowners who applied and who were turned away (denials and withdrawals) assistance for all Georgia HHF programs, as of March 31, 2017, in Clayton, DeKalb, and Fulton counties. SIGTARP obtained information from the Georgia state agency regarding the reasons why homeowners were denied HHF assistance. To identify the incomes of these homeowners, SIGTARP obtained and analyzed applicant data from the Georgia state agency. Using CoreLogic, U.S. Census Bureau, and the Georgia state agency's data as of March 31, 2017, SIGTARP obtained distressed mortgages in all of Clayton's, DeKalb's, and Fulton's zip codes (total of 61) and identified 16 predominantly minority and/or Black or African American zip codes/neighborhoods in Clayton, DeKalb, and Fulton counties that had combined higher denial and withdrawal rates relative to the other 45 zip codes in those counties. A distressed mortgage is defined by any or all of the following factors: completed foreclosure sales since February 2010, delinquent mortgages, and properties in negative equity.

SIGTARP analyzed HHF Georgia's quarterly performance data, and performed a review of Georgia's, as well as other state agencies' HHF program eligibility requirements. This included a review of Treasury's agreements with state agencies, and program guidelines and procedures.



In addition, SIGTARP collected information regarding active and closed military bases in Georgia.

SIGTARP held interviews with officials at the Georgia state agency, housing counseling agencies, Atlanta Legal Aid, and homeowners to gain an understanding of their record keeping for maintaining data on homeowners denied for the program.

Limitations on Data

SIGTARP relied on the Georgia state agency to provide applicant-level data and data concerning why applicants were denied. It is possible that the documentation provided by state agencies to SIGTARP did not reflect a comprehensive response to SIGTARP's data request, potentially limiting SIGTARP's review.

Use of Computer-Processed Data

SIGTARP relied on computer-processed data for this audit. Specifically, SIGTARP relied on Georgia state agency data provided to SIGTARP to determine the numbers and percentages of applied, withdrawn, and denied homeowners and their incomes. SIGTARP relied on Treasury's quarterly performance reports to determine the numbers and percentages of approved homeowners. SIGTARP did not validate the accuracy of the underlying data provided by Treasury or the state agencies.

Internal Controls

SIGTARP performed a limited review of internal controls by interviewing Georgia state agency officials and reviewing Treasury compliance reports and state agency policies and procedures.

Prior Coverage

SIGTARP has covered the HHF program in seven previous 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."



- On October 6, 2015, SIGTARP released an evaluation report titled, “Factors Impacting the Effectiveness of Hardest Hit Fund Florida.”
- On June 16, 2016, SIGTARP released an audit report titled, “Treasury’s HHF Blight Elimination Program Lacks Important Federal Protections Against Fraud, Waste, and Abuse.”
- On September 9, 2016, SIGTARP released an audit report titled, “Waste and Abuse in the Hardest Hit Fund in Nevada.”
- On January 11, 2017, SIGTARP released an evaluation report titled, “Improving TARP’s Investment in American Workers.”
- On August 25, 2017, SIGTARP released an audit report titled, “Unnecessary Expenses Charged to the Hardest Hit Fund.”

SIGTARP also issued an alert letter on December 14, 2015, that addressed a risk related to diverting TARP funds to demolish lived-in properties, which could undermine the success of HHF’s Blight Elimination Program.

This performance audit was conducted in accordance with generally accepted government auditing standards established by the U.S. Government Accountability Office. Those standards require that SIGTARP plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. SIGTARP believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



Appendix B—Management Comments



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 11, 2017

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

Dear Ms. Romero:

I write in response to the Special Inspector General for the Troubled Asset Relief Program's (SIGTARP) draft report of September 26, 2017 (the Draft), regarding the management of the Housing Finance Agency Innovation Fund for Hardest Hit Housing Markets (the Hardest Hit Fund, or HHF) in Georgia. Treasury is committed to strong oversight of all programs funded through the Troubled Asset Relief Program (TARP), which we continue to wind down.

Treasury established HHF in 2010 to prevent foreclosure and stabilize housing markets in the District of Columbia and 18 states that were hardest hit by the housing crisis. TARP funds are used by state housing finance agencies in these areas (together with certain affiliates, HFAs), to design and operate their own innovative programs to prevent foreclosure and stabilize housing markets.

SIGTARP recommends that Treasury require the Georgia HFA to modify eligibility criteria and other terms and conditions of Georgia's HHF programs. In addition, SIGTARP recommends that Treasury establish uniform eligibility criteria across HHF programs in all states. With this letter, we provide background information regarding the purpose and structure of HHF, and we also describe how Treasury's work with the Georgia HFA has already improved program performance in that state. We agree that Treasury should continue to work with the Georgia HFA to explore opportunities to improve the reach and effectiveness of the HHF programs in Georgia. We will carefully consider the recommendations contained in the Draft and respond to those recommendations under separate cover after we have completed our review.

I. The Hardest Hit Fund Provides Maximum Flexibility to the States, So That Programs Can Be Tailored to Local Conditions.

HHF was designed to supplement other crisis-era programs established by Treasury. Unlike Treasury's Making Home Affordable Program—a national mortgage modification program based on standards set by the Federal government—HHF provided funds for programs that could be tailored to local economic conditions. By way of example, at the height of the housing crisis, HHF programs consisted largely of mortgage payment assistance and reinstatement programs targeted to unemployed and underemployed homeowners. As unemployment levels declined, HFAs introduced programs to accomplish the goals of HHF through other means, such as providing principal reduction to those struggling with negative equity, removing properties that had become a blight on surrounding communities, and offering down payment assistance to stimulate demand in distressed neighborhoods.



HFAs are well-positioned to design and administer these locally-tailored programs, because the HFAs have a deep knowledge of the state’s housing market and are present in their communities. This expertise and proximity enables them to work with other local stakeholders—such as locally-elected officials, municipalities, and community organizations—to determine how best to use HHHF funds, particularly given legal and operational constraints. This necessarily involves balancing a number of competing priorities, such as the desire to target resources to those most in need, while at the same time helping the greatest number of homeowners and communities through measures that are both expeditious and most likely to be successful in the long run. Accordingly, the programs and eligibility criteria designed by HFAs reflect their views on these important policy considerations. As a result of this structure, HHHF programs vary significantly across states, as do the rates at which assistance is disbursed, the nature and amount of assistance offered, and the number of homeowners ultimately helped. Requiring uniform eligibility criteria or other program terms across all HHHF states would—in many cases—run counter to the design and purpose of the program.

We note that the flexibility afforded to state HFAs in HHHF does not affect Treasury’s strong commitment to assisting homeowners expeditiously and holding HFAs accountable for their performance. When Congress authorized Treasury in December 2015 to commit an additional \$2 billion to the HFAs already participating in HHHF, Treasury acted swiftly to allocate the additional funding among HFAs in a manner that considered each HFA’s past performance, ongoing need for foreclosure prevention, and ability to use additional funds effectively and efficiently. In addition, the funds were allocated subject to a “use-or-lose” requirement: funds that are not utilized by HFAs in a timely fashion will be periodically reallocated to other HFAs that meet defined utilization criteria.

II. Treasury Has Helped the Georgia HFA Improve Its Program Performance.

Treasury takes seriously its responsibility to oversee states’ administration of HHHF programs. When states have encountered challenges in the design or operation of this unprecedented program, Treasury has worked with its state partners—including those in Georgia—to overcome such challenges.

As early as 2011, Treasury observed that Georgia was not on track to meet its overall goals and targets. As a result, Treasury recommended a number of changes to Georgia’s HHHF programs and administration, including steps designed to increase the number of homeowners receiving assistance and streamline the application process, among other things. In response, the Georgia HFA engaged a national counseling organization to advise Georgia on how to overcome obstacles to application completion, launched new marketing and outreach initiatives to bolster awareness of HHHF among at-risk homeowners, and conducted further data analysis to better understand the needs of struggling Georgia homeowners.

Treasury has consistently encouraged Georgia to analyze the primary reasons for program denials. In addition, Treasury routinely engaged with Georgia to discuss additional program changes—including expanding hardships and lifting restrictive criteria—to improve assistance to



homeowners.¹ In 2013, Georgia extended its duration of monthly payment assistance to 24 months and increased the maximum amount of assistance per household. In 2014, Treasury worked with Georgia to launch the Mortgage Reinstatement Assistance program, designed to specifically address mortgage delinquency due to loss of income or medical hardship, and the Recast/Modification program designed to address negative equity and payment affordability through principal reduction. Following the extension of the Hardest Hit Fund in 2016, Treasury worked with Georgia to adjust its Recast/Modification program to allow for principal curtailment—*i.e.*, principal reduction without payment change—which allowed Georgia to serve a larger population of homeowners with underwater mortgages, including veterans and members of the military. Georgia has continued to innovate to address changing market needs, and it launched a new, targeted Down Payment Assistance program in May 2017.

As of June 30, 2017, Georgia HHF programs had assisted 9,591 homeowners, representing a cumulative increase of 18% over the prior twelve months.² With respect to the second quarter of 2017 alone, Georgia HHF programs had assisted 530 homeowners, representing an increase of 61% over the prior quarter.³ This increase is due, in large part, to Georgia's recent production under their Recast/Modification program. If these positive trends continue, the state could exhaust remaining HHF funds as early as 2019, one year prior to the scheduled close of HHF in 2020.

* * *

Even as the TARP program nears its end, we remain committed to taking appropriate actions to improve program performance and protect the interests of taxpayers. We look forward to continuing to work with you as we wind down TARP.

Sincerely,

A handwritten signature in blue ink that reads "Lorenzo Rasetti".

Lorenzo Rasetti
Chief Financial Officer
Office of Financial Stability

¹ As the Draft correctly notes, Treasury did not withhold payment of HHF funds reserved for administrative expenses such as salaries, utilities, and rent. Had Treasury done so, Georgia's HHF programs may have ceased to operate altogether.

² See Treasury's Hardest Hit Fund Program Performance Summary for the second quarter of 2017, available at: <https://www.treasury.gov/initiatives/financial-stability/reports/Pages/HHF.aspx>.

³ See Treasury's HFA Aggregate Reports for the first and second quarters of 2017, available at: <https://www.treasury.gov/initiatives/financial-stability/reports/Pages/Housing-Finance-Agency-Aggregate-Report.aspx>.

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, DC 20220

Press Inquiries

If you have any inquiries, please contact our Press Office: 202-927-8940

Legislative Affairs

For Congressional inquiries, please contact our Legislative Affairs Office: 202-622-4613

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To obtain copies of testimony and reports, please log on to our website at www.SIGTARP.gov.

