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SIGTARP IDENTIFIES TOP CHALLENGES  
AND THREATS IN TARP

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## THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES & THREATS OF FRAUD, WASTE, & ABUSE FACING THE GOVERNMENT IN TARP

SIGTARP identifies the most serious management and performance challenges and threats facing the Government in TARP. Our selection is based on the significance and duration of the challenge/threat to the mission of TARP and Government interests; the risk of fraud or other crimes, waste or abuse; the impact on agencies in addition to Treasury; and Treasury's progress in mitigating the challenge/threat.

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

### **Risk of Financial Institution Fraud in Banks Where Treasury Holds Securities (No Scheduled Duration)**

Financial institution fraud jeopardizes Treasury's ability to recover TARP funds, and jeopardizes the interests of the bank regulator. SIGTARP investigations have led to criminal prosecutions in 15 of 34 failed banks with full or near-full TARP loss. Fraud in open banks also hurts that banks' ability to repay TARP. Treasury is the major shareholder in One Financial Corp. SIGTARP uncovered that the former bank CEO Layton Stuart obtained TARP on false pretenses, and diverted funds for personal use, such as luxury vehicles. Stuart died during SIGTARP's criminal investigation, and DOJ filed a forfeiture action, under which Treasury received bank stock. SIGTARP investigations also resulted in convictions of insiders in other banks currently in TARP, including Harbor Bank, Porter Bancorp, and Broadway Bank. Treasury holds warrants in Wilmington Trust, a bank indicted after SIGTARP's investigation.

### **Risk of Fraud, Waste and Abuse by Large Banks and Others in the Making Home Affordable Program (Until Sept. 2023)**

MHA will continue for 6 years until September 2023. Under Treasury's contracts with 131 mortgage servicers, Treasury will pay up to \$9.8 billion. These are not automated payments, but require reporting to Treasury and compliance with Treasury's rules. The largest eight servicers

stand to receive \$8.2 billion of that amount, including Ocwen, Wells Fargo, JPMorgan Chase, Bank of America, Nationstar, Select Portfolio Servicing, CitiMortgage, and OneWest/CIT. Many have a track record of enforcement actions or other reported wrongdoing. SIGTARP has recently reported on servicers canceling homeowners out of the program for missing three mortgage payments, when it was servicer misconduct, for example, the servicer erred in applying the payments. The risk of fraud, waste, abuse, and failure to achieve program goals, also jeopardizes the GSEs, FHFA, and Veterans Affairs that participate in MHA.

### **Risk of Corruption, Antitrust Violations, Collusion, Fraud, and Abuse in the HHF Blight Elimination Program (Until Dec. 2021)**

This program has expanded by 1,500% since 2013, and now operates in 247 cities/counties that will spend \$806 million until December 2021. As SIGTARP reported in a June 2016 audit, Treasury did not apply standard controls that exist in HUD's blight program or in other Federal awards/grants. SIGTARP reported that there were no federal requirements for competition or standard limitations to only pay necessary and reasonable costs. Treasury only implemented 2 of SIGTARP's 20 recommendations, leaving the program open to antitrust violations, and fraud. SIGTARP reported in April 2015 that participants in the program are typically not the ones awarding contracts. The program's heavy reliance on city/county officials not under contract in the program creates risk of corruption, collusion, and abuse. In December 2015, SIGTARP reported abuse by city officials in Evansville, Indiana who wanted to expand the University's medical school, but the neighboring property housed a Ford dealership. City officials chose where they wanted to move the Ford dealership, evicted people on that chosen site so the homes would qualify as "abandoned" in TARP, used TARP to pay for the demolitions, and moved the Ford dealership to the demolished lots.

### **Risk of Waste and Misuse of TARP Dollars by State Agencies for Their Own Administrative Expenses in the Hardest Hit Fund (Until 2022)**

Treasury has budgeted \$1.1 billion in TARP dollars for administrative expenses of 19 state agencies to distribute \$8.7 billion. Treasury has already spent \$753 million. In two audits issued September 2017 and September 2016, SIGTARP identified \$11 million in wasteful and unnecessary spending by state housing agencies in the Hardest Hit Fund, including for example, catered barbeques with Treasury employees, parties, country club events, leasing a Mercedes, cash bonuses, employee perks, costs not associated with TARP. SIGTARP initiated the September 2017 audit upon a request by Senator Chuck Grassley. Senator Grassley has requested that SIGTARP review additional expenses. In October 2017, SIGTARP opened an audit into travel, conferences, and other administrative expenses.

### **Risk of Fraud, Waste and Abuse in the Recent Expansion of the Hardest Hit Fund Absent Expansion in Risk Controls (Until Dec. 2021)**

The \$9.6 billion Hardest Hit Fund is in a ramp-up stage due to an additional \$2 billion authorized by Congress in FY2016 and a four-year extension of the program from the previously scheduled end date of FY 2018 to FY2022. During calendar years 2016 and 2017, Treasury amended its contracts with state housing finance agencies to allocate these dollars, which led to an expansion of prior uses of these funds. However, Treasury did not analyze the risks of expansion, as previously recommended by SIGTARP but not implemented by Treasury. This includes the expansion of the blight elimination program without implementing SIGTARP's recommendations. In addition, SIGTARP reported in April 2017 about Treasury's expansion of TARP-funded demolition to large apartment buildings without an analysis of risks.

### **Risk of Mismanagement or Severe Underperformance by State Agencies That Jeopardizes the Hardest Hit Fund's Goals and Creates Waste**

Although HHF was scheduled to end in December 2017, it was expanded in 2016, with Treasury allocating an additional \$2 billion for 19 state housing finance agencies to disburse to homeowners in their state or for blight demolition. Some of these state housing agencies were severely underperforming before the expansion of funds. Mismanagement is defined as actions that jeopardize the program mission. Mismanagement is always more costly than proper management, creating waste. In October 2017, SIGTARP found that the Department of Community Affairs in Georgia mismanaged the Hardest Hit Fund. It jeopardized program goals by creating unnecessary red tape and overly strict criteria that resulted in turning away two of every three Georgians who applied. The decisions by DCA did not protect against fraud. HHF homeowners programs have a low risk of fraud because homeowners never receive the funds; they are wired to the mortgage servicer. One example of unnecessary red tape is that DCA turned away homeowner who did not obtain an IRS-stamped tax transcript within 30 days, when other state agencies accept copies of tax returns. DCA's mismanagement cost DCA to miss its targets to distribute the funds in the first two years, and cost TARP more than \$18 million in paying for DCA's salaries and other expenses in subsequent years when the program would have been shut down.

TABLE 1.1

**TREASURY CONTRACTS FOR \$27.7 BILLION TO BE PAID TO HAMP MORTGAGE SERVICES UNTIL 2023 AS OF 9/30/2017**

**SIGTARP  
Investigations  
and Audits**

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SIGTARP  
Investigations  
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\$4.6 Billion <i>TARP dollars paid</i>		\$2.5 Billion <i>TARP Obligated or Committed to be paid</i>
\$2.9 Billion <i>TARP dollars paid</i>		\$1.5 Billion <i>TARP Obligated or Committed to be paid</i>
\$2.9 Billion <i>TARP dollars paid</i>		\$1.1 Billion <i>TARP Obligated or Committed to be paid</i>
\$2.1 Billion <i>TARP dollars paid</i>		\$784 Million <i>TARP Obligated or Committed to be paid</i>
\$1.2 Billion <i>TARP dollars paid</i>		\$993 Million <i>TARP Obligated or Committed to be paid</i>
\$1.2 Billion <i>TARP dollars paid</i>		\$956 Million <i>TARP Obligated or Committed to be paid</i>
\$702 Million <i>TARP dollars paid</i>		\$243 Million <i>TARP Obligated or Committed to be paid</i>
\$424 Million <i>TARP dollars paid</i>		\$116 Million <i>TARP Obligated or Committed to be paid</i>
\$305 Million <i>TARP dollars paid</i>		\$225 Million <i>TARP Obligated or Committed to be paid</i>
\$258 Billion <i>TARP dollars paid</i>		\$226 Million <i>TARP Obligated or Committed to be paid</i>
\$1.3 Billion <i>TARP dollars paid</i>	Other Servicers (150 Institutions)*	\$1.2 Billion <i>TARP Obligated or Committed to be paid</i>
<b>\$17.9 Billion</b> <i>TARP dollars paid</i>	<b>TOTAL</b>	<b>\$9.8 Billion</b> <i>TARP Obligated or Committed to be paid</i>

Sources: Treasury, Aggregate Cap Monitoring Report -Sept 2017; SIGTARP analysis of Treasury MHA data.

\*A total of 160 institutions have been paid or are eligible to be paid TARP funds through MHA, of which 131 can still receive TARP disbursements subsequent to 9/30/2017.

TABLE 1.2

STATUS OF \$9.8 BILLION IN HHF FUNDS AVAILABLE TO STATE AGENCIES UNTIL 2021		
Spent	State	Unspent
\$65,722,813	Alabama	\$97,885,495
\$251,671,867	Arizona	\$47,617,331
\$1,924,817,317	California	\$499,404,140
\$18,545,299	Dist of Columbia	\$11,161,733
\$910,771,845	Florida	\$238,693,370
\$222,497,129	Georgia	\$151,692,389
\$468,123,397	Illinois	\$271,295,451
\$204,711,868	Indiana	\$81,612,494
\$160,327,565	Kentucky	\$50,695,826
\$497,684,245	Michigan	\$271,778,043
\$95,028,065	Mississippi	\$49,960,190
\$547,086,656	North Carolina	\$176,597,585
\$286,037,908	New Jersey	\$135,304,353
\$116,088,071	Nevada	\$88,284,519
\$559,781,315	Ohio	\$209,042,851
\$256,015,909	Oregon	\$95,530,607
\$81,035,573	Rhode Island	\$36,613,252
\$243,744,579	South Carolina	\$76,770,235
\$210,239,029	Tennessee	\$95,329,348
<b>\$7,119,930,449</b>	<b>Total</b>	<b>\$2,685,269,211</b>

SIGTARP  
Investigations  
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Note: Spending figures include an additional \$205.1 million in recycled TARP dollars.  
Source: Treasury, response to SIGTARP data call 10/5/2017; SIGTARP analysis of HHF Quarterly Financial Reports.

TABLE 1.3

TREASURY CONTRACTS PAYING \$1.1 BILLION IN HARDEST HIT FUND ADMIN EXPENSES UNTIL 2021		
Spent	State	Unspent
\$175.7 Million	 California	\$66.1 Million
\$75.8 Million	 Florida	\$49.1 Million
\$71.8 Million	 North Carolina	\$24 Million
\$54.3 Million	 Ohio	\$12.2 Million
\$41.2 Million	 Michigan	\$28.8 Million
\$40.2 Million	 Illinois	\$28 Million
\$40.5 Million	 Oregon	\$17.1 Million
\$36.4 Million	 South Carolina	\$20.9 Million
\$33.3 Million	 Georgia	\$14.5 Million
\$33.1 Million	 Indiana	\$5.2 Million
\$29.2 Million	 New Jersey	\$15.8 Million
\$25.1 Million	 Arizona	\$14.7 Million
\$20.2 Million	 Tennessee	\$15.4 Million
\$19.1 Million	 Nevada	\$6.1 Million
\$16.6 Million	 Kentucky	\$3.3 Million
\$13.8 Million	 Mississippi	\$7.8 Million
\$11.9 Million	 Alabama	\$15.3 Million
\$11 Million	 Rhode Island	\$6.4 Million
\$3.8 Million	 District of Columbia	\$1.9 Million
<b>\$753.3 Million</b>	<b>Total</b>	<b>\$352.8 Million</b>

Source: Treasury, response to SIGTARP data call - 10/5/2017; SIGTARP analysis of HHF Quarterly Financial Reports.

TABLE 1.4

<b>TREASURY HOLDINGS OF TARP SECURITIES IN BANKS AS OF 9/30/2017</b>						
<b>Program</b>	<b>Bank</b>	<b>Outstanding Principal Investment</b>	<b>Warrants Remaining</b>	<b>Missed Dividends</b>	<b>SIGTARP Investigation</b>	
Capital Purchase Program (CPP)	Onefinancial Corporation	\$17,300,000		\$11,093,086	✓	
	One United Bank	\$12,063,000		\$6,815,595		
	Harbor Bankshares Corporation	\$6,800,000		\$3,281,000	✓	
	Pinnacle Bank Holding Company, Inc.	\$4,389,000		\$2,304,480	✓	
	Broadway Financial Corporation	\$3,984,332			✓	
	St. Johns Bancshares, Inc.	\$3,000,000				
	Synovus Financial Corp.		\$2,215,820			
	Royal Bancshares Of Pennsylvania, Inc.		\$1,368,041	\$7,601,750		
	First Bancorp (PR)		\$1,285,900	(\$0)		
	Severn Bancorp, Inc.		\$556,976	\$1,754,475		
	Cecil Bancorp, Inc.		\$523,076	\$5,837,800	✓	
	Wilmington Trust Corporation / M&T Bank Corporation		\$95,440		✓	
	Porter Bancorp, Inc.(PBI) Louisville, Ky		\$66,112	\$6,737,500	✓	
	Village Bank And Trust Financial Corp.		\$31,189	\$2,026,475		
	Pacific International Bancorp / BBCN Bancorp, Inc.		\$20,087			
		<b>CPP Total</b>	<b>\$47,536,332</b>	<b>\$6,162,641</b>	<b>\$47,452,161</b>	<b>7</b>
	Community Development Capital Initiative (CDCI)	Carver Bancorp, Inc	\$18,980,000			
First American International Corp.		\$17,000,000				
IBC Bancorp, Inc.		\$8,086,000				
Citizens Bancshares Corporation		\$7,462,000				
Hope Federal Credit Union		\$4,520,000				
Community Bank of the Bay		\$4,060,000		\$20,300		
Carter Federal Credit Union		\$3,800,000				
Cooperative Center Federal Credit Union		\$2,799,000				
Tri-State Bank of Memphis		\$2,795,000		\$181,675		
Community First Guam Federal Credit Union		\$2,650,000				
Opportunities Credit Union		\$1,091,000				
D.C. Federal Credit Union		\$500,000				
Tulane-Loyola Federal Credit Union		\$424,000				
Northeast Community Federal Credit Union		\$350,000				
North Side Community Federal Credit Union		\$325,000				
Neighborhood Trust Federal Credit Union		\$283,000				
Buffalo Cooperative Federal Credit Union		\$145,000				
Vigo County Federal Credit Union		\$102,450				
Episcopal Community Federal Credit Union		\$100,000				
Liberty County Teachers Federal Credit Union		\$87,000				
Union Baptist Church Federal Credit Union	\$10,000					
East End Baptist Tabernacle Federal Credit Union	\$7,000					
	<b>CDCI Total</b>	<b>\$75,576,450</b>	<b>—</b>	<b>\$201,975</b>	<b>0</b>	
	<b>TOTAL BANKS</b>	<b>\$123,112,782</b>	<b>\$6,162,641</b>	<b>\$47,654,136</b>	<b>7</b>	

Sources: Treasury, Transactions Report, 10/4/2017; Treasury, response to SIGTARP data call 10/5/2017; Treasury Dividends and Interest Report, August 2017.

