

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6143

MAJORITY (202) 225-5074
MINORITY (202) 225-5051
<http://oversight.house.gov>

Opening Statement Rep. Gerry Connolly Hearing on “Ten Years of TARP: Examining the Hardest Hit Fund” May 22, 2018

Chairman Meadows, Chairman Palmer, thank you for calling today’s hearing to look into mismanagement and wasteful spending in the Hardest Hit Program, and thank you to all of our witnesses for being here.

The Oversight and Government Reform Committee has broad jurisdiction to look into fraud, waste, and abuse throughout the government, including when federal dollars go to state and local governments, or other recipients. Taxpayer dollars should not be viewed as a slush fund and I welcome the Committee’s oversight into this issue.

To ensure accountability wherever taxpayer dollars are spent, it is also important that the Committee look into wasteful spending elsewhere in the federal government. I would welcome a deeper look into wasteful spending at the Environmental Protection Agency (EPA):

- \$43,000 on a soundproof booth for Administrator Scott Pruitt in violation of spending laws;
- \$105,000 on Administrator Pruitt’s first-class flights in his first year on the job;
- \$100,000 on a four-day trip to Morocco;
- \$120,000 on a four-day trip to Italy;
- \$45,000 for EPA aides to fly to Australia and prepare for yet another trip the Administrator had planned to take before it was cancelled due to Hurricane Harvey;
- Five figure salary increases for preferred staff after the White House Presidential Personnel Office turned down EPA’s request for the raises.

This is not to mention Administrator Pruitt’s ethical challenges, including his cozy relationships with lobbyists for the industries regulated by the EPA. The Committee should also look into how the Department of Interior was able to spend \$139,000 on new doors for Secretary Zinke’s office, which makes the \$31,000 dining set the Department of Housing and Urban Development was planning to spend for Secretary Carson’s office look like small potatoes. And this is just what we know from publicly reported expenditures. I am sure if the Committee took on a full-fledged and vigorous investigation into wasteful spending by the Trump Cabinet, we would be able to find other examples of the flagrant misuse of taxpayer dollars.

Ten years ago, a financial crisis hit the American people the likes of which were unseen since the Great Depression. Housing prices plunged, 8.8 million jobs were lost, a liquidity crisis

hit the financial sector, and the unemployment rate peaked at 10 percent. The meltdown left hundreds of thousands of homeowners underwater on their mortgages, owing more than their houses were worth. In 2008, U.S. foreclosure filings spiked more than 81 percent and over 860,000 families lost their homes to foreclosure that year.

In response to this crisis, Congress enacted the Emergency Economic Stabilization Act, which, among other things, created the Troubled Asset Relief Program, or TARP. TARP is widely considered a bank bailout, authorizing the Secretary of the Treasury to either purchase or insure up to \$700 billion in troubled assets owned by financial firms. TARP also sought to provide assistance to homeowners facing foreclosure by stabilizing housing markets and engaging in foreclosure mitigation through the Home Affordable Modification Program, the Federal Housing Administration Short Refinance Program, and the Hardest Hit Fund.

The Hardest Hit Fund made funding available to the state housing finance agencies that had experienced the greatest declines in home prices. The program has helped homeowners stay in their houses and knocked down blighted properties, raising property values of the surrounding homes. It has grown into a \$9.6 billion program funded by the federal government but administered by the states and has assisted more than 300,000 homeowners in 18 states and the District of Columbia.

I support the cooperative federalism embedded in this program—with the states and the federal government working together to solve common problems. But today's hearing will highlight instances where cooperative federalism has gone awry. A number of Hardest Hit Fund partner states severely mismanaged their programs or misspent federal funds.

In September 2016, the Special Inspector General for TARP (SIGTARP) found that the Nevada Housing Division allowed abuse and waste of \$8.2 million in Hardest Hit Fund dollars instead of helping homeowners at risk of foreclosure. This included a car allowance of \$500 a month for the CEO to drive a Mercedes Benz totaling \$11,000, nearly the same amount of money was spent on employee bonuses, gifts, outings, and other perks, over \$5,800 spent on holiday parties and gifts, and \$43,000 in bonuses, almost all of which were paid to a CEO who was later terminated. At the same time, the state agency had all but stopped homeowners from getting assistance through the Hardest Hit Fund, admitting only 117 Nevada homeowners in 2015, a year-on-year drop of 96 percent in homeowner admissions.

The Special Inspector General for TARP also found that state agencies charged more than \$100,000 for barbeques, picnics, celebrations, and other outings that included food and beverages. Instead of putting \$14,124 towards assisting homeowners, the North Carolina Housing Finance Agency charged that amount for employee food and beverages. Overall, SIGTARP found that the agency charged more than \$100,000 in unnecessary expenses. At the same time, the agency denied 18.8 percent of homeowners who applied for housing assistance.

State agencies even charged employee parking fees to the Hardest Hit Fund as was the case in Michigan, which spent over \$330,000 for that purpose.

Fortunately, eight years after the passage of TARP, the Special Inspector General for TARP continues to conduct audits of Hardest Hit Fund expenditures, to ensure that the monies are spent properly. An August 2017 audit, SIGTARP found that states had misspent \$3 million in

TARP funds. We must remember that is \$3 million which could have been used to provide mortgage assistance to underwater homeowners or rehabilitate neighborhoods. The only thing more disappointing than state agencies using money meant to help homeowners on unnecessary expenditures is the Treasury Department's reluctance to recover the misspent taxpayer dollars. After receiving SIGTARP's audit, Treasury decided to claw back only 29% of the improperly spent funds. So long as TARP programs exist, it is important for SIGTARP to keep a watchful eye on the expenditures to ensure that taxpayer dollars are spent judiciously and for the purpose in which Congress intended.

Chairman Meadows, Chairman Palmer, thank you for calling this hearing to conduct oversight of the Hardest Hit Fund program. I hope we can convene future hearings when we return from the Memorial Day break on other examples of profligate spending right here in Washington in Trump's Cabinet of Corruption.

Contact: Aryele Bradford, Aryele Bradford, Deputy Communications Director, (202) 225-5051.