Audit Report

OIG-13-040

Treasury Needs Written Policies and Procedures for Its Oversight of the Housing Finance Agency Initiative

May 30, 2013

Office of Inspector General

Department of the Treasury

Contents

Abbreviations

Fannie Mae	Federal National Mortgage Association
Freddie Mac	Federal Home Loan Mortgage Corporation
FHFA	Federal Housing Finance Agency
GSE	Government Sponsored Enterprise
HERA	Housing and Economic Recovery Act of 2008
HFA	Housing Finance Agency
JAMES	Joint Audit Management Enterprise System
MRB	Mortgage Revenue Bond
MBS	Mortgage Backed Security
NIBP	New Issue Bond Program
OIG	Office of Inspector General
TCLF	Temporary Credit and Liquidity Facility
TCLP	Temporary Credit and Liquidity Program
VRDO	Variable Rate Demand Obligation

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May 30, 2013

Mary John Miller
Under Secretary for Domestic Finance

Richard Gregg
Fiscal Assistant Secretary

The Housing and Economic Recovery Act of 2008[1] (HERA) provided the Department of the Treasury (Treasury) with temporary authority to purchase obligations and securities issued by the government sponsored enterprises (GSEs), namely the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). Prior to the expiration of its purchase authority in December 2009, Treasury entered into the Housing Finance Agency (HFA) Initiative with the Federal Housing Finance Agency (FHFA), Fannie Mae, and Freddie Mac to support state and local housing finance agencies that were experiencing challenges in providing financing for affordable housing.

We conducted this audit as part of our oversight of Treasury's use of its various authorities provided under HERA. Using its authority, Treasury established several programs to address the financial crisis in the housing market.[2] This report presents the results of our audit of Treasury's participation in the HFA Initiative. Our overall audit objective was to determine whether the two component programs of the HFA Initiative—the New Issue Bond Program (NIBP) and the Temporary Credit and Liquidity Program (TCLP)—were being administered consistent with Treasury's authority under HERA. Specifically, we assessed Treasury's process for

[1] Pub. L. No. 110-289,122 Stat. 2683 (July 30, 2008)
[2] In addition to the HFA Initiative, Treasury entered into Senior Preferred Stock Purchase Agreements with the GSEs and established the Agency Mortgage Backed Securities Program.

(1) monitoring the performance of the financial agents[3] hired to carry out Treasury's purchases of GSE securities and to serve as custodian of the purchased securities and (2) determining whether the HFA Initiative was achieving its stated program objectives. Appendix 1 provides a more detailed description of our audit objectives, scope, and methodology.

Results in Brief

Overall, we found that Treasury's administration of the NIBP and the TCLP under the HFA Initiative was consistent with its authority under HERA. Treasury and the GSEs implemented the NIBP and the TCLP in an effort to stabilize financial markets and prevent disruptions in mortgage finance availability. In the course of the housing downturn, state and local HFAs experienced challenges with liquidity. The purpose of the NIBP was to provide temporary funding so that HFAs could continue to finance mortgages through the issuance of new housing bonds. The TCLP was intended to help relieve financial strains that the HFAs were experiencing by providing a temporary credit and liquidity backstop in the event existing variable rate demand obligations (VRDOs)[4] were tendered and could not be remarketed. We found that these programs contributed to the stabilization of the housing markets the HFAs serve and provided additional mortgage finance availability. That is, we found that HFAs participating in the NIBP were able to issue new bonds to generate mortgages. Additionally, no VRDOs under the TCLP have failed to be remarketed, to date, because VRDOs have maintained sufficient credit ratings due to the liquidity backstop.

We also noted that while Treasury did monitor the performance of the financial agents overseeing the HFA Initiative, there were no written policies and procedures governing Treasury's monitoring process. Additionally, Treasury did not sufficiently document the results of its various reviews and oversight activities performed

[3] JPMorgan Chase Bank N.A. (JPMorgan) and State Street Bank and Trust Company (State Street) were hired to serve as financial agents for Treasury's Mortgage Backed Securities Program. Treasury modified the financial agency agreements with the two companies to include services supporting the HFA Initiative.
[4] VRDOs are floating rate, tax-exempt obligations that feature a "put" option for investors.

specific to the NIBP and the TCLP. In July 2012, Treasury developed procedures for performing site visits of financial agents. However, the procedures did not provide for requirements to document key meetings and decisions, the results of NIBP and TCLP program outcomes, and ongoing reviews of various reports.

In our audit report on Treasury's Agency Mortgage Backed Securities (MBS) Purchase Program,[5] we recommended that the Fiscal Assistant Secretary develop policies and procedures emphasizing documentation requirements for programs using financial agents. The implementation of this recommendation is even more critical for the NIBP and the TCLP which are ongoing programs. Accordingly, in this report, we are recommending that the Fiscal Assistant Secretary establish and implement written policies and procedures specific to the HFA Initiative for ensuring its comprehensive monitoring of the financial agents' performance. Procedures should include a requirement that Treasury personnel responsible for overseeing the HFA Initiative document key meetings and decisions, as well as, the results of reviews of NIBP and TCLP program outcomes to ensure the HFA Initiative continues to meet program objectives.

In a written response, Treasury management agreed with our recommendation, stating that it will develop and apply written policies and procedures to monitor the performance of the financial agents. However, the response did not specify the target date for completing the planned action. The Fiscal Assistant Secretary will need to establish a target date in the Joint Audit Management Enterprise System (JAMES), Treasury's audit recommendation tracking system. Management's response is provided in appendix 3.

Background

Congress passed HERA in July 2008 to address the rapidly deteriorating mortgage market. Among other things, HERA created FHFA, with enhanced regulatory authority over the GSEs. It also provided the Secretary of the Treasury with certain purchase

[5] *Treasury Implemented the MBS Purchase Program Consistent With Its Authorities But Needs to Improve Oversight of Financial Agents* (OIG-13-030; issued Jan. 3, 2013)

authorities intended to ensure the GSEs' financial stability. As a result of the challenges that Fannie Mae and Freddie Mac were experiencing in raising additional capital and concerns over their ability to operate safely and soundly, FHFA placed the two GSEs into conservatorship on September 6, 2008.

Section 1117 of HERA provided Treasury temporary authority to purchase obligations and other securities issued by Fannie Mae, Freddie Mac, and any Federal Home Loan Bank on such terms and conditions and in such amounts as the Treasury may determine. Treasury undertook several initiatives to ensure survival of the GSEs and stabilize the housing market. At the outset of HERA, Treasury entered into the Senior Preferred Stock Purchase Agreements with Fannie Mae and Freddie Mac and established the Agency MBS Purchase Program. In response to requests from the National Council of State Housing Agencies and the National Association of Local Housing Finance Agencies, as well as state and local HFAs, Treasury entered into a memorandum of understanding with FHFA, Fannie Mae, and Freddie Mac in October 2009 for the design and execution of the HFA Initiative. The HFA Initiative was intended to help support low mortgage rates and expand resources for low- and middle-income borrowers to purchase or rent homes that are affordable over the long term.

The HFA Initiative was a component of the Homeowner Affordability and Stability Plan, a comprehensive plan designed to stabilize the housing market by supporting low mortgage rates, providing alternatives to foreclosures, and expanding access to refinance and loan modifications. The HFA Initiative was comprised of two programs, the NIBP and the TCLP. These programs were intended to help support state and local HFAs continue their missions of helping low- and moderate-income persons attain affordable housing. HFAs also provide refinancing and modification opportunities to homeowners at risk of foreclosure. State and local HFAs are agencies created by state law that operate in all 50 states and fund the activities they support by issuing tax-exempt mortgage revenue bonds. Because of market conditions and the housing downturn, HFAs found it challenging to provide affordable mortgage options.

The NIBP component of the HFA Initiative was designed to provide a temporary supplemental market for newly issued HFA housing bonds. The intent of the program was to provide stability to financial markets and prevent disruptions in mortgage finance availability. Treasury purchased approximately $15.3 billion of Fannie Mae and Freddie Mac securities and obligations backed by newly issued HFA bonds. Treasury receives payments of principal and interest on its investments in the GSEs' securities and obligations. As of April 15, 2013, Treasury had received payments of $4.35 billion in principal and $639 million in interest.

The TCLP component of the HFA Initiative provides HFAs with temporary credit and liquidity facilities, similar to letters of credit. The intent of this program was to help relieve financial strains on HFAs caused by the housing downturn. Treasury committed $8.2 billion for a 100 percent participation interest in the credit and liquidity facilities established by the GSEs to support the existing VRDOs. As of April 2013, Treasury has not been required to disburse funds because all VRDOs under the TCLP were successfully remarketed. The TCLP was initially set to expire December 31, 2012, but has been extended to December 31, 2015. As of March 31, 2013, Treasury received approximately $95 million in fees from HFAs participating in the TCLP.

Appendix 2 provides further details about the NIBP and the TCLP.

To carry out the custodial and managerial duties for the HFA Initiative, Treasury amended its Financial Agency Agreements with JPMorgan (Custodian) and State Street (Asset Manager), established for the Agency MBS Purchase Program. The amendments included custodial and accounting services provided by JPMorgan and services provided by State Street for the design, acquisition, management, and analysis of the NIBP and the TCLP.[6] While the financial agents performed the daily operational functions for the HFA Initiative, Treasury is responsible for monitoring the HFA Initiative's overall performance as well as the performance of the financial agents.

[6] JPMorgan and State Street received approximately $22.9 million for services rendered on the HFA Initiative through December 2012.

Treasury also has policy-related responsibilities, including whether the NIBP and the TCLP are meeting their objectives and determining whether or not to extend the programs. The fundamental intent of the HFA Initiative is to provide stability to financial markets and prevent disruptions in mortgage finance availability. The program objective specific to the NIBP is to provide mortgage finance to low- and moderate-income families and is measured by the number of new mortgage originations for single- and multi-family homes. The objective of the TCLP is to provide the HFAs with a temporary liquidity backstop to help preserve their financial health and viability, enabling them to continue their support of affordable housing. To make its determinations, Treasury reviews reports generated by State Street using data collected from the HFAs that measure whether or not the NIBP and the TCLP are meeting their program objectives.

Results of Audit

Treasury Needs Written Policies and Procedures for Its Oversight of the HFA Initiative

Treasury monitored the HFA Initiative through its oversight of services provided by JPMorgan and State Street as outlined in the Financial Agency Agreements. However, Treasury did not have written policies and procedures documenting its oversight process. Furthermore, Treasury did not maintain sufficient records supporting the results of various reviews and oversight activities performed specific to the NIBP and the TCLP.

JPMorgan was primarily responsible for computing bond income activity, monitoring the underlying assets, and reconciling its records with the GSEs' financial agent (U.S. Bank) custodial reports. JPMorgan also maintained records on principal and interest of the VRDOs, monitored the overall VRDO market for risk exposure to Treasury, and calculated the HFAs' fees due to the GSEs and Treasury. State Street provided portfolio management as well as operational, analytical, and reporting services. State Street tracked bond issuances and balances, the HFAs' use of program funds, and the overall condition of the housing market. Both JPMorgan and State Street are required to provide reports on monthly activities to Treasury and ad hoc reports if requested. Overall, Treasury used monthly reports from JPMorgan and State Street to stay up-to-date on the housing market and informed of bond issuances, bond balances, and use of program funds by state and local HFAs.

Treasury's key oversight activities included (1) verifying that JPMorgan's records reconcile with U.S. Bank's records, (2) reviewing the appropriateness of bond interest rates, (3) conducting conference calls with financial agents on program status, (4) performing site visits to the financial agents, (5) attending governance meetings with FHFA, the GSEs, and the financial agents, and (6) approving financial agents' invoices for payment.

Although Treasury officials stated that continuous monitoring of the HFA Initiative was performed, there was neither a formalized policy governing its oversight process nor sufficient records maintained documenting the results of reviews, site visits, or key decisions made. The financial agents confirmed that Treasury personnel provided program oversight through their periodic site visits, reviews of monthly reports and bond interest rates, as well as by their questions regarding HFAs' adherence to investment guidelines. In addition, Treasury maintained evidence of its reviews of the financial agent invoices and attendance at the Governance Committee meetings. However, similar documentation was not maintained with regard to Treasury's verification of JPMorgan's reconciliations and all key decisions made or significant discussions during conference calls with financial agents.

When questioned as to the reason policies and procedures were not documented, a Treasury official told us that written policies and procedures to monitor the financial agents were not considered necessary because the financial agents have their own policies and procedures for performing their responsibilities outlined in the financial agency agreements. Furthermore, we were told that Treasury was satisfied with the accuracy of the information received.

The Government Accountability Office (GAO) established internal control standards for federal agencies. Those standards provide that control activities occur at all levels and functions of the entity and include a wide range of diverse activities to include the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Furthermore, internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.[7]

Treasury established its own documentation requirements in Treasury Directive Publication 80-05, which states that all program officials shall create and maintain adequate and proper documentation of the program for which they are responsible. This means a record of the conduct of government business that is complete and accurate to the extent required to document the organization, functions, policies, decisions, procedures, and essential transactions of their office and to protect the legal and financial interest of the government and of persons directly affected by the activities of their office.[8]

Considering that the TCLP has been extended through December 2015 and the bonds underlying NIBP securities have maturities of up to 42 years, the need for formalized policies and procedures governing the oversight of the financial agents is imperative. Without written policies and procedures, as well as sufficient documentation evidencing reviews, there is increased risk that future Treasury personnel may not perform effective or consistent monitoring of the HFA Initiative and that noncompliance on the part of the financial agents may go undetected.

Recommendation

In our report on Treasury's Agency MBS Purchase Program, we recommended that the Fiscal Assistant Secretary develop policies and procedures emphasizing documentation requirements for programs using financial agents. The implementation of this

[7] GAO/AIMD-00-21.3.1, *Standards for Internal Control in the Federal Government* (Nov. 1999)
[8] Treasury Directive Publication 80-05, "Records and Information Management Manual" (June 2002)

recommendation is even more critical for the NIBP and the TCLP since they are ongoing programs. Therefore, as a new recommendation, the Fiscal Assistant Secretary should establish and implement written policies and procedures specific to the HFA Initiative for ensuring its comprehensive monitoring of the financial agents' performance. Procedures should also include a requirement that Treasury personnel responsible for overseeing the HFA Initiative document key meetings and decisions, as well as, the results of reviews of NIBP and TCLP program outcomes to ensure that the HFA Initiative continues to meet program objectives.

Management Response

Treasury management agreed with our recommendation, stating that it will develop and apply written policies and procedures to monitor the financial agents. According to the response, the statement by a Treasury employee that written policies and procedures to monitor the financial agents were not considered necessary, did not and does not reflect the views of Treasury management.

OIG Comment

Management's planned action, implemented as described, meets the intent of our recommendation. However, management needs to establish a target date for completing its planned action.

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We appreciate the courtesies and cooperation provided to our staff during this audit. If you wish to discuss this report, you may contact me at (202) 927-5400 or Donna Joseph, Audit Director, at (202) 927-5784. Major contributors to this report are provided in appendix 4.

/s/

Marla A. Freedman
Assistant Inspector General for Audit

We initiated an audit of the two component programs of the Housing Finance Agency (HFA) Initiative— the New Issue Bond Program (NIBP) and the Temporary Credit and Liquidity Program (TCLP)— to determine if the programs were being administered consistent with Treasury's authority under the Housing and Economic Recovery Act. Specifically, we assessed Treasury's process for (1) monitoring the performance of the financial agents hired to carry out Treasury's purchases of government sponsored enterprise securities and to be custodian of the purchased securities and (2) determining whether the HFA Initiative is achieving its stated program objectives.

In performing our work, we reviewed applicable laws and regulations, and other key documents to include the HFA Initiative Memorandum of Understanding and the Program Agreements with the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), the financial agency agreements with JPMorgan Chase Bank N.A. (JPMorgan) and State Street Bank and Trust Company (State Street), and reports provided to Treasury by the financial agents. We also conducted interviews with Treasury officials responsible for overseeing the HFA Initiative, officials from the Federal Housing Finance Agency, and personnel at the financial agents, JPMorgan and State Street, who provide services to Treasury. The scope of our audit included Treasury's oversight activities beginning September 2009 through August 2012. We performed our fieldwork from May 2011 through September 2012.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

New Issue Bond Program

The New Issue Bond Program (NIBP) was intended to provide stability to financial markets and prevent disruptions in mortgage finance availability by providing a temporary supplemental credit market for newly issued state and local housing bonds. Housing Finance Agencies (HFAs) typically fund their lending activities by issuing tax-exempt mortgage revenue bonds (MRBs).[9] However, HFAs were experiencing challenges as a result of strains on the housing sector and tax-exempt market. By temporarily supplementing private demand for MRBs, the NIBP is intended to support HFAs in providing single- and multi-family mortgage credit availability that benefits low- and moderate-income persons.

Using its authority under the Housing Economic and Recovery Act, Treasury purchased from the government sponsored enterprises (GSEs), namely the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), eight securities and four obligations totaling approximately $15.3 billion in December 2009. Simultaneous with Treasury's purchases, the GSEs entered into agreements with state and local HFAs to purchase MRBs which back the GSE securities. The eight GSE securities were made up of approximately $12.4 billion in single-family (SF) bonds and $2.9 billion in multi-family (MF) bonds. The four GSE obligations were made up of $54 million in multi-family credit enhanced bonds.[10] The credit enhanced bonds require Freddie Mac to make guaranteed borrower payments of principal and interest. The NIBP purchases were made on December 9 and December 18, 2009, and settled on December 23, 2009, and January 12, 2010, respectively.

Under the original terms of the agreements with the GSEs, the HFAs were required to issue bonds to both the GSEs and the private market out of the same indenture.[11] That meant that for the

[9] Mortgage revenue bonds are tax-exempt bonds that state and local HFAs issue to help fund below-market-interest-rate mortgages for qualifying, first-time homebuyers.

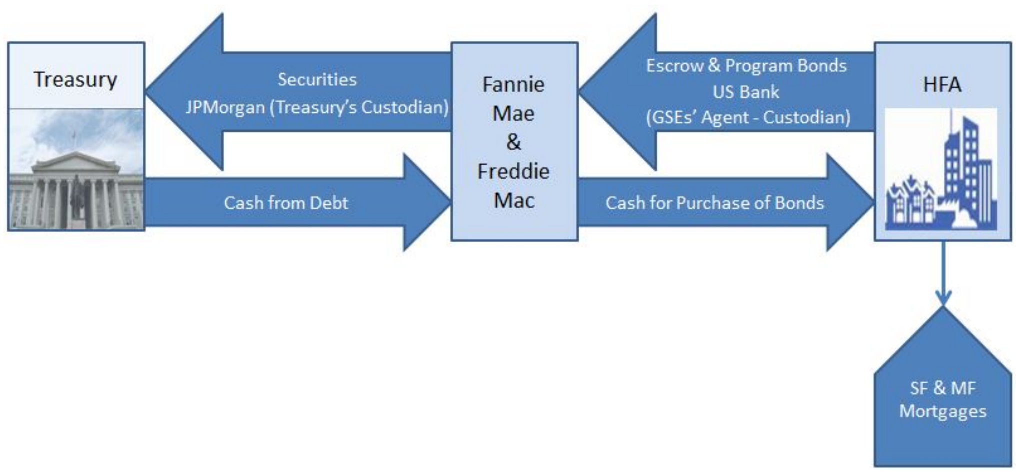
[10] A credit enhanced bond is a mechanism for transferring credit risk from one party to another. In this case, the risk is transferred from Treasury, the purchaser of the bonds, to Freddie Mac, who is obligated to guarantee all payments owed to Treasury.

[11] An indenture is the legal binding agreement between the issuer of bonds (HFAs) and the purchasers (bond trustees).

HFAs to receive cash proceeds from the sale of GSE securities to Treasury, the HFAs were required to first issue and sell bonds to public and private investors in the open market (Market Bonds). Additionally, the principal amount of the Market Bonds was required to be no less than two-thirds of the principal amount of Program Bonds (Market Bond ratio).

Until the Market Bond ratio was met, funds were escrowed through the issuance of Pre-conversion Program Bonds (hereinafter referred to as Escrow Bonds) from the HFAs' trustees to the GSEs. Once the Market Bonds were issued, the HFAs issued Program Bonds backed by newly originated or refinanced mortgages. The Escrow Bonds were then converted to Program Bonds. At that point, the HFAs could use the proceeds from the Program Bonds to originate or refinance single- and multi-family loans and mortgage backed securities. Proceeds could also be used to refund, as fixed rate bonds, any of the HFAs' variable rate debt issued and outstanding prior to October 19, 2009, or to refund a bond issue that was used to finance eligible loans. Beginning in calendar year 2012, HFAs were no longer required to issue Market Bonds which eliminated the Market Bond ratio requirement. The flow of NIPB activities are shown in figure1.

Figure 1.



Treasury receives all principal on the Program Bonds and the remaining interest after reduction of fees paid to the GSEs as payments of principal and interest on its investment in the GSEs.

Additionally, all interest earned on the Escrow Bonds is remitted to Treasury. As of April 15, 2013, Treasury had received payments of $4.35 billion in principal and $639 million in interest. The principal balance of NIBP securities and obligations as of April 15, 2013, was about $10.9 billion.

The NIBP was designed to be temporary with the intent of transitioning HFAs back to the private market for capital. However, given the housing market's slower-than-expected recovery, the final date to convert NIBP Escrow Bonds to Program Bonds was extended twice since its original expiration date of December 31, 2010. The first extension was to December 31, 2011, and the second and final extension was to December 31, 2012, after which the HFAs could no longer convert Escrow Bonds to Program Bonds. The HFAs that had outstanding single-family Program Bonds in excess of $25 million and participated in the NIBP extension are required to pay fees to Treasury on their outstanding principal balances until the Program Bonds are fully redeemed. As a result of the extensions, Treasury received additional fees of $3.9 million.

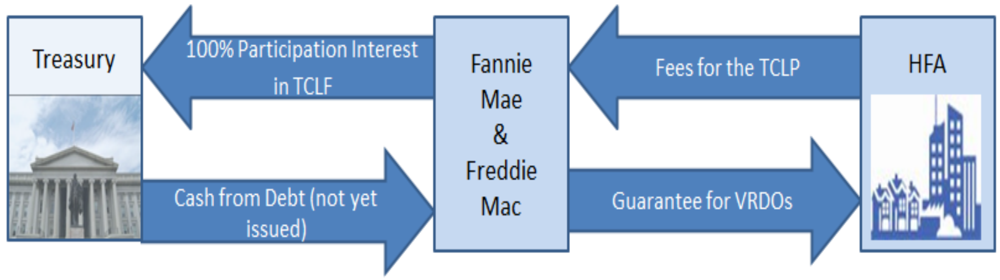
Temporary Credit and Liquidity Program

The Temporary Credit and Liquidity Program (TCLP) was intended to provide stability to the housing market and the state and local HFAs which were experiencing financial strains. The TCLP is administered by the GSEs and provides HFAs with a liquidity backstop in order to help them maintain their financial health so that they can execute their mission of supporting affordable housing.

State and local HFAs typically issue Variable Rate Demand Obligations (VRDOs) to raise the capital needed to provide affordable mortgage financing for low- and moderate-income households, especially first time homebuyers, and affordable multi-family rental properties. VRDOs are floating rate, tax-exempt obligations that feature a "put" option for investors and have long-term maturities of 20 to 40 years. Prior to the recent housing crisis, HFAs would issue VRDOs to meet housing credit demands during a specific period. These VRDOs or indentures were sold to private investors such as pension funds and were attractive because investors retained the right to tender them at any time for the principal plus interest accrued. When the VRDOs were tendered, remarketers contracted by the HFAs would resell them to other investors. The tender or "put" option kept pressure on the issuing HFAs to maintain a high degree of liquidity. Bond insurance, carried by the HFAs, mitigated much of the risk as well as enhanced the long-term rating of the VRDOs. Third party bond insurers would guarantee the VRDOs through letters of credit and/or stand-by purchase agreements. As a result of this guarantee, the VRDO credit rating was enhanced by the credit rating of the insuring institution itself.

The VRDO structure described above functioned successfully until the credit ratings of insuring institutions were downgraded, and in many cases, dropped below the credit rating of the HFA (the bond issuer). Consequently, many investors were required to "put" their VRDOs back to the remarketing agent as their governance investment guidelines prohibited them from holding securities below a certain rating threshold. As a result, tender volume increased and liquidity disappeared from the market. Treasury, in conjunction with FHFA and the GSEs, created the TCLP as a means of offsetting the HFAs' exposure to the credit downgrades. The GSEs entered into agreements with state and local HFAs to provide temporary credit and liquidity support for certain existing/outstanding VRDOs by issuing Temporary Credit and Liquidity Facilities (TCLFs) to participating HFAs. The GSEs were also responsible for assuring that the existing bond indentures were amended and supplemented as a means for maintaining and/or improving the credit rating of underlying bonds. Treasury's role in the TCLP was to purchase certificates issued by the GSEs representing 100 percent participation interests in the TCLFs. The flow of TCLP activities are shown in figure 2.

Figure 2.



At the outset of the TCLP, Treasury committed $8.2 billion for its 100 percent participation interest. As a result of some HFAs withdrawing from the program and bond repayments, Treasury's exposure has been reduced to approximately $2.8 billion. Treasury amended its financial agency agreements with JPMorgan and State Street to design the TCLP and monitor the GSEs' agreements with participating HFAs.

The TCLP was to expire on December 31, 2012, but was extended through December 31, 2015, as a result of certain HFAs' inability to fully transition back to the private market.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

May 9, 2013

Marla A. Freedman
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Washington, D.C. 20220

Dear Ms. Freedman:

I write in response to your April 9, 2013 letter with which you provided your draft report, *Treasury Needs Written Policies and Procedures for Its Oversight of the Housing Finance Agencies Initiative* (Report). The Office of the Fiscal Assistant Secretary appreciates the important work of the Office of the Inspector General (OIG) and your review of the programs that the Department of the Treasury (Treasury) established and implemented under the authority that Congress provided to Treasury in the Housing and Economic Recovery Act of 2008 (HERA). These programs include the New Issue Bond Program (NIBP) and the Temporary Credit and Liquidity Program (TCLP), which together constitute the Housing Finance Agency (HFA) Initiative, the subject of the draft Report. This letter provides our official response to the draft Report.

We appreciate that the draft Report states "Treasury's administration of the HFA Initiative was consistent with its authorities under HERA" and recognizes the NIBP and the TCLP, which Treasury and the Government Sponsored Enterprises (GSEs) implemented under the HFA Initiative, "contributed to the stabilization of the housing markets the HFAs serve and provided additional mortgage finance availability." In addition, we appreciate that the Report recognizes Treasury monitored the performance of the financial agents overseeing the HFA Initiative and in July 2012 Treasury developed procedures for performing site visits of financial agents.

The draft Report makes one recommendation. The recommendation is that the Fiscal Assistant Secretary establish and implement written policies and procedures specific to the HFA Initiative for ensuring its comprehensive monitoring of the financial agents' performance with regard to the HFA Initiative. Procedures should include a requirement that Treasury personnel responsible for overseeing the HFA Initiative document key meetings and decisions as well as results of reviews of NIBP and TCLP outcomes to ensure that the HFA Initiative continues to meet program objectives. Treasury accepts the OIG recommendation.

The draft Report references a statement by a Treasury employee that written policies and procedures to monitor the financial agents were not considered necessary. This statement did not and does not reflect the views of Treasury management. We agree with the OIG recommendation and will develop and apply written policies and procedures to monitor the performance of the financial agents.

Thank you for the opportunity to review the draft Report. We value the role of strong oversight, and we look forward to continuing to work with your office in the future.

Sincerely,

Richard L. Gregg
Fiscal Assistant Secretary

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