

Special Inspector General for TARP

Program Summary by Budget Activity

Dollars in Thousands

Budget Activity	FY 2019	FY 2020	FY 2021	FY 2020 to FY 2021	
	Operating Plan	Enacted	Request	\$ Change	% Change
Investigations	\$19,550	\$18,920	\$15,050	(\$3,870)	-20.45%
Audit	\$3,450	\$3,080	\$2,450	(\$630)	-20.45%
Subtotal, Organization Title	\$23,000	\$22,000	\$17,500	(\$4,500)	-20.50%
Unobligated Balances Brought Forward	\$16,912	\$14,642	\$14,000	(\$642)	-4.40%
Total Program Operating Level	\$39,912	\$36,642	\$31,500	(\$4,500)	-14.00%
Direct FTE	96	85	80	(5)	-5.88%
Total Full-time Equivalents (FTE)	96	85	80	(5)	-5.88%

Summary

The FY 2021 Budget proposes \$17,500,000, a 20 percent reduction from the FY 2020 level. The proposed Budget is intended to fund the Congressionally mandated independent oversight of TARP through SIGTARP criminal investigations and audits. TARP spending continues because TARP foreclosure prevention programs, the Making Home Affordable (MHA) and the Hardest Hit Fund (HHF) programs continue. Banks, mortgage servicers, state agencies, thousands of contractors and other recipients have already received over \$30 billion via these programs. SIGTARP's investigations and audits stop fraud, waste, and abuse of the \$30 billion spent, and recover lost dollars for the Government and other victims. The more than \$3.5 billion in future TARP spending will add to SIGTARP's existing and planned investigations and audits.

SIGTARP's activities and goals of justice, impact, innovation, and stewardship support and complement Treasury's FY 2018 – 2022 Strategic Plan goals: (1) boost U.S. economic growth by investigating anti-competitive practices; (2) promote financial stability; (3) enhance national security by investigating money laundering; (4) transform government-wide financial stewardship; and (5) achieve operational excellence. All of SIGTARP's work aligns with Treasury's strategic goal to promote financial stability given that Treasury designed all TARP programs with the goal of promoting financial stability. Fraud, waste, and abuse erodes that goal. All of SIGTARP's planned work for FY 2021 aligns with Treasury's Strategic Plan goal (4) "Transform Government-wide Financial Stewardship" by winding down sun setting programs responsibility and funding the government at the least cost over time. Fraud, waste, and abuse are costly for taxpayers. SIGTARP's efficiency and high return on investment also aligns with Treasury's strategic goal to achieve operational excellence.

Special Inspector General's Comments

Pursuant to section 6(f)(3)(E) of the *Inspector General Act of 1978*, as amended, as applied through the *Emergency Economic Stabilization Act of 2008*, I have concluded that the President's FY 2021 Budget request of \$17.5 million would substantially inhibit the Special Inspector General from performing the duties of the office. I independently proposed an appropriation of \$19 million (an additional \$1.5 million) for FY 2021, as the level needed to support SIGTARP's Congressionally mandated mission to conduct oversight of TARP, while also reflecting an orderly and responsible step down towards TARP's sunset of March 2024. I respectfully request

that Congress consider this level, which is a 14 percent reduction from the FY 2020 enacted level; a 17 percent reduction from the FY 2019 enacted level; a 44 percent reduction from the FY 2018 enacted level; and a 54 percent reduction from the FY 2017 enacted level.

The President's Budget request would substantially inhibit our oversight because it will require a larger reduction in staffing and mission support levels than I have determined is necessary to fulfill the mission. The President's Budget request is a 49 percent reduction from the FY 2018 enacted level even though the same TARP programs are open as in FY 2018 with significant activity, spending more than \$1 billion each year – spending that should be accompanied by SIGTARP's oversight.

In FY 2019 alone, TARP programs had significant operations and spent more than \$1.7 billion. Of this amount, Treasury paid \$1.12 billion in TARP dollars to 74 financial institutions in MHA, including, for example, \$290 million to Ocwen Financial, \$155 million to SPS, \$132 million to Wells Fargo, \$101 million to JP Morgan Chase, \$59 million to Bank of America, \$129 million to Nationstar, \$19 million to Citigroup, and \$5 million to CIT Bank.

As more TARP dollars are spent in MHA and HHF, SIGTARP's investigations and audits over that spending increases. Every TARP dollar spent is another dollar potentially subject to fraud, waste and abuse, increasing the need for investigations and audits. Treasury has already paid more than \$20 billion in MHA. Additionally, through FY 2024, Treasury is obligated or committed to pay \$2.8 billion to banks and non-bank mortgage servicers in MHA to modify these residential mortgages. For example, Treasury is obligated or committed to pay in the future \$675 million to Ocwen Financial, \$359 million to Wells Fargo, \$218 million to JP Morgan Chase, \$152 million to Bank of America, \$338 million to Select Portfolio Servicing, \$340 million to Nationstar, \$69 million to CitiMortgage, and \$22 million to CIT Bank/One West Bank. In the Hardest Hit Fund, 19 state agencies have received more than \$9 billion in TARP funds from Treasury, and have another nearly \$800 million in state agency bank accounts ready to be spent through December 2021.

When left unchecked, fraud, waste, and abuse in these programs can have a devastating impact on those the program are intended to help. HAMP continues today with nearly 800,000 people in all 50 states receiving mortgage modifications to make their payments affordable and sustainable. The billions of TARP dollars that Treasury will pay financial institutions in the future are not automatic, but instead require the banks and other servicers to comply with the law and rules of the program for those homeowners – decisions and actions that require oversight and law enforcement.

There are 40 HHF programs still open to applicants, plus open programs that continue to spend TARP dollars related to existing homeowners, many of which are unemployed or underemployed, and other participants. This year, there were more TARP-funded demolitions of blighted houses than any other year, and 58 percent of all new first-time homebuyers receiving HHF down payment assistance occurred in the last year. Just this past year, more than 29,000 new borrowers came into the program. State agencies told SIGTARP that they expect an additional 8,000 demolitions in the future. After those discussions, Treasury approved an

additional 450 demolitions in Ohio. These programs have important goals for communities, goals that would be hurt by fraud, waste, and abuse.

SIGTARP has demonstrated that it is a solid investment for taxpayers, as SIGTARP's work has led to cumulative recoveries for the government and other victims of \$11 billion – a 31 time cumulative return on investment (ROI) from our annual budgets.

This ranks SIGTARP as having the third highest ROI out of 18 OIGs reviewed by the Brookings Institution Center for Effective Public Management in its analysis of how cutting the budget of positive-revenue OIGs costs the government money and contributes to the federal deficit.¹

We appreciate Congress's strong Congressional support for our budget each year. In FY 2019:

- **\$900 million was recovered as a result of SIGTARP's law enforcement work, representing a 39 times annual return on investment from our \$23 million budget.**
- SIGTARP investigations resulted in criminal charges against 13 defendants, four arrests, criminal convictions of 18 defendants, courts sentencing 28 defendants to prison, federal enforcement activity against three corporations/organizations, and 26 referrals to prosecutors.
- SIGTARP auditors questioned more than \$848,000 in costs, including more than \$411,000 that state agencies in HHF spent on travel and conference costs that violated Federal cost regulations, some of which also constituted waste. For example:
 - The North Carolina agency spent \$130,000 on annual housing counselor conferences including paying \$2,500 to a guest speaker who lectured on "Motivation by Chocolate." Also, before homeowners received a single dollar from HHF, housing counselors were treated to an evening reception featuring a carved beef station staffed by a uniform chef, cake bites and strawberry shortcake martinis.
 - After the Ohio agency decided to close the HHF program to new homeowner applications, it deviated from past practices to hold housing counselor conferences at zoos.
 - Two top Florida officials charged TARP more than a dozen conferences each, often at luxury hotels, beaches and other resort destinations, despite the fact that the state agency was one of the most underperforming state agencies in HHF, providing assistance to only 20 percent of applicants, the lowest of any state.
 - Officials from some state agencies attending an annual meeting with Treasury in Washington, D.C. charged TARP for luxury hotels, while other state agencies attending the same meeting stayed at hotels at or near the GSA rate. Two senior Ohio agency officials stayed at the W hotel paying \$315-\$423 per night, while a junior Ohio official on the same trip stayed at a hotel with the rate of \$170 per night.
- SIGTARP has open investigations into financial institutions participating in MHA and receiving TARP dollars. SIGTARP has referred some of these investigations to the Department of Justice, and SIGTARP continues to work these cases with the U.S. Department of Justice (DOJ).
- SIGTARP continued to obtain convictions and sentencing of defendants who defrauded nearly 30,000 homeowners with false promises of entry into HAMP, including some who claimed affiliation with the government, and preyed on the elderly, and other vulnerable

¹ Hudak, J. Wallack, G. (2015). *Brookings Institution Center for Effective Public Management*, Website: <https://www.brookings.edu/wp-content/uploads/2016/06/CEPMHudakWallackOIG.pdf>.

Americans. Already, 93 of these scammers were sentenced to prison as a result of SIGTARP's investigations.

- SIGTARP's investigations resulted in the conviction and prison sentencing of the Detroit city official in charge of contracts for HHF's blight demolition program, the conviction for bribery of an official from one of the largest demolition contractors in the HHF program in Detroit, and the indictment of a land bank official in the HHF program in Ohio on one count of conspiracy to commit bribery and honest services fraud, three counts of honest services wire fraud and one count of bribery.
- SIGTARP's investigations resulted in DOJ resolving a false claim act action against the sole contractor in HHF blight demolition in Fort Wayne, Indiana for filling the demolition sites with construction debris rather than clean fill dirt, and falsely billing the HHF program as if it had used clean fill dirt.
- SIGTARP's investigations have also resulted in criminal charges and arrests this year for homeowners defrauding HHF.
- SIGTARP's audits have focused on the costly and harmful risks of asbestos and lead exposure, illegal dumping, and contaminated dirt.
- SIGTARP's recent audit warned Treasury about a lack of fraud controls that led to more than \$437,000 in payments to California homeowners who lost eligibility but continued receiving TARP payments for years.

SIGTARP is grateful for the support of Congress. We will continue to deliver investigative and audit results, and a high return on investment. In every year since FY 2016, recoveries from SIGTARP's work have far exceeded our annual appropriations. Investing in SIGTARP is one of the most effective and efficient ways to protect the government. The Government will receive far more than our budget in recovered dollars lost to fraud, in addition to cost savings. Our work ensures that TARP dollars are used as Congress intended, and that the Government does not pay more for TARP than is necessary.

Budget Highlights

Dollars in Thousands

	FTE	Amount
FY 2020 Enacted	85	\$22,000
Changes to Base:		
Maintaining Current Levels (MCLs):	0	\$510
Pay Annualization (2020 3.1% average pay raise)	0	\$117
Pay Raise (1.0% average pay raise)	0	\$115
FERS Contribution Increase	0	\$141
Non-Pay	0	\$137
Subtotal Changes to Base	0	\$510
FY 2021 Current Services	85	\$22,510
Program Changes:		
Program Decreases	(5)	(\$5,010)
Staff Reduction	(5)	(\$344)
Efficiency Savings	0	(\$946)
Realignment from Annual to No-Year	0	(\$3,720)
FY 2021 President's Budget Request	80	\$17,500

Budget Adjustments

Budget Increases and Decreases Description

Maintaining Current Levels (MCLs).....+\$510,000 / +0 FTE

Pay Annualization (2020 3.1% average pay raise) +\$117,000 / +0 FTE

Funds are requested for annualization of the January 2020 3.1% average pay-raise.

Pay Raise (1.0% average pay raise) +\$115,000 / +0 FTE

Funds are requested for a 1.0% average pay-raise for January 2021.

FERS Contribution Increase +\$141,000 / +0 FTE

Funds are requested for the Federal Employee Retirement System (FERS) contribution rates effective FY 2021.

Non-Pay +\$137,000 / +0 FTE

Funds are requested for non-labor expenses such as travel, contracts, rent, supplies, and equipment.

Program Decreases.....-\$5,010,000 / -5 FTE

Staff Reduction -\$344,000 / -5 FTE

Reduction in SIGTARP staff levels to 80 FTE.

Efficiency Savings -\$946,000/ -0 FTE

SIGTARP will seek to reduce non-personnel costs.

Realignment from Annual to No-Year -\$3,720,000/ -0 FTE

SIGTARP will fund a portion of its operations from its no-year account.

SIGTARP actively reduces costs and its footprint, while creating an appropriately sized, skilled and structured workforce.

- In the last two years, SIGTARP cut its footprint by 47 percent in cost and square footage. In FY 2018, SIGTARP eliminated 50 percent of its headquarters annual rent expenses. In FY 2019, SIGTARP eliminated 100 percent of its San Francisco annual rent expense.
- Beginning in FY 2020, SIGTARP is reducing its New York annual rent expense by 43 percent.
- SIGTARP reduced fleet-related expenses by 40 percent since FY 2014.
- In FY 2021, over \$3 million of the proposed budget (23 percent) will be spent on goods and services from the government, more than 95 percent of which will be paid to Treasury.
- SIGTARP has eliminated management layers and is structuring the workforce in such a way to create maximum flexibility as the agency's sunset approaches.
- SIGTARP drives efficiencies through innovative processes and the use of technology, including through data mining.
- SIGTARP coordinates with other law enforcement agencies and Inspectors General, leveraging its unique position and expertise by forming law enforcement and other partnerships to create operational efficiencies and realize cost savings.

Legislative Proposals

PPIP Funds

The Public-Private Investment Program (PPIP) Improvement and Oversight Act of 2009 (12 U.S.C. § 5231a) provided \$15 million in no-year appropriations to SIGTARP for the purpose of providing oversight to PPIP and the Term Asset-Backed Securities Loan Facility. SIGTARP does not plan PPIP or TALF activity in FY 2020 and FY 2021. SIGTARP is requesting that these PPIP funds be made available to also support SIGTARP's oversight of ongoing TARP programs. This proposed language is identical to that included in the FY 2018 enacted appropriation.

Performance Highlights

Budget Activity	Performance Measure	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
		Actual	Actual	Actual	Target	Target
Investigations	Percentage of Cases Accepted for Consideration by Civil or Criminal Authorities Resulting in a Positive Final Outcome	81	79	77	60	35
Investigations	Percentage of Cases Presented to Civil or Criminal Authorities within Eight Months of Being Opened	80	85	75	50	25
Investigations	Percentage of Cases that are Joint Agency/Task Force Investigations	75	78	76	70	70
Audit	Number of Completed Audit Products Identifying Waste, Abuse, Mismanagement, Inefficiencies, or Referrals to Investigations Division (units)	N/A	6	4	2	2

Description of Performance

In FY 2019, SIGTARP exceeded all of its targets. As a law enforcement office with 85 percent of its resources focused on criminal investigations, SIGTARP strives to bring justice, accountability, and deterrence in the fight against TARP-related crimes, including major financial crimes and money laundering. This past year SIGTARP continued to support prosecutions of defendants that SIGTARP investigated. SIGTARP's cumulative law enforcement record includes 430 defendants charged with crimes, 300 of which courts have sentenced to prison. SIGTARP's investigation also have led to law enforcement actions against 24 corporations/organizations. SIGTARP achieved justice when, in FY 2019, 4 defendants were arrested, 13 defendants were indicted or criminally charged by information, 18 defendants were convicted, and courts sentenced to prison 28 defendants. SIGTARP's rate of conviction for cases prosecuted by the Department of Justice is 97 percent, one of the highest in federal law enforcement. This is a strong indicator of investigative quality. Other measures recognize that as SIGTARP reduces spending and staffing, it must act with efficiency, in its investigative timeline, and in leveraging other law enforcement partnerships for resources.

SIGTARP also stands as the independent watchdog for Americans, ensuring that TARP programs operate and spend responsibly. In FY 2019, SIGTARP auditors uncovered that state agencies in the Hardest Hit Fund had spent more than \$411,000 on travel and conference costs that violated federal cost regulations. SIGTARP also uncovered more than \$437,000 in HHF mortgage assistance to California homeowners who had lost eligibility for the program. In another evaluation, SIGTARP made recommendations to mitigate the risk of asbestos and lead exposure in the HHF blight program. SIGTARP auditors also made a referral to SIGTARP's Investigations Division.