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The Hardest Hit Fund: Frequently Asked Questions

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Summary

The Hardest Hit Fund (HHF), administered by the Department of the Treasury, is one of several temporary programs that were created to help prevent home foreclosures in the aftermath of housing and mortgage market turmoil that began around 2007-2008. It provided a total of $9.6 billion in Troubled Asset Relief Program (TARP) funds to 19 states (including the District of Columbia) that were deemed to be "hardest hit" by the housing market turmoil, as defined by factors such as house price declines or unemployment rates.

In 2010, a total of $7.6 billion was allocated to selected states through four rounds of funding. Different funding rounds used different criteria to identify eligible states. In December 2015, the Consolidated Appropriations Act, 2016 (P.L. 114-113) authorized Treasury to make up to an additional $2.0 billion in unused TARP funds available to the HHF, bringing total program funding to $9.6 billion. Treasury allocated this additional funding to the states that were already participating in the HHF through two phases in 2016.

The Hardest Hit Fund is intended to provide funds to participating states to design foreclosure prevention programs that respond to local conditions. Participating states are using their funds for a variety of programs, including mortgage modifications, helping unemployed homeowners with mortgage payments, facilitating short sales and other foreclosure alternatives, and removing blighted homes, among other programs. Most participating states are using their funding for several different types of programs.

As of December 2016, participating states had disbursed about $5.8 billion of the total $9.6 billion allocated to the HHF and assisted over 290,000 homeowners. States have until December 31, 2020, to use their HHF funds.

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What is the Hardest Hit Fund?

The Hardest Hit Fund (HHF), created in 2010, is one of several temporary programs that were established to help prevent home mortgage foreclosures in the wake of housing and mortgage market turmoil that began around 2007-2008.[1] It provided funding to 19 states (including the District of Columbia) to design locally tailored initiatives to prevent home foreclosures.[2]

While many of the temporary programs that were established to help households facing foreclosure have since ended, the HHF remains active. Participating states have until December 31, 2020 to use their HHF funds.

How Was the HHF Established and Funded?

The HHF was established administratively by the Department of the Treasury using authority provided to it under the Emergency Economic Stabilization Act of 2008 (EESA, P.L. 110-343). EESA was enacted in response to financial market turmoil in the fall of 2008. It established the Troubled Asset Relief Program (TARP), which authorized the Secretary of the Treasury to purchase or insure up to $700 billion in troubled assets owned by financial institutions.[3] EESA also contained language indicating that the purposes of the act included, among other things, protecting home values and preserving homeownership.[4]

EESA provided the Treasury Secretary with broad authority in how to implement TARP, including wide latitude in deciding what assets might be purchased or guaranteed and what qualified as a financial institution. Using this broad authority, and to comply with the homeownership preservation purposes of EESA, Treasury used some TARP funds to create certain programs designed to prevent home foreclosures, including the HHF. The programs are designed in such a way to qualify as activities authorized by EESA.

Treasury set aside a total of $37.5 billion in TARP funds to use for foreclosure prevention initiatives. Of this amount, $9.6 billion was provided to the HHF.[5] This funding was allocated to selected states through five rounds of funding. The first four rounds of funding—a total of $7.6 billion—were allocated in 2010. Treasury's authority to make additional commitments of TARP funds expired on October 3, 2010, meaning that it did not have the authority to provide additional TARP funds to the HHF after that date. However, in December 2015 the Consolidated Appropriations Act, 2016 (P.L. 114-113) authorized Treasury to make up to an additional $2.0 billion in unused TARP funds available to the HHF. Treasury allocated this additional $2.0 billion to the HHF states in 2016, bringing the total amount of HHF funding to $9.6 billion.

[1] For more information on additional temporary programs that were established to assist homeowners facing foreclosure, see CRS Report R40210, *Preserving Homeownership: Foreclosure Prevention Initiatives*, by (name redacted)

[2] See **Table 1** for a list of states that received funding through the Hardest Hit Fund.

[3] For more information on TARP, see CRS Report R41427, *Troubled Asset Relief Program (TARP): Implementation and Status*, by (name redacted)

[4] Sec. 2 of P.L. 110-343

[5] U.S. Department of the Treasury, *Monthly TARP Update for 02/01/2017*, https://www.treasury.gov/initiatives/financial-stability/reports/Documents/Monthly_TARP_Update%20-%2002.01.2017.pdf. The remainder of the $37.5 billion in TARP funding that was set aside for housing programs was provided to the Home Affordable Modification Program (HAMP) and related programs, and to the FHA Short Refinance Program.

Which States Received HHF Funding?

Table 1 shows the 19 states (including DC) that received funds through the HHF and the total amount that was allocated to each state through the five rounds of funding.

Table 1. Hardest Hit Fund Allocations to Participating States

In millions of dollars

State	Total HHF Funding
Alabama	$163
Arizona	$296
California	$2,359
Florida	$1,136
Georgia	$370
Illinois	$715
Indiana	$284
Kentucky	$207
Michigan	$761
Mississippi	$144
Nevada	$203
New Jersey	$415
North Carolina	$707
Ohio	$762
Oregon	$315
Rhode Island	$116
South Carolina	$318
Tennessee	$302
Washington, DC	$29
Total	***$9,600***

Source: U.S. Department of the Treasury, "Treasury Announces Allocation of Final $1 Billion among Hardest Hit Fund States," press release, April 20, 2016, https://www.treasury.gov/press-center/press-releases/Pages/jl0434.aspx.

How Were Participating States Chosen?

The HHF was intended to provide funding to certain states that were deemed to be the "hardest hit" by the turmoil in housing and financial markets that started in 2007-2008, based on features such as house price declines or high unemployment rates. Funding was allocated through five rounds using different criteria to identify eligible states and allocate funds among the eligible states. The first four rounds took place in 2010. The fifth round took place in 2016 after Congress authorized Treasury to allocate additional unused TARP funds to the program.

- **Round One:** In February 2010, Treasury made a total of $1.5 billion available to five states that had experienced the greatest declines in home prices as of December 2009: California, Arizona, Florida, Nevada, and Michigan.[6]
- **Round Two:** In March 2010, Treasury made a total of $600 million available to five states that had large proportions of their populations living in areas of economic distress, defined as counties with average unemployment rates above 12% in 2009: North Carolina, Ohio, Oregon, Rhode Island, and South Carolina.[7] (The five states that received funding in the first round were not eligible.)
- **Round Three:** In August 2010, Treasury made a total of $2 billion available to 17 states and the District of Columbia, all of which had unemployment rates at or above the national average between June 2009 and June 2010. Nine of the states that received funds through one of the previous rounds (all but Arizona) also received funding in the third round. The states that received funding for the first time in the third round were Alabama, Georgia, Illinois, Indiana, Kentucky, Mississippi, New Jersey, Tennessee, and the District of Columbia.[8]
- **Round Four:** In September 2010, Treasury provided a total of $3.5 billion to the 19 states (including DC) that had received funding in earlier rounds.

A total of $7.6 billion was provided to states through the first four rounds. In early 2016, after Congress authorized Treasury to provide an additional $2 billion in TARP funds to the program, Treasury allocated this amount to participating states through two phases:

- **Round 5, Phase 1:** In February 2016, Treasury allocated $1 billion to participating states based on their population and utilization of previous HHF funds. States had to have used at least 50% of the HHF funding they previously received to be eligible for this funding. Each participating state except Alabama received additional funding in this phase.[9] (Alabama had not used 50% of its previously allocated HHF funds.)
- **Round 5, Phase 2:** In April 2016, Treasury allocated $1 billion competitively to participating states. All but six participating states received additional funds through this phase. Five states did not apply for funding (Alabama, Arizona, Florida, Nevada, and South Carolina), while one state (Georgia) applied but did not receive any funding.[10]

[6] U.S. Department of the Treasury, *Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (“HFA Hardest-Hit Fund”): Guidelines for HFA Proposal Submission,* https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/Documents/HFA%20Proposal%20Guidelines%20-%201st%20Rd.pdf.

[7] U.S. Department of the Treasury, *Second Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (“HFA Hardest-Hit Fund”): Guidelines for HFA Proposal Submission,* https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/Documents/HFA%20Proposal%20Guidelines%202%200%20—%20041110%20FINAL.pdf.

[8] U.S. Department of the Treasury, *Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (“HHF”): Guidelines for HFA Proposal Submission for Unemployment Programs*, https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/Documents/HFA%20Proposal%20Guidelines%20Third%20Funding%20FINAL.pdf.

[9] U.S. Department of the Treasury, “Treasury Announces Additional Investment in Hardest Hit Fund,” press release, February 19, 2016, https://www.treasury.gov/press-center/press-releases/Pages/jl0358.aspx.

[10] U.S. Department of the Treasury, “Treasury Announces Allocation of Final $1 Billion Among Hardest Hit Fund States,” press release, April 20, 2016, https://www.treasury.gov/press-center/press-releases/Pages/jl0434.aspx.

How Are Participating States Using Their HHF Funds?

HHF funds are provided to state housing finance agencies (HFAs) to use for designing programs that address foreclosures and are tailored to local conditions. For example, a state that had experienced steep decreases in house prices might choose to use funds to reduce the principal balances of certain mortgages, while a state experiencing high unemployment might want to use funds to provide temporary mortgage assistance to unemployed homeowners.

The programs designed by states must meet the requirements of EESA and be approved by Treasury. In addition, states that received funding through the third round of the HHF must use that funding specifically for foreclosure prevention programs that target the unemployed.[11]

As of December 2016, there were over 80 HHF programs in the 19 states (including DC) that received HHF funding.[12] (Every participating state was using funds for at least two types of programs, and many states were using funds for several different types of programs.) The most common types of state HHF programs have included the following (details and eligibility criteria vary by state):

- **Mortgage Modification:** Facilitating modifications of eligible borrowers' mortgage terms.
- **Principal Reduction:** Reducing mortgage principal as part of a sustainable mortgage modification or refinance.
- **Mortgage Reinstatement:** Providing funds to help eligible borrowers who have regained the ability to make regular monthly payments bring a mortgage current.
- **Unemployment Assistance:** Helping eligible unemployed or underemployed borrowers make monthly mortgage payments for a period of time.
- **Transition Assistance:** Providing relocation payments or other assistance to eligible borrowers to facilitate a short sale or deed-in-lieu of foreclosure (foreclosure alternatives that result in the borrower losing the home but avoiding the foreclosure process).
- **Second Lien Assistance:** Providing assistance to eligible borrowers to modify or extinguish a second mortgage on the property in conjunction with a modification of a primary mortgage or to facilitate a short sale.
- **Blight Elimination:** Providing funds to demolish or otherwise address vacant and abandoned homes. Removing vacant and abandoned homes may help avoid negative impacts on nearby home values, which in turn could help prevent additional foreclosures.

[11] U.S. Department of the Treasury, "Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("HHF"): Guidelines for HFA Proposal Submission for Unemployment Programs," https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/Documents/HFA%20Proposal%20Guidelines%20Third%20Funding%20FINAL.pdf.

[12] U.S. Department of the Treasury, *Hardest Hit Fund Fourth Quarter 2016 Performance Summary*, p. 4, https://www.treasury.gov/initiatives/financial-stability/reports/Documents/Q4%202016%20Hardest%20Hit%20Fund%20Program%20Performance%20Summary.pdf

- **Down Payment Assistance:** Providing funds for down payment assistance in an effort to prevent foreclosures by encouraging home buying activity in certain areas.

In addition, states can use funds for other types of foreclosure prevention programs that are approved by Treasury. For example, states have used HHF funds for programs that help households avoid foreclosure by providing assistance to homeowners with reverse mortgages and assistance to pay tax liens. States can continue to make changes to their HHF programs, subject to Treasury's approval.

How Much HHF Funding Has Been Spent?

As of December 2016, participating states had drawn about $7 billion of the total $9.6 billion HHF allocation from their Treasury accounts. Of that amount, they had disbursed a total of about $5.8 billion.[13] Of the participating states, Oregon has disbursed the highest share of its HHF funding (about 80%) while Alabama has disbursed the smallest share (just over 30%).[14]

How Many Homeowners Have Been Assisted Through the HHF?

According to Treasury data, over 290,000 homeowners had been assisted through the HHF as of December 2016.[15] This number does not include blighted properties that have been removed through some states' blight elimination programs.

What is the Current Status of the HHF?

Treasury does not have the authority to commit additional TARP funds to the HHF. Therefore, there will be no additional funding for the program without congressional action. However, if participating states do not meet certain spending deadlines, Treasury may rescind some of their funds and reallocate them to other participating states.[16]

States that are participating in the HHF were originally required to use their HHF funds by December 31, 2017, a deadline set by Treasury. However, when it allocated the fifth round of funding, Treasury extended the deadline for using HHF funds to December 31, 2020.[17]

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[13] U.S. Department of the Treasury, *Hardest Hit Fund Fourth Quarter 2016 Performance Summary*, p. 4, https://www.treasury.gov/initiatives/financial-stability/reports/Documents/Q4%202016%20Hardest%20Hit%20Fund%20Program%20Performance%20Summary.pdf

[14] Ibid., p. 6.

[15] Ibid., p. 4.

[16] U.S. Department of the Treasury, "Frequently Asked Questions (FAQs): Fifth Round Funding Allocation, Hardest Hit Fund (HHF)," February 19, 2016, https://www.treasury.gov/press-center/press-releases/Pages/jl0357.aspx.

[17] U.S. Department of the Treasury, *Hardest Hit Fund First Quarter 2016 Performance Summary*, p. 2, https://www.treasury.gov/initiatives/financial-stability/reports/Documents/Hardest%20Hit%20Fund%20Program%20Performance%20Summary%20Q1%202016.pdf

Where Can I Find More Information on the HHF?

More information on the HHF is available on Treasury's website.[18] In particular, Treasury's quarterly *Program Performance Summaries* provide information on how participating states are using their funds and the amount of funding each state has disbursed to date.[19] Treasury's website also includes links to state websites, which provide more information on specific state HHF programs and how eligible homeowners can apply.[20]

The Special Inspector General for the Troubled Asset Relief Program (SIGTARP) provides oversight of TARP programs, including the HHF, in quarterly reports and audit reports.[21]

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[18] See https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/hhf/Pages/default.aspx.

[19] See https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/hhf/Pages/Hardest-Hit-Fund-State-Allocation-.aspx?Program=Hardest+Hit+Fund.

[20] See https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/Pages/Program-Documents.aspx.

[21] The SIGTARP website is at https://www.sigtarp.gov/Pages/Home.aspx.