



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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The Honorable  
The Secretary of Housing and  
Urban Development

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Dear Madam Secretary:

Enclosed is a copy of our testimony presented on September 23, 1975, before the Subcommittee on Manpower and Housing, House Committee on Government Operations, on the results of our review of HUD's management and disposition of acquired multifamily properties. Our review showed the following weaknesses which indicated that HUD was not managing and disposing of acquired properties efficiently and effectively.

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--Contrary to its policy of disposing of properties at the earliest possible date and at the highest price, HUD allowed properties to remain in inventory for long periods without making adequate efforts to dispose of them.

--While properties were in the inventory, they were not managed in a manner that would improve their ultimate marketability, nor did they provide decent and safe housing for tenants. Specifically, HUD and the management agents did not (1) maintain properties in good repair, (2) make adequate efforts to increase occupancy, (3) establish rents at fair market rates, or (4) collect delinquent rents.

These weaknesses resulted in (1) increased costs for holding properties in inventory, (2) failure to maximize return on the Federal investment, and (3) tenants living in unsafe and unsanitary housing.

As you know, defaults of multifamily properties have increased dramatically in recent years and are now at an all-time high. In addition to the large inventory of multifamily properties acquired by HUD, another serious concern is the even larger inventory of multifamily properties

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which have defaulted, and whose mortgages have been assigned to HUD. It is almost certain that many of these will ultimately be foreclosed and acquired by HUD. Acquisition of such properties will, in our opinion, create more problems for HUD in the timely and effective management and disposition of multifamily properties.

To correct these weaknesses we recommend that you

- Instruct the field staff to timely prepare preliminary programs and recommendations for the operation and disposition of acquired properties. The regional offices should periodically monitor their field offices to insure timely actions.
- Instruct the field offices to (1) establish and collect fair market rents on acquired properties and (2) promptly make repairs to correct unsafe and unsanitary conditions on acquired properties.
- Insure timely action by the Washington office in evaluating field office recommendations and in resolving disagreements between Washington and field office personnel on matters affecting disposition of the properties.
- Require that field personnel monitor agents' management of acquired properties to insure that (1) properties are kept in good repair, (2) occupancy is increased, and (3) rent collection procedures are effectively carried out. When agents have failed to follow prescribed procedures, HUD field offices need to work closely with the agents to improve their management practices or, if necessary, to replace the agents.
- Assess staffing needs and assign enough staff to effectively carry out HUD's objectives of managing and disposing of acquired properties.

We shall be pleased to discuss any of the above matters with you or members of your staff and shall appreciate receiving your comments on any action taken or planned.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and the House and Senate Committees on Appropriations

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with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the four committees mentioned above and to the Director, Office of Management and Budget. We are also sending copies to your Inspector General and Assistant Secretary for Housing Management.

Sincerely yours,



Comptroller General  
of the United States

Enclosure

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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY  
EXPECTED AT 9:30 A.M. EDT  
TUESDAY, SEPTEMBER 23, 1975

STATEMENT OF  
HENRY ESCHWEGE, DIRECTOR  
RESOURCES AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE  
SUBCOMMITTEE ON MANPOWER AND HOUSING  
COMMITTEE ON GOVERNMENT OPERATIONS  
HOUSE OF REPRESENTATIVES

ON

REVIEW OF HUD'S MANAGEMENT AND DISPOSITION OF  
ACQUIRED MULTIFAMILY PROPERTIES

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

WE ARE HERE TODAY AT THE REQUEST OF THE SUBCOMMITTEE TO DISCUSS THE RESULTS OF OUR REVIEW OF HUD'S MANAGEMENT AND DISPOSITION OF ACQUIRED MULTIFAMILY PROPERTIES. WITH ME TODAY ARE MESSRS. JOSEPH P. ROTHER, JR., ASSISTANT DIRECTOR-IN-CHARGE, AND CLARENCE P. SQUELLATI, ASSISTANT DIRECTOR, RESOURCES AND ECONOMIC DEVELOPMENT DIVISION, AND MR. DANIEL C. WHITE, ASSISTANT REGIONAL MANAGER, CHICAGO REGIONAL OFFICE.

MY TESTIMONY TODAY WILL SUMMARIZE THE RESULTS OF OUR RECENTLY COMPLETED REVIEW. WE WERE DRAFTING A REPORT TO THE CONGRESS WHEN WE LEARNED THAT YOU WERE INTERESTED IN HAVING US DISCUSS OUR OBSERVATIONS AT THESE HEARINGS. THEREFORE, HUD HAS NOT BEEN GIVEN AN OPPORTUNITY TO FORMALLY COMMENT ON OUR TENTATIVE CONCLUSIONS AND PROPOSALS FOR IMPROVEMENT.

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AS YOU KNOW, HUD INSURES MORTGAGES MADE BY PRIVATE LENDING INSTITUTIONS FOR MULTIFAMILY HOUSING UNDER VARIOUS SECTIONS OF THE NATIONAL HOUSING ACT. ELIGIBLE HOUSING UNDER THESE PROGRAMS INCLUDES APARTMENT BUILDINGS, CONDOMINIUMS, MOBILE HOME PARKS, AND NURSING HOMES. MORTGAGES MAY BE INSURED FOR NEW CONSTRUCTION OR EXISTING HOUSING. ON JUNE 30th OF THIS YEAR, HUD HAD INSURANCE IN FORCE ON 14,072 MULTIFAMILY PROPERTIES WITH UNPAID MORTGAGE BALANCES OF \$19.2 BILLION.

WHEN A MORTGAGOR DEFAULTS, THE LENDER OR MORTGAGEE AFTER NOTIFYING HUD, MAY (1) FORECLOSE AND CONVEY TITLE TO HUD IN RETURN FOR FULL INSURANCE BENEFITS OR (2) ASSIGN THE MORTGAGE TO HUD FOR SLIGHTLY REDUCED INSURANCE BENEFITS. AS AN ASSIGNEE OF A DEFAULTED MORTGAGE, HUD MAY

--HOLD THE MORTGAGE AND GIVE THE MORTGAGOR AN OPPORTUNITY TO WORK OUT HIS FINANCIAL DIFFICULTIES AND REINSTATE THE MORTGAGE OR

--ACQUIRE TITLE TO THE PROPERTY THROUGH FORECLOSURE OR THROUGH VOLUNTARY CONVEYANCE OF DEED IN LIEU OF FORECLOSURE.

OUR CURRENT REVIEW WAS DIRECTED TO HUD'S MANAGING AND DISPOSING OF ACQUIRED PROPERTIES.

DEFAULTS OF MULTIFAMILY PROPERTIES HAVE INCREASED DRAMATICALLY IN RECENT YEARS AND ARE NOW AT AN ALL TIME

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HIGH. THE TOTAL NUMBER OF MULTIFAMILY PROPERTIES IN HUD'S ACQUIRED INVENTORY ROSE FROM 195 AT THE END OF FISCAL YEAR 1972, WITH A NET INVESTMENT<sup>1</sup> BY HUD OF \$288 MILLION, TO 348 PROPERTIES AS OF MAY 31, 1975, WITH A NET INVESTMENT OF \$393 MILLION. THIS INVENTORY REPRESENTED 36,608 HOUSING UNITS.

ANOTHER MATTER OF SERIOUS CONCERN IS THE EVEN LARGER INVENTORY OF MULTIFAMILY PROPERTIES WHICH HAVE DEFAULTED AND WHOSE MORTGAGES HAVE BEEN ASSIGNED TO HUD BY THE MORTGAGEES.

THE INVENTORY OF ASSIGNED MORTGAGES ROSE FROM 579, WITH A MORTGAGE BALANCE OF \$732 MILLION AT THE END OF FISCAL YEAR 1972, TO 1,343 ASSIGNED MORTGAGES, WITH A BALANCE OF \$2 BILLION AT THE END OF FISCAL YEAR 1975. ON MARCH 24, 1974, WE TESTIFIED BEFORE THE LEGAL AND MONETARY AFFAIRS SUBCOMMITTEE OF THE HOUSE GOVERNMENT OPERATIONS COMMITTEE ON IMPROVEMENTS NEEDED IN THE OVERALL MANAGEMENT OF MORTGAGES ASSIGNED TO HUD.

IT IS VERY LIKELY THAT MANY PROPERTIES WHOSE MORTGAGES HAVE BEEN ASSIGNED TO HUD WILL ULTIMATELY BE FORECLOSED AND ACQUIRED BY HUD. IN FACT, AS OF JUNE 30, 1975, HUD WAS FORECLOSING ON 475 OF THESE MORTGAGES, WHICH AMOUNTED TO \$649 MILLION. ACQUIRING ADDITIONAL PROPERTIES WILL CREATE

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<sup>1</sup>THE NET INVESTMENT IS THE TOTAL DOLLAR AMOUNT HUD HAS SPENT ON THE PROPERTY, I.E. ACQUISITION COST PLUS OPERATING EXPENSES, TAXES, AND CAPITAL IMPROVEMENTS MINUS RENTAL INCOME.

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MORE PROBLEMS FOR HUD IN THE TIMELY AND EFFECTIVE MANAGEMENT AND DISPOSAL OF MULTIFAMILY PROPERTIES.

TO EVALUATE HUD'S EFFECTIVENESS IN MANAGING AND DISPOSING OF ACQUIRED PROPERTIES, WE REVIEWED 35 PROPERTIES THAT WERE IN HUD'S INVENTORY DURING FISCAL YEAR 1974. THE PROPERTIES WERE IN THE JURISDICTION OF THREE HUD FIELD OFFICES--CHICAGO, DALLAS, AND NEWARK--WHICH, AT THE TIME OF OUR REVIEW, HELD ABOUT 30 PERCENT OF THE MULTIFAMILY INVENTORY.

OUR REVIEW SHOWED THAT HUD WAS NOT MANAGING AND DISPOSING OF ITS ACQUIRED PROPERTIES EFFICIENTLY AND EFFECTIVELY.

--CONTRARY TO ITS POLICY OF DISPOSING OF PROPERTIES AT THE EARLIEST POSSIBLE DATE AND AT THE HIGHEST PRICE, HUD ALLOWED PROPERTIES TO REMAIN IN INVENTORY FOR LONG PERIODS WITHOUT MAKING AN ADEQUATE EFFORT TO DISPOSE OF THEM.

--PROPERTIES REMAINING IN HUD'S INVENTORY WERE NOT PREPARED FOR ULTIMATE SALE NOR DID THEY PROVIDE DECENT AND SAFE HOUSING FOR EXISTING TENANTS.

--HUD AND MANAGING AGENTS DID NOT MAKE ADEQUATE EFFORTS TO COLLECT RENTS FROM TENANTS.

THESE WEAKNESSES RESULTED IN (1) INCREASED COST FOR HOLDING PROPERTIES IN INVENTORY, (2) FAILURE TO MAXIMIZE RETURN ON FEDERAL INVESTMENT, AND (3) TENANTS LIVING IN UNSAFE AND UNSANITARY HOUSING. BECAUSE MANY FACTORS AFFECT

HUD'S ABILITY TO SELL PROPERTIES IN A TIMELY MANNER, SUCH AS THE PROPERTY'S PHYSICAL CONDITION AND LOCATION, AND CURRENT ECONOMIC CONDITIONS, WE BELIEVE IT IS IMPORTANT THAT PROPERTIES BE PROPERLY MANAGED AND MAINTAINED TO INSURE A MAXIMUM RETURN WHEN THEY ARE SOLD AND TO INSURE THAT TENANTS WILL HAVE SAFE, DECENT, AND SANITARY HOUSING IN THE INTERIM.

I WOULD LIKE TO DISCUSS EACH OF THESE PROBLEMS IN GREATER DETAIL.

PROPERTIES HELD IN THE INVENTORY FOR EXTENDED PERIODS BEFORE BEING OFFERED FOR SALE

WE FOUND THAT EXTENSIVE DELAYS OCCURRED BEFORE PROPERTIES WERE OFFERED FOR SALE. QUICKLY DISPOSING OF PROPERTIES WOULD

--ENABLE HUD TO CONCENTRATE ON ITS PRIMARY OBJECTIVE WHICH IS TO PROVIDE HOUSING RATHER THAN TO MANAGE DEFAULTED HOUSING,

--MINIMIZE THE GOVERNMENT'S HOLDING COSTS, AND

--REPLENISH CASH RESERVES IN THE INSURANCE FUNDS

AND THUS REDUCE THE AMOUNT OF CONGRESSIONAL APPROPRIATIONS OR TREASURY BORROWINGS THAT MAY BE NEEDED TO PAY OFF FUTURE CLAIMS.

HUD PROCEDURES REQUIRE THAT WITHIN

--30 DAYS AFTER LEARNING OF A PENDING ACQUISITION, FIELD OFFICES DEVELOP A PRELIMINARY PROGRAM FOR EITHER OPERATING OR SELLING THE PROPERTY. THIS PROGRAM MUST EVALUATE THE PROPERTIES' CONDITION

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AND THE NEEDED REPAIRS, DETERMINE THE BEST USE OF THE PROPERTY, ESTABLISH RENTAL RATES, AND DETERMINE TENANT SERVICES. BEFORE ACQUISITION, THE FIELD OFFICE IS REQUIRED TO MAKE AN AGREEMENT WITH AN AGENT TO MANAGE THE PROPERTY.

--60 DAYS AFTER ASSUMING MANAGEMENT RESPONSIBILITY, THE AGENT IS TO SUBMIT A COMPREHENSIVE MANAGEMENT STUDY TO HUD RECOMMENDING RENTAL RATES, OPERATING PROCEDURES, AND REPAIRS NEEDED WITH A DISCUSSION OF PROBLEM AREAS AND SUGGESTED SOLUTIONS.

--90 DAYS AFTER ACQUISITION, HUD FIELD OFFICES RECOMMEND TO THE WASHINGTON OFFICE WHETHER THE PROPERTY SHOULD BE OFFERED FOR IMMEDIATE SALE OR BE OPERATED UNTIL REPAIRS OR OTHER MEASURES ARE TAKEN TO INCREASE MARKET VALUE.

WE FOUND THAT HUD DID NOT COMPLY WITH MANY OF THESE PROCEDURES.

FOR EXAMPLE, AT THE TIME OF OUR REVIEW THE 35 PROPERTIES EXAMINED HAD BEEN IN HUD'S INVENTORY FOR AN AVERAGE OF 25 MONTHS, RANGING FROM 5 TO 83 MONTHS. AS OF AUGUST 1975, 25 OF THESE PROPERTIES HAD BEEN SOLD.

ALSO, PRELIMINARY PROGRAMS FOR OPERATING OR SELLING THE PROPERTIES WERE NOT PREPARED IN ACCORDANCE WITH ESTABLISHED TIME FRAMES FOR 28 OF THE 35 PROPERTIES WHICH WE REVIEWED.

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PRELIMINARY PROGRAMS WERE NEVER PREPARED FOR FOUR OF THE PROPERTIES. ONLY 7 OF THE 31 PROGRAMS PREPARED CONTAINED ALL THE REQUIRED INFORMATION.

REQUIRED MANAGEMENT STUDIES WERE NOT PREPARED FOR 15 OF THE 35 PROPERTIES. THE MANAGEMENT STUDY HAD BEEN PREPARED ON ONLY ONE PROPERTY WITHIN THE PRESCRIBED TIME FRAME.

FOR 12 OF THE 35 PROPERTIES, HUD FIELD OFFICES HAD NOT SUBMITTED THE REQUIRED RECOMMENDATIONS TO THE WASHINGTON OFFICE ON WHETHER THE PROPERTIES SHOULD BE OFFERED FOR IMMEDIATE SALE OR SHOULD BE OPERATED IN A MANNER DESIGNED TO IMPROVE THEIR MARKETABILITY. ONLY ONE RECOMMENDATION WAS SUBMITTED ON TIME.

SIGNIFICANT DELAYS OCCURRED AFTER THE RECOMMENDATIONS WERE MADE. FOR EXAMPLE, THE WASHINGTON OFFICE EXCEEDED THE 30 DAYS ALLOWED FOR 16 OF THE 23 RECOMMENDATIONS SUBMITTED BY PERIODS VARYING UP TO 5 YEARS. DELAYS IN THE DISPOSITION PROCESS WERE DUE TO POOR COMMUNICATION BETWEEN HUD'S FIELD OFFICES AND THE WASHINGTON OFFICE AND TO WASHINGTON REVISIONS OF THE FIELD OFFICE'S RECOMMENDATION.

THE FOLLOWING EXAMPLE SHOWS SOME OF THESE PROBLEMS.

- A. IN NOVEMBER 1967 HUD ACQUIRED A 144 UNIT APARTMENT BUILDING FOR \$1.9 MILLION. THREE MONTHS LATER THE PROJECT WAS 93-PERCENT OCCUPIED AND

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NEEDED ONLY RELATIVELY MINOR REPAIRS, SUCH AS PAINTING, LANDSCAPING, AND REPLACING SOME STORM WINDOWS AND SCREENS.

- B. BECAUSE THE PROJECT HAD AN EXCELLENT OCCUPANCY RATE, THE WASHINGTON OFFICE IN APRIL 1968 SUGGESTED IMMEDIATELY SELLING THE PROPERTY WHEREBY THE BUYER WOULD BE RESPONSIBLE FOR MAKING THE NECESSARY BUILDING REPAIRS.
- C. FROM APRIL 1968 TO JUNE 1969, THE FIELD AND WASHINGTON OFFICES HELD PERIODIC DISCUSSIONS AS TO WHETHER REPAIR WORK SHOULD BE DONE BY HUD OR BY THE BUYER.
- D. FINALLY IN JUNE 1969 THE FIELD OFFICE RECOMMENDED THAT THE PROPERTY BE SOLD AS CONVENTIONAL RENTAL PROPERTY AND THAT THE BUYER BE MADE RESPONSIBLE FOR REPAIRS.
- E. DURING THE NEXT 4-1/2 YEARS, THERE WAS SPORADIC CORRESPONDENCE AS TO WHETHER THE PROPERTY SHOULD BE SOLD AS A DIFFERENT TYPE OF PROJECT (CONDOMINIUM OR SUBSIDIZED).
- F. IN MARCH 1974 THE FIELD OFFICE AGAIN RECOMMENDED THAT THE PROPERTY BE SOLD AS CONVENTIONAL RENTAL PROPERTY.
- G. THE PROPERTY WAS FINALLY SOLD IN NOVEMBER 1974-- 7 YEARS AFTER ACQUISITION--FOR \$933,000.

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THIS EXAMPLE IS USED BECAUSE IT SHOWS MANY OF THE PROBLEMS NOTED BUT, IT IS NOT CONSIDERED TYPICAL OF ALL THE PROJECTS EXAMINED.

HUD GENERALLY SELLS PROPERTIES FOR LESS THAN IT PAID FOR ACQUIRING THEM AND LOSES MONEY ON THEIR OPERATION WHILE THEY ARE HELD IN INVENTORY. FOR EXAMPLE, DURING 11 MONTHS IN FISCAL YEAR 1975 HUD SOLD 91 MULTIFAMILY PROPERTIES FOR \$40 MILLION LESS THAN IT PAID FOR THEM; A RETURN OF ONLY 55 CENTS FOR EACH DOLLAR INVESTED.

IN GENERAL, FOR EVERY DAY THAT HUD HOLDS PROPERTY IN ITS INVENTORY, THE GOVERNMENT LOSES MONEY BECAUSE OPERATING EXPENSES, TAXES, AND IMPUTED INTEREST ON THE GOVERNMENT'S INVESTMENT USUALLY EXCEED RENTAL INCOME. HUD LOST \$2.6 MILLION ON THE 35 PROPERTIES REVIEWED WHILE THEY WERE IN INVENTORY.

WE HAVE A CHART WITH US TODAY WHICH SHOWS THIS PROBLEM FOR SIX OF THE PROJECTS REVIEWED.

INADEQUATE MANAGEMENT OF PROPERTIES  
IN INVENTORY

ONCE HUD ACQUIRES A PROPERTY, IT MUST BE MANAGED WITH TWO GOALS IN MIND: (1) TO MAXIMIZE RETURN TO THE GOVERNMENT THROUGH AN ULTIMATE SALE AND (2) TO PROVIDE, IN THE INTERIM, DECENT, SAFE, AND SANITARY HOUSING TO EXISTING TENANTS.

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IN GENERAL, HUD DID NOT HAVE ADEQUATE PLANS FOR IMPROVING THE MARKETABILITY OF PROJECTS IN INVENTORY IN TERMS OF (1) MAINTAINING THE PROPERTIES IN GOOD REPAIRS, (2) INCREASING OCCUPANCY, AND (3) OBTAINING FAIR MARKET RENTS.

NINE PROPERTIES REVIEWED HAD MAINTENANCE PROBLEMS WHICH AFFECTED THEIR LIVABILITY AND THE SAFETY OF TENANTS. FOR EXAMPLE,

- 6 PROJECTS HAD UNSAFE PORCHES AND STAIRS, I.E., MISSING OR ROTTING STAIRS, RAILS, OR SUPPORTING FOUNDATIONS;
- 4 PROJECTS HAD SAFETY HAZARDS CREATED BY BADLY WORN OR RIPPED CARPETING IN HALLS AND ON STAIRS;
- 6 PROJECTS HAD DIRTY, LITTERED HALLS AND STAIRWAYS OR WERE INFESTED WITH RODENTS AND INSECTS;
- 2 PROJECTS HAD EROSION PROBLEMS WHICH ENDANGERED THE TENANTS' SAFETY BY UNDERMINING STAIRS AND SIDEWALKS;
- 2 PROJECTS CONTAINED VANDALIZED AND UNSECURED UNITS WHICH WERE SAFETY HAZARDS BECAUSE THEY WERE ACCESSIBLE TO CHILDREN AND DERELICTS.

HUD WAS AWARE OF MANY OF THESE CONDITIONS, BUT BECAUSE OF INADEQUATE OR INEXPERIENCED STAFF, PROPER ATTENTION WAS NOT GIVEN TO CORRECT THEM. THE MANAGEMENT AGENT CALLED HUD'S ATTENTION TO THESE PROBLEMS, ANGRY TENANTS COMPLAINED, AND HUD WAS CITED FOR VIOLATION OF CITY HOUSING CODES. ON

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ONE PROPERTY, HUD WAS CITED FOR THE SAME CODE VIOLATION INVOLVING DILAPIDATED AND DANGEROUS PORCHES ON THREE OCCASIONS DURING A 10-MONTH PERIOD.

SHORTLY AFTER HUD ACQUIRED FOUR PROPERTIES, IT LEARNED THAT THE COAL-BURNING HEATING SYSTEMS WERE INADEQUATE AND SHOULD EITHER BE REPLACED OR CONVERTED TO GAS. HUD DID NOT TAKE ANY ACTION AT THAT TIME BECAUSE IT PLANNED TO SELL THE PROPERTIES.

DURING THE WINTER MONTHS TENANTS WERE FREQUENTLY WITHOUT HEAT AND HOT WATER BECAUSE OF EQUIPMENT FAILURES. MANAGEMENT AGENTS, TENANTS, AND JANITORS TOLD US THAT THIS OCCURRED ALMOST WEEKLY. AT ONE PROPERTY HEAT WAS OFF FOR 2 DAYS WHEN THE TEMPERATURE WAS AS LOW AS 23 DEGREES. BEFORE THE NEXT WINTER, HUD REMEDIATED THE HEATING PROBLEMS AT THIS PROJECT AND AT 2 OF THE OTHER 3 PROJECTS.

HUD AND MANAGEMENT AGENTS DID NOT ALWAYS TRY TO INCREASE THE OCCUPANCY LEVELS IN THE PROPERTIES (HIGH OCCUPANCY RATES GENERALLY INCREASE THE PROPERTY'S MARKETABILITY). IN MANY INSTANCES, OCCUPANCY DECLINED IN HUD-ACQUIRED PROPERTIES, THUS DECREASING POTENTIAL MARKETABILITY.

FOR FIVE PROPERTIES REVIEWED, RENTAL RATES WERE CONSIDERABLY BELOW GOING MARKET RATES FOR COMPARABLE HOUSING. HUD HELD THESE PROPERTIES FROM 4 TO 5 YEARS BEFORE IT INCREASED THE RENTAL RATES. THE PROPERTIES WERE FULLY OCCUPIED AND ONE PROPERTY HAD A WAITING LIST. FOR ONE PROPERTY OFFERED FOR SALE IN 1970, HUD ESTIMATED THAT

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ANNUAL RENTAL INCOME WAS \$33,000 BELOW THAT BEING CHARGED IN THE PREVAILING MARKET. WHEN THE PROPERTY WAS SOLD 4 YEARS LATER, HUD ESTIMATED THAT ANNUAL RENTAL INCOME WAS \$68,000 BELOW MARKET, YET IT DID NOT INCREASE THE RENTAL RATES DURING THE 4-YEAR PERIOD THAT THE PROPERTY WAS IN INVENTORY.

FAILURE TO COLLECT DELINQUENT RENTS

WE FOUND THAT HUD AND ITS MANAGEMENT AGENTS DID NOT MAKE ADEQUATE EFFORTS TO COLLECT DELINQUENT RENTS.

HUD PROCEDURES REQUIRE MANAGING AGENTS TO CONTACT TENANTS PROMPTLY TO OBTAIN PAYMENT, EVICT THE TENANTS, OR, IF CIRCUMSTANCES JUSTIFY IT, WORK OUT A PROGRAM FOR CURING THE DELINQUENCIES.

OF THE 35 PROPERTIES REVIEWED, 34 HAD DELINQUENCIES TOTALING \$189,000 OF WHICH \$118,000 WAS OWED BY TENANTS WHO HAD MOVED AWAY. MANY AGENTS WERE NOT FOLLOWING HUD'S PROCEDURES. FOR EXAMPLE, AGENTS FOR FOUR PROPERTIES WITH DELINQUENCIES RANGING FROM 6 TO 23 PERCENT OF RENTS DUE DID NOT ACT PROMPTLY TO CURE DELINQUENCIES AND ALLOWED TENANTS TO LIVE RENT-FREE FOR PERIODS UP TO 9 MONTHS.

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HUD OFFICIALS TOLD US THAT THE PROBLEMS NOTED IN OUR REVIEW WERE PRIMARILY CAUSED BY INADEQUATE OR INEXPERIENCED STAFF. THEY STATED THAT WITHOUT ADEQUATE STAFF, THEY WERE UNABLE TO PROPERLY ADMINISTER AND MONITOR THIS PROGRAM.

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MR. CHAIRMAN, WE BELIEVE THAT HUD'S INVENTORY OF ACQUIRED MULTIFAMILY PROPERTIES MAY INCREASE SUBSTANTIALLY IN THE NEAR FUTURE BECAUSE OF THE MANY MORTGAGES NOW ASSIGNED TO IT. HUD SHOULD ACT IN A MORE TIMELY MANNER TO INSURE ADEQUATE MANAGEMENT AND DISPOSITION OF ACQUIRED PROPERTIES.

IN SUMMARY, MR. CHAIRMAN, HUD CAN TAKE STEPS TO CORRECT THE WEAKNESSES NOTED IN OUR REVIEW. SPECIFICALLY, THE SECRETARY OF HUD SHOULD

--INSTRUCT THE FIELD STAFF TO PREPARE PRELIMINARY PROGRAMS AND RECOMMENDATIONS FOR THE OPERATION AND DISPOSITION OF ACQUIRED PROPERTIES IN A TIMELY MANNER. IN THIS CONNECTION, THE REGIONAL OFFICES SHOULD PERIODICALLY MONITOR THEIR FIELD OFFICES TO INSURE TIMELY ACTIONS.

--INSTRUCT THE FIELD OFFICES TO (1) ESTABLISH AND COLLECT FAIR MARKET RENTS ON ACQUIRED PROPERTIES AND (2) PROMPTLY MAKE REPAIRS TO CORRECT UNSAFE AND UNSANITARY CONDITIONS ON ACQUIRED PROPERTIES.

--INSURE TIMELY ACTION BY THE WASHINGTON OFFICE IN EVALUATING FIELD OFFICE RECOMMENDATIONS AND IN RESOLVING DISAGREEMENTS BETWEEN WASHINGTON AND FIELD OFFICE PERSONNEL ON MATTERS AFFECTING DISPOSITION OF THE PROPERTIES.

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--REQUIRE THAT FIELD PERSONNEL MONITOR AGENTS' MANAGEMENT OF ACQUIRED PROPERTIES TO INSURE THAT (1) PROPERTIES ARE KEPT IN GOOD REPAIR, (2) OCCUPANCY IS INCREASED, AND (3) EFFECTIVE RENT COLLECTION PROCEDURES ARE IMPLEMENTED. IN THOSE CASES WHERE AGENTS HAVE FAILED TO FOLLOW PRESCRIBED PROCEDURES, HUD FIELD OFFICES NEED TO WORK CLOSELY WITH THE AGENTS TO IMPROVE THEIR MANAGEMENT PRACTICES OR, IF NECESSARY, TO REPLACE THE AGENTS.

--ASSESS STAFFING NEEDS AND ASSIGN ENOUGH STAFF TO EFFECTIVELY CARRY OUT HUD'S OBJECTIVES OF MANAGING AND DISPOSING OF ACQUIRED PROPERTIES.

MR. CHAIRMAN, THIS CONCLUDES MY PREPARED TESTIMONY AND I WILL NOW BE GLAD TO RESPOND TO ANY QUESTIONS WHICH YOU, OR MEMBERS OF THE SUBCOMMITTEE, MAY WISH TO ASK.

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HOLDING COSTS  
FOR  
SIX HUD MULTIFAMILY PROPERTIES

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<u>Property</u>	<u>Months Held As of 9/30/74</u>	<u>Acquisition Cost</u>	<u>Estimated Imputed Interest Cost on Investment<sup>a</sup></u>	<u>Net Income From Operation<sup>b</sup></u>	<u>Governments<sup>c</sup> Cost of Holding Property</u>
A	57	\$2,004,000	\$176,000	(\$ 94,000)	\$270,000
B	83	1,908,000	405,000	215,000	190,000
15 C	25	3,811,000	267,000	( 43,000)	310,000
D	29 <sup>c</sup>	1,201,000	198,000	71,000	127,000
E	22	491,000	22,000	( 16,000)	38,000
F	20	1,135,000	54,000	23,000	31,000

<sup>a</sup>Interest costs computed on the lower of (1) HUD's acquisition cost, (2) net investment at time of sale, or (3) sales price using the Treasury borrowing rate.

<sup>b</sup>Rental income less operating expenses, i.e., utilities, taxes, maintenance, and minor repairs; excludes major repairs or improvements.

<sup>c</sup>Months held is as of February 1974 when property was sold.

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