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November 30, 1981

B-203490

The Honorable Jake Garn, Chairman
Committee on Banking, Housing and
Urban Affairs
United States Senate

The Honorable Alan J. Dixon
United States Senate

Subject: HUD Single-Family Property Disposal Practices for
Properties Transferred to Cities at Less-Than-
Market Values or Small Dollar Amounts (CED-82-16)

In response to your June 24, 1981, request and as modified through subsequent discussions with your offices, we are reporting on the results of our survey of Department of Housing and Urban Development (HUD) single-family property disposal programs. Under these programs, properties are transferred, at less-than-market values or small dollar amounts, to cities nationwide. HUD anticipated that a substantial portion of the transferred properties would be used to provide needed housing for low- and moderate-income families. You were particularly interested in the activities of the programs as they relate to the city of Chicago. As agreed, this letter summarizes an October 14, 1981, briefing where we advised Senator Dixon's office that the potential for speculation in the resale of these properties was diminishing because:

- The number of properties transferred from HUD to the city of Chicago has decreased substantially in recent years and the city is developing better procedures for screening the applicants to whom the properties are sold.
- Although HUD has not recently transferred many single-family properties under these programs to other cities, HUD is going to advise its area offices and local communities of the problems that have occurred in the past in order to avoid problems in the future. In addition, HUD has recently terminated one of its programs to transfer single-family properties to cities.

We discussed these matters with HUD and city of Chicago Department of Housing officials. But, as you requested, we did not obtain written comments from them. Their comments are included where appropriate.

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The objective of our survey was to determine the potential for speculation in the resale of HUD single-family properties transferred to Chicago at less-than-market values or small dollar amounts and whether such potential existed in other cities nationwide. The results of our survey are based primarily on discussions with HUD and city of Chicago Department of Housing officials, an analyses of program policies and procedures, and a review of properties transferred to 20 of 63 Chicago nonprofit corporations that had received properties under the programs as of June 5, 1981. In addition, at our request, HUD provided us with basic program information on other cities having similar programs. Generally HUD obtained the information through telephone contacts with local government units because data older than 2 years was not available in the HUD Critical Path Processing System. We did not verify the data provided, although we did telephone HUD and city officials in 20 of the larger cities participating in the programs to ask additional questions.

PROPERTY TRANSFERS TO THE
CITY OF CHICAGO HAVE DECREASED,
AND CHANGES ARE BEING MADE IN
THE CITY'S DISPOSAL PROGRAMS

Both HUD Chicago area office and city of Chicago Department of Housing officials acknowledged problems with past practices of selling large numbers of single-family properties, at less-than-market values or small dollar amounts, to not-for-profit corporations. The city was selling property without assuring that the corporations had sufficient capability to rehabilitate and resell the projects. This resulted in delays in getting rehabilitated projects back out on the market or could have resulted in windfall profits and speculation. The officials believe that recent decreases in the number of properties transferred and new procedures for screening not-for-profit corporations have reduced the potential for speculation and other problems.

Based on data provided by HUD's Chicago area office and the city of Chicago, 533 single-family properties were transferred from HUD to the city at less-than-market values or small dollar amounts from 1975 to June 1981. These properties were previously federally insured and were acquired by HUD when the owners were unable to pay their mortgages. Of the transferred properties, 432 were sold by the city to 63 not-for-profit corporations under the city's Property Release Option Program and Rehabilitation Assistance to Not-for-Profit Corporations Program. The city sold the remaining 101 properties directly to individuals under the Mayor's Home Rehabilitation Program.

Three not-for-profit corporations received 151 properties, or 35 percent of the 432 properties sold to not-for-profit corporations. In addition, 132, or 87 percent, of the 151 properties were sold to two of these not-for-profit corporations in 1976. Since 1976 no not-for-profit corporation has received more than 14 properties in any one year.

The number of properties conveyed by HUD to the city has decreased from 155 in calendar year 1976 to 57 in 1980. Only 19 properties have been conveyed during 1981, and in a June 10, 1981, memorandum, HUD notified the city that it was suspending, as mutually agreed, further conveyance of HUD-owned, single-family property.

The suspension is in accordance with instructions issued previously to all HUD area offices in March 1980. In these instructions the Assistant Secretary for Housing--Federal Housing Commissioner stated that:

"Local offices must make a concerted effort to monitor the activities of local governments in the transfer of HUD-owned properties. Only by doing so can we be assured that properties are put to uses beneficial to the communities within a reasonable period of time. When local governments fail to meet the standards set forth above, additional properties shall not be transferred until the local government is able to eliminate the backlog of properties which have not been handled in an expeditious manner and there is adequate assurance that the capacity exists to continue to make beneficial uses of HUD-owned properties acquired."

According to Chicago Department of Housing officials, HUD and the city had set very limited program guidelines and until recently HUD was not fully aware of Chicago's program because it was not monitoring the city's disposal activities. The city officials identified the following factors as limiting the success of the city's programs:

- Screening of not-for-profit organizations was initially weak.
- Some not-for-profit organizations had very limited experience in rehabilitating properties.
- Due in part to inadequate staffing, the city did a poor job of monitoring the program.
- Most not-for-profit organizations were not submitting monthly progress reports, making it difficult for the city to monitor their activities.
- The city inspection staff was initially very weak and consequently it approved some unsatisfactory work.
- Many not-for-profit organizations had substantial problems with contractors meeting their commitments.
- Poor housing market conditions made it difficult for prospective buyers to obtain financing to purchase rehabilitated properties.

--In retrospect, the first two not-for-profit corporations obtained too many properties in 1976.

At the conclusion of our field inquiries in October 1981, the city of Chicago was exploring ways in which its programs to sell single-family property to not-for-profit corporations for rehabilitation and resale could be improved. For example, the city was working on proposed new guidelines under which not-for-profit corporations must provide the city with:

--A full disclosure statement of all officers.

--A full resume of all past work performed in the housing or real estate field. A successful record would be essential to meet program eligibility criteria.

Also, the city's Department of Housing will review all not-for-profit corporation charters to ensure legality and authority to participate in housing and real estate activities under local and State laws and ordinances. In addition, not-for-profit corporations will be allowed to obtain only five properties at one time and property titles will be held in a trust until the properties are rehabilitated and inspected.

PROPERTY TRANSFERS NATIONWIDE
HAVE NOT BEEN SUBSTANTIAL, BUT
HUD IS TAKING STEPS TO INCREASE
THE AWARENESS OF PROGRAM MANAGERS

Except for its transfers in Chicago and a few other cities, HUD has not transferred, at less-than-market values or small dollar amounts, many single-family properties to other cities nationwide. And, as in Chicago, the number of transfers has decreased in recent years. Nevertheless, HUD headquarters officials are going to advise HUD area offices and local communities of the problems that have occurred in the past in order to avoid these problems in the future. Also, HUD has terminated one of its programs to transfer single-family properties to cities.

HUD headquarters officials provided us with information showing that a total of 11,682 properties had been transferred between 1973 and 1981 under HUD's Property Release Option Program, Bulk Sales Program, and other similar programs for transferring properties to cities at less-than-market values or small dollar amounts. Only three cities, besides Chicago, received more than 200 properties during this period. Also, only 21 cities, excluding Chicago, received more than 37 properties between 1973 and 1981.

Based on our telephone contacts with HUD and city officials in 20 of the 21 cities with the largest numbers of properties transferred, it appeared that 16 had some controls to ensure that properties were being put to beneficial use and were not being resold at a windfall profit. Although the four remaining cities reported various control problems, they recently received few

properties (ranging from 1 to 35 during fiscal year 1980) or their programs were totally inactive.

HUD's Deputy Assistant Secretary for Single-Family Housing and Mortgage Activities advised us that because of recently identified problems with the Property Release Option Program, HUD decided to terminate the program effective November 16, 1981. He also said that HUD is going to notify its area offices concerning past problems discussed in this report and reemphasize HUD's responsibilities under the existing programs. The area offices will be directed to share this information with local communities to avoid similar problems in the future. We believe this action will help to avoid future problems.

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As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from its issue date. At that time we will send copies to the Secretary of Housing and Urban Development and make copies available to other interested parties.



Henry Eschwege
Director