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RESERVED FOR THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
PROPERTY OFFICE AND FOR THE OFFICE OF CONGRESSIONAL RELATIONS
BY THE OFFICE OF CONGRESSIONAL RELATIONS,



RELEASED 090307

Property Disposition Policies And Activities In New York's 16th Congressional District

B-114860

Department Of Housing and Urban Development

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

906743

MARCH 26, 1974

090307



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

B-114860

91 The Honorable Elizabeth Holtzman
House of Representatives

Dear Ms. Holtzman:

As you requested August 3, 1973, we reviewed the property disposition policies and activities of the Department of Housing and Urban Development in the basically sound area of New York's 16th Congressional District. The scope of our review was as agreed with you in subsequent discussions. We orally presented the results of our review to you and agreed to furnish the following report. 23

As you requested, we did not obtain written comments on this report from the Department; however, during our review we discussed the matters with local HUD officials and have incorporated their views when appropriate.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James B. Aronson".

Comptroller General
of the United States

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ABBREVIATION

HUD Department of Housing and Urban Development

OBJECTIVES

Congresswoman Elizabeth Holtzman expressed concern about the impact an increasing number of Department of Housing and Urban Development (HUD) acquired one to four-family properties are having in New York's 16th Congressional District and the delays in processing, repairing, and disposing of them. After the Congresswoman's request her office agreed that we would select a sample of HUD-acquired properties in the basically sound, viable area (HUD officials define a "viable area" as an area with good market potential containing few empty lots; burned-out buildings; or vacant, deteriorating homes.) of the district, including some properties recently sold and some still in HUD's inventory, and

- determine the role of the properties relative to the total process of housing abandonment and neighborhood deterioration, considering such factors as housing abandonment and the lack of municipal services,
- determine whether present HUD policies allow excessive property and neighborhood deterioration by failing to provide for immediate repairs,
- determine whether HUD's Hempstead, New York, insuring office follows applicable guidelines in disposing of acquired properties,
- determine what efforts are being made to advertise the availability of HUD-acquired property for sale,
- determine whether HUD's staff is sufficient to promptly dispose of properties, and
- develop an economic profile of HUD's disposition program in the viable areas of the 16th Congressional District to determine both the cost of disposing of HUD properties and the potentially viable housing lost as a result of HUD disposition policies.

SCOPE OF REVIEW

We made our review at HUD's Hempstead insuring office. Its jurisdiction covers New York City and Nassau, Suffolk, Westchester, Putnam, Rockland, and Orange Counties, New York.

We concentrated on developing economic profiles on 13 randomly selected HUD-acquired properties in the viable area of the 16th Congressional District, which is in the borough of Brooklyn. We also

- interviewed HUD officials about their disposition activities,
- visited the 13 HUD properties to determine their existence and the number of other abandoned properties in their vicinity and to obtain an overall impression of the area, and
- reviewed case files on the properties to determine time periods and related costs of processing, repairing, and disposing of the properties.

BACKGROUND

HUD insures home mortgages in accordance with various sections of the National Housing Act, as amended (12 U.S.C. 1701). All properties HUD acquired in the 16th Congressional District had been insured under sections 203(b) and 221(d)(2) of title II of the act.

Section 203(b) authorizes HUD to insure mortgages financing the purchase of new and existing one to four-family properties and refinancing such property indebtedness for families of all income levels. Section 221(d)(2) authorizes HUD to insure mortgages to finance the purchase or rehabilitation of new and existing one to four-family properties for low-income and moderate income families or families displaced by urban renewal projects. The primary difference between these two programs is the lower downpayment required of the mortgagor (borrower) under section 221(d)(2).

HUD may eventually acquire the property if a mortgagor defaults on the mortgage. To claim insurance benefits the mortgagee (lending institution) may (1) acquire the deed from the mortgagor through foreclosure or by voluntary deed and convey the title to HUD or (2) assign the mortgage to HUD. If, after a mortgage is assigned to HUD, the mortgagor fails to bring the mortgage payments current, HUD may foreclose and acquire title to the property. HUD manages all properties until sold or otherwise disposed of.

RESULTS OF REVIEW

GROWTH IN ACQUIRED PROPERTIES

The insuring office's inventory of acquired properties has grown from 581 properties in June 1968 to 2,893 properties in June 1973. At June 30, 1973, 80 percent of the acquired properties in the inventory were in the "core," or inner-city, area of New York City. The 16th Congressional District is in the core area.

IMPACT OF HUD-ACQUIRED PROPERTIES ON NEIGHBORHOOD DETERIORATION

As of April 9, 1973, 202 acquired properties, or about 7 percent, of the office's acquired property inventory were within the 16th Congressional District. Of these 202, 31, or 15 percent, were in the viable area of the 16th Congressional District. HUD officials advised us that the viable area of the district included all but the northeast corner of the district. The viable area encompasses over 90 percent of the district and is separated from the nonviable area by the Rockaway Parkway.

We could not accurately measure the impact or role of the HUD-acquired properties in the total housing abandonment and neighborhood deterioration process. However, we did make some general observations.

The housing and neighborhoods of the viable area generally appeared to be in a sound rather than deteriorated condition. Of the 13 properties we randomly selected from the viable area for review, 10 were in the inventory of acquired property at April 9, 1973, and 3 had been sold just before that date. We toured the neighborhoods containing the 13 properties and found that essential municipal services, such as transportation, sanitation, and police security, were in evidence.

We plotted the 34 properties (31 in the inventory as of April 9, 1973, and 3 sampled properties sold just before that date) on a map of the viable area and noted no pattern or clustering of HUD properties. Also, our tours in August and October 1973 of the neighborhoods containing the 13 selected properties showed only 3 other abandoned or boarded-up properties on all the blocks containing the sample properties. Thus, clustering of abandoned properties which might indicate the beginning of neighborhood deterioration was not evident. However, HUD records showed that four vacant properties had been vandalized.

HUD POLICIES FOR DISPOSING OF PROPERTIES

HUD's policy is to generally keep its acquired properties to a minimum by promptly offering them for sale through real estate brokers. HUD policy requires that it inspect, repair, and offer properties for sale in as short a time frame as possible. HUD has established time standards for accomplishing these objectives; however, as subsequently discussed the Hempstead office has been unable to inspect, repair, and dispose of properties within the established time standards.

Under its policies HUD may dispose of acquired properties through (1) sale after the property has been made habitable, (2) sale of an individual property "as is" without repairs, or (3) bulk sale of a number of "as is" properties. If circumstances warrant, HUD may demolish a property and sell the vacant lot.

HUD generally repairs, rehabilitates, and upgrades acquired properties before offering them for sale. HUD must first decide, however, which of the above courses of action is the most economical and feasible. If extensive repairs are required to make a particular property structurally sound, functionally adequate, and suitable for long-term use, HUD will compare the anticipated net recovery from the sale of the property with the anticipated net recovery of the lot if the property is razed. When the net recovery from repairing and selling a property is anticipated to be more than, or about the same as, if the property was razed, repairs will normally be made.

Instead of demolishing the property when it cannot be economically repaired and offering the vacant lot for sale, a property may be offered for sale "as is" on an "all cash without warranty" basis.

The "as is" program which was implemented on an expanded scale in March 1973, was an attempt by HUD to promptly reduce its increasing inventory. HUD advised us that, although this program is proving to be quite successful, its impact has not yet materialized.

DISPOSITION OF ACQUIRED PROPERTIES

Although HUD was disposing of its properties in the viable area, it was not doing so promptly. HUD had processed the 31 acquired properties in the viable area which were in its inventory as of April 9, 1973, to the following stage by September 21, 1973.

	Sample properties		Remaining properties		Total	
	Quantity	Percent	Quantity	Percent	Quantity	Percent
Sold	5	50.0	6	28.6	11	35.5
In contract for sale	1	10.0	5	23.8	6	19.4
Listed for sale	-	-	3	14.3	3	9.7
Tenanted (occupied)	1	10.0	2	9.5	3	9.7
Being repaired	1	10.0	1	4.8	2	6.4
Demolished	1	10.0	-	-	1	3.2
Held off the market ^a	<u>1</u>	<u>10.0</u>	<u>4</u>	<u>19.0</u>	<u>5</u>	<u>16.1</u>
Total	<u>10</u>	<u>100.0</u>	<u>21</u>	<u>100.0</u>	<u>31</u>	<u>100.0</u>

^aProperties which HUD for various reasons has decided not to immediately repair or sell.

Advertising acquired properties for sale

The HUD policy for advertising acquired properties for sale provides for distribution of a monthly HUD publication entitled "Public Information Release." The Hempstead office mails this publication to participating brokers; chartered community organizations; nonprofit groups; New York State attorneys, who act as brokers; and, upon request, the general public. When necessary, supplements are published in newspapers for changes in property listings.

Eight properties in our sample of 13 have been sold. Four of the eight were not listed in the monthly publication because they were sold "as is" before August 31, 1973, when it was HUD's practice not to list "as is" properties in this publication. However, after August 31, 1973, HUD began listing in the publication all properties offered for sale, including "as is" properties, except those "as is" properties on which HUD has received an inquiry or offer.

HUD did not meet time standards for various phases of the disposition program

The Hempstead office has not met the prescribed time standards in disposing of acquired properties. A comparison of the average time taken in the various phases of the disposition program for the 13 properties we reviewed with the prescribed standards follows:

<u>Number of properties</u>	<u>From date of</u>	<u>To date of</u>	<u>Average time (months)</u>	<u>Standard (months)</u>	<u>Average time over standard (months)</u>
13	Acquisition	Inspection	3.8)	0.5	3.5
13	Inspection	Disposition program approved	0.2)		
a ₄	Disposition program approved	Repair contract awarded	14.4		
b ₃	Repair contract awarded	Repairs completed	3.1	1.9	1.2
b ₃	Repairs completed	Available for sale	1.3	1.2	0.1
c ₉	Available for sale	Sales contract executed			
d ₅	"as is" sales		27.6	(f)	(f)
d ₁	"as is" sale awaiting final closing		45.0	(f)	(f)
e ₃	Repaired and sold		0.8	(f)	(f)
98	Sales contract executed	Closing	2.0	1.6	0.4

^aRepair contracts were not awarded on the other nine. Following approval of the disposition program, one property was demolished, one remained occupied by a tenant, one was held off the market by HUD, five were sold "as is," and one was awaiting final contract closing.

^bRepairs were not yet completed for one of the four properties under contract for repair. Repair contracts had not been awarded on the remaining nine properties as discussed in a above.

^cOf the four properties not offered for sale, one was demolished, one was held off the market, one was occupied, and one was still under contract for repair.

^dAvailable for sale when disposition program was approved.

^eBecame available for sale and were sold after completely repaired.

^fNo standard established.

^gOf the remaining five properties, four were not offered for sale as explained in c, and the sales contract closing had not been held on the fifth one as of August 31, 1973.

HUD officials indicated that they were incurring significant delays and were not meeting time standards because of (1) lack of staff, (2) lack of qualified management brokers in the area, and (3) difficulty in obtaining repair contractors. They also indicated that a recent court restraining order has also affected HUD's ability to promptly dispose of some acquired properties. The court has allowed mortgagees to convey title to occupied properties to HUD, but HUD does not dispose of such properties until they are vacant. HUD said potential purchasers often require the properties to be vacant. While the court order may cause HUD a problem, HUD's April 9, 1973, inventory of acquired properties in the viable area of the 16th Congressional District contained only three occupied properties.

Hempstead officials said the office's Property Disposition Section, responsible for disposing of acquired properties, is understaffed. As of August 31, 1973, it had about the same staff (11) to manage an inventory of about 3,000 acquired properties as it had in 1968 when it was handling about 600 acquired properties. As a result, the caseload for each person has increased from about 50 to 276 properties since 1968 and, according to HUD officials, the staff cannot promptly inspect and evaluate acquired properties. The staff is also responsible for developing disposition programs and performing those duties normally handled by management brokers under contract to HUD. These duties include securing the property, insuring that the property is cleaned up, preparing repair specifications, estimating repair costs, soliciting bids for repairs, preparing purchase orders for repairs, inspecting repairs, and offering properties for sale.

HUD's policy provides that field offices are to contract with local realty firms to act as management brokers to provide the above property management services and to help reduce their workload. Hempstead officials advised us that until recently they had not used these brokers because they believed that the local management brokers were not competent to manage HUD's properties in Brooklyn. That office, however, has recently begun to contract for the services of management brokers after it reevaluated the situation.

Hempstead officials said their office had difficulty in obtaining the services of repair contractors because (1) some contractors cannot comply with the bonding requirements, (2) some lack sufficient working capital, (3) some believe that the federally imposed wage requirements are too burdensome, and (4) many object to HUD's making them responsible for any vandalism occurring during the repair phase. A Hempstead official said HUD could not remove these obstacles.

ECONOMIC PROFILE OF SAMPLED PROPERTIES

The 13 properties we reviewed averaged 2.2 living units each; were of masonry, brick, or frame construction; and had an average age of 50.5 years. Of these, 12 had HUD-appraised values when they were insured, averaging \$24,833, but this fell to \$17,995 by the time of HUD acquisitions. HUD could not locate the records containing information on the value of the remaining property at acquisition.

We could not determine how much of the decrease (\$6,838) occurred before default and how much occurred between default and HUD acquisition because the value of properties at default was not available. The vandalism which occurred while the properties were vacant may have contributed to the decrease in value.

An average of 18 months elapsed from default until HUD acquired the 13 properties. Foreclosure proceedings began an average of 6 months after default; foreclosure and acquisition occurred 12 months later.

The 13 mortgagors initially invested an average of \$2,198 in these properties and, at default, had built up an average additional equity of \$381.

Mortgagees were paid insurance benefits averaging \$28,347 for the 13 properties conveyed to HUD. In accordance with the provisions of the insurance coverage, these payments covered the unpaid loan balance, foreclosure costs, local taxes and assessments, interest, insurance premiums, and costs to secure the property. (See app. II.)

As of August 31, 1973, HUD had incurred an average cost of \$8,919 after acquisition to maintain and prepare each property for disposition. These costs covered repairs and rehabilitation, ordinary maintenance and management services, and local taxes and assessments. (See app. II.)

For the eight properties sold, HUD recovered only an average of \$16,628 of average total costs of \$38,610 expended in acquiring, managing, and disposing of the properties.

Our review showed that no potentially viable housing was lost. Although one of the 13 properties was razed, this property did not constitute potentially viable property because, according to HUD records, it was structurally unsound and repairs were considered too expensive to undertake.

CONCLUSIONS

Hempstead has not met prescribed time standards for the various phases of the program for disposing of acquired properties. Properties needing repairs have remained in HUD's inventory for lengthy periods. Prompt disposition would have reduced the net loss from the sale of the properties, through reduction of periodic maintenance and operating and management costs.

The lack of adequate staff in the office's Property Disposition Section appears to have hindered prompt disposition of acquired properties. The office's recent action, however, to begin contracting for the services of management brokers should result in some improvement in property disposition. The difficulty in obtaining repair contractors, however, is a continuing problem.

ELIZABETH HOLTZMAN
16TH DISTRICT, BROOKLYN, NEW YORK

COMMITTEE ON THE JUDICIARY

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Congress of the United States
House of Representatives
Washington, D.C. 20515

August 3, 1973

The Honorable Elmer B. Staats
Comptroller General of the United States
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Staats:

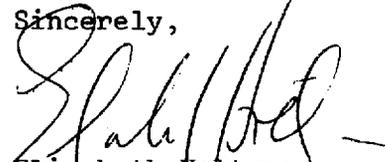
The Department of Housing and Urban Development owns a growing number of properties in my Congressional district, which are having an extremely negative effect on the neighborhoods in which they are located. I am eager for HUD and FHA to develop policies that will avoid the neighborhood deterioration caused by such acquired properties, and that will facilitate a rapid and economic disposition of the growing inventory.

I would like to request that you begin an immediate investigation of FHA's property disposition policies in my district. I am especially interested in discovering whether the present policies allow excessive property and neighborhood deterioration by failing to provide for immediate repairs. I have attached a list of questions I thought might be relevant to determining the true costs of present FHA policy.

In addition, I am concerned over the long delays involved in processing, repairing and disposing of FHA properties. I have attached a list of questions pertaining to FHA's activities in order to find out what steps it could take to avoid default, to speed up its processing of defaulted properties, to minimize deterioration after default, and to assure that economically feasible properties are not abandoned and are in fact repaired in a timely fashion. I have also attached information I have already received from FHA's Hempstead office.

Because this is a matter of urgent concern to many neighborhoods in my District and the City of New York, I would appreciate your giving the matter priority attention.

Sincerely,


Elizabeth Holtzman
Member of Congress

EH/vjld
Encl.
cc: Mr. B.E. Birkle

ECONOMIC PROFILE OF 13 SAMPLED PROPERTIES
IN THE 16TH CONGRESSIONAL DISTRICT

Characteristics of Sampled Properties

	<u>Average</u>	<u>Range</u>
Age	50.5 years	25 to 63 years
Construction	-	Masonry, brick, or frame
Family units	2.2 units	1 to 4 units
Appraisal value (initial) (note a)	\$ 24,833	\$20,000 to \$31,500
Appraisal value (at HUD acquisition) (note a)	\$ 17,995	\$ 5,500 to \$31,775
Loss in value (note a)	\$ 6,838	(\$ 3,775) to \$17,500
Equity (downpayment)	\$ 2,198	\$ 150 to \$ 5,000
Total equity (at default)	\$ 2,579	\$ 150 to \$ 5,146

Elapsed Time

	<u>Average</u>	<u>Range</u>
	(— months —)	
Before acquisition:		
Default to initiation of foreclosure	6	5 to 16
Initiation of foreclosure to HUD acquisition	<u>12</u>	6 to 22
Total	<u>18</u>	
After acquisition:		
Acquisition to disposal (note b)	<u>28</u>	1 to 52
Total elapsed time	<u>46</u>	

HUD Costs for Sampled Properties

	<u>Average</u>	<u>Range</u>
Acquisition costs:		
Outstanding mortgage	\$23,428	\$20,800 to \$28,700
Foreclosure cost	873	543 to 1,330
Other cost (note c)	<u>4,046</u>	1,964 to 11,404
Total	<u>28,347</u>	23,668 to 37,197
Cost after acquisition:		
Repairs (notes b and d)	3,498	341 to 16,835
Management cost (notes b and e)	3,752	1,038 to 6,900
Taxes (notes b and f)	<u>1,669</u>	240 to 2,600
Total	<u>8,919</u>	1,619 to 21,000
Total costs	<u>\$37,266</u>	30,700 to 47,000
Sale price (note g)	\$16,628	3,000 to 36,350
Loss on property (note g)	\$21,982	5,133 to 31,000

^aBased on 12 properties. HUD was unable to locate the records on the acquisition cost of the remaining property.

^bAcquisition to date of sale, or to cutoff of August 31, 1973, for the four properties HUD had not disposed of at that date.

^cComposed of

- local taxes and assessments, \$1,159,
- interest, \$2,360,
- insurance premiums, \$339,
- preservation costs, \$444, and
- less escrow accounts, \$256.

^dComposed of

- major repairs and rehabilitation, \$2,326, and
- ordinary maintenance and repair, \$1,172.

APPENDIX II

^eIncludes HUD costs to inspect properties, estimate repair costs, inspect repairs, solicit bids, and other activities related to managing acquired properties.

^fLocal taxes and assessment.

^gBased on the eight properties sold at a total average cost to HUD of \$38,610.