

089344



UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
ROOM 1903 JOHN F KENNEDY FEDERAL BUILDING
GOVERNMENT CENTER
BOSTON, MASSACHUSETTS 02203

FEB 12 1971

Dear Mr. Barry:

We have surveyed selected aspects of mortgage insurance for rehabilitation of housing projects at the Housing and Urban Development (HUD) Area Office, Boston, Massachusetts. The survey concerned the HUD feasibility determinations which are designed to assure that proposed rehabilitation projects are economically sound and that inspection policies and practices are adequate.

The results of our survey were discussed with the Deputy Director of the HUD Area Office and are summarized below.

1. In addition to the basic purpose of providing decent, safe, and sanitary housing for families of low and moderate incomes, the rehabilitation program under the various sections of the National Housing Act is aimed at conserving or improving residential neighborhoods. The Boston Area Office is approving for rehabilitation row house properties in blocks that contain many vacant and dilapidated structures. It generally does not require that a number of the row house properties be contiguous.

We believe there are certain drawbacks inherent in this practice. There is no guarantee that other properties will be rehabilitated through other housing programs or by the private owners, and therefore, the investment in a given block may be eventually lost. There is no guarantee that other housing programs will consider rehabilitation as the best method of improving a block and subsequently may demolish the structures. Finally, the cost for the rehabilitation of scattered structures is not economical and has been estimated to cost from \$2 to \$3 per square foot more than projects containing a number of contiguous structures.

The appearance of an area is usually governed by the condition of the majority of structures it contains. Rehabilitation of a small number of structures scattered throughout a neighborhood where the majority of the housing is dilapidated, we believe, will result in a lesser beneficial effect than rehabilitating a number of contiguous row houses. Because of this, we believe that the Boston Area Office should consider requiring sponsors to include a sufficient number of contiguous row house or dwelling properties when proposing rehabilitation projects. Also, the Boston Area Office should assist project sponsors

~~914170~~

089344

in collaboration with local redevelopment authorities and local code enforcement departments to acquire the interspersed properties for rehabilitation.

While the Assistant Director of Technical Services agreed with our observations, he believed that strict adherence to this policy is impractical and would inhibit the development of rehabilitated housing units. We believe that the potential beneficial effects are sufficient to warrant the establishment of specific policy guidance along these lines. Such a policy need not be excessively rigid, but it should be such that demonstrable results, i.e., an increase in rehabilitation projects for contiguous row houses, does ensue.

2. A review of 2 rehabilitation projects disclosed that 17 requests for construction changes had been submitted for approval after the work had been performed. The Multifamily Rehabilitation Processing Guide provides that any work changes which affect the construction costs, quality of construction, Federal Housing Administration (FHA) requirements, or the commitment conditions, must be approved by FHA prior to the performance of the work involved.

The Assistant Director for Technical Services agreed that requests for construction changes should and must be submitted to HUD for approval prior to the start of the work. We have been informed that all HUD personnel concerned and general contractors have been advised as to the proper approval procedures for construction changes.

3. On 15 rehabilitated properties, programs or plans for homemaker training of inhabitants were nonexistent. The Multifamily Rehabilitation Processing Guide provides that a realistic plan be developed for residents of rehabilitated properties for providing homemaker training and other social and related human services. After we discussed this matter with the Assistant Director for Technical Services, we were advised that a homemaker training program would be developed for residents of rehabilitated properties.

4. Required annual physical inspections of completed rehabilitation projects generally were not accomplished. Also, controls for required annual physical inspections have not been implemented. We reviewed the inspection files for 21 completed rehabilitation projects and noted that 8 files did not contain the required annual inspection report. For 2 other projects, a lapse of 19 months occurred since the last inspection.

The Assistant Director for Technical Services advised that scheduling inspections are done by the Property Management Section and that in the past, inspections have been performed, as requested, by Technical Service's inspectors. He further advised that in view of the present staff limitations and workload, consideration might be given to having inspections made by Property Management Section engineers.

5. In the past, formal appraisals of properties had been obtained and documented in the project files but current regulations do not contain this requirement. We believe, however, that the Project Income Analysis and Appraisal, FHA Form 2264, should contain a notation that the "as is" value of acquired property did not exceed the fair market value as determined by studies of comparable properties. We also believe that support for such determinations should be retained.

The Assistant Director for Technical Services advised that appropriate comments will be included in the future on the FHA Form 2264 and that support for such comments will be included in the data files containing comparable sales information.

6. For 5 of 12 completed rehabilitation projects reviewed, the Statements of Profit and Loss, FHA Form 2410, were missing for one or more fiscal years (1967 and 1968). Also, the 12 selected rehabilitation project files did not contain Income and Operating Expense Analysis, FHA Form 2558, with current expense data. The FHA Manual provides that the Form 2410 is to be submitted by sponsors within 60 days following the close of the projects fiscal year. Insuring office directors are responsible for endeavoring to obtain financial statements on a timely basis and for establishing appropriate follow-up procedures to assure receipt of the data. Form 2558 is to be updated with current income and expense data within 90 days after the end of each project fiscal year. These matters were discussed with the Director, Housing Management and Tenant Services Branch. He stated that action would be taken to comply with the FHA Manual requirements.

- - - - -

We wish to acknowledge the cooperation given our representatives by the Area Office personnel during this survey. We will appreciate your comments as to the final action taken on the above matters.

Copies of this letter are being sent to the Assistant Secretary for Administration and to the Assistant Secretary for Housing Production and Mortgage Credit.

Sincerely yours,


Regional Manager

Mr. James J. Barry
Regional Administrator
Department of Housing and Urban Development, Region I
Room 800, John F. Kennedy Federal Building
Boston, Massachusetts 02203