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**REPORT TO THE LEGAL AND
MONETARY AFFAIRS SUBCOMMITTEE
COMMITTEE ON GOVERNMENT
OPERATIONS
U.S. HOUSE OF REPRESENTATIVES**



**Disposal Of Acquired Properties
In Detroit, Michigan:
Progress And Problems**

B-114860

Department of Housing
and Urban Development

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

MARCH 12, 1974

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

B-114860


C₁ The Honorable William J. Randall
Chairman, Legal and Monetary Affairs Subcommittee H. 01513
Committee on Government Operations
House of Representatives

Dear Mr. Randall:

R- Pursuant to the Subcommittee October 18, 1972, request, H. 01513
we reviewed the efforts of the Department of Housing and
Urban Development (HUD) Detroit area office to dispose of
property acquired through defaults on HUD-insured mortgages
and the effectiveness of a temporary task force assigned to
the area office to assist in disposing of the growing prop-
erty inventory.

As agreed with your office, we did not obtain HUD's
written comments on the matters in this report. However, we
discussed our observations with HUD officials and considered
their views. We do not plan to distribute this report fur-
ther unless you agree or publicly announce its contents.

Sincerely yours,


Comptroller General
of the United States

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ABBREVIATIONS

GAO	General Accounting Office
HUD	Department of Housing and Urban Development

COMPTROLLER GENERAL'S
REPORT TO THE LEGAL AND MONETARY
AFFAIRS SUBCOMMITTEE, COMMITTEE
ON GOVERNMENT OPERATIONS,
HOUSE OF REPRESENTATIVES

DISPOSAL OF ACQUIRED PROPERTIES IN
DETROIT, MICHIGAN:
PROGRESS AND PROBLEMS
Department of Housing and Urban
Development B-114860

D I G E S T

WHY THE REVIEW WAS MADE

At the request of the Chairman, Legal and Monetary Affairs Subcommittee, House Committee on Government Operations, GAO evaluated the property disposition efforts and a special task force's effectiveness at the Detroit area office of the Department of Housing and Urban Development (HUD).

HUD's Detroit area office is responsible for HUD's activities in 26 eastern counties of Michigan, including the city of Detroit. From July 1, 1969, through July 31, 1973, the office acquired 20,407 properties because homeowners were defaulting on mortgages insured under HUD's single-family mortgage insurance programs.

The office had difficulty selling these properties. Its inventory of acquired properties rose from 810 to 15,484 properties during the 4-year period, the great majority of which were located in the city of Detroit.

FINDINGS AND CONCLUSIONS

Concerned over the continuing increase in the acquired property inventory, HUD sent a special task force to Detroit in May 1972 to help the office prevent further

foreclosures and to dispose of its huge inventory. The special HUD task force helped the office improve its property disposition operations and, specifically, increased its sales by

--increasing the office staff to handle the growing volume of acquired properties,

--instituting new methods to identify and contract for needed repairs and intensifying efforts to demolish houses not worth repairing so that repaired houses and vacant lots could be sold, and

--developing and implementing new techniques to sell homes.
(See pp. 7 to 10.)

From June 30, 1969, through November 30, 1971, the inventory of acquired properties increased from 810 to 5,927 and monthly acquisitions increased from 94 to 470 with no corresponding increase in the number of persons, 22, assigned to property disposition activities.

Assignment of temporary employees and the task force provided needed assistance. After the task force left, the office continued to increase its permanent property disposition staff. As of July 31, 1973, 91 persons were assigned to property disposition activities--74

permanent and 17 temporary employees. (See p. 8.)

Before the task force arrived, the office relied primarily on its private management brokers to prepare repair specifications and inspect completed repairs.

When the task force arrived, a private company was hired to prepare specifications for houses requiring repairs in excess of \$3,500 and to inspect completed repairs. According to office officials, this technique resulted in preparing more detailed specifications in less time. (See p. 8.)

Also, the office began awarding a single contract for a house requiring repairs in excess of \$3,500. The change to a single contract for major repairs was made to eliminate administrative costs involved in awarding numerous purchase orders. Traditionally, the office had limited the value of individual contracts (purchase orders) for repairs to \$2,000 and, as a result, had often awarded many individual purchase orders for each house requiring major repairs. (See p. 9.)

As a result of intensifying its efforts, the office demolished 3,737 houses from May 1972 through July 1973 and had scheduled an additional 2,881 houses for demolition. Before the task force arrived, the office had demolished a total of about 840 houses.

Property acquisitions, however, continued to exceed sales. Recognizing this fact, the office initiated an "as is" sales program,

under which buyers were responsible for all needed repairs. This resulted in a significant increase in sales. (See p. 9.)

The office also adopted a new method of selecting offers to expedite the sale of repaired acquired properties--the purchaser of an acquired property is selected on the basis of the most advantageous offer. The office uses the following order of priority in determining the most advantageous offer.

- Property to be paid for in cash (HUD-insured mortgage not involved).

- Largest downpayment above the advertised amount.

- Strongest offer from the standpoint of income and credit criteria.

- Shortest mortgage term. (See p. 10.)

Under another technique the office awards a contract for repairing a group of houses and then offers the houses for sale. After a house is sold, the area office instructs the contractor to repair the house on a priority basis. The advantage of this technique is that repaired houses are not left unoccupied for long periods while awaiting sale and therefore are not subject to vandalism. (See p. 10.)

When GAO completed its review, sufficient data was not available to evaluate the effectiveness of these techniques. (See p. 10.)

Remaining problems affecting
property disposition

Although the office progressed in repairing and selling acquired properties, significant disposition problems remained.

--The number of acquired properties continued to increase. (See p. 11.)

--Contractors were not repairing or demolishing properties in a timely manner. (See p. 12.)

--Qualified buyers could not be found for some repaired properties in the city of Detroit. (See p. 12.)

The disposal efforts were further complicated because almost half

the inventory was in Detroit's older, declining neighborhoods. Because of vandalism and the lack of sales potential in these neighborhoods, most houses were not being repaired.

Moreover, vacant houses scheduled for demolition have contributed to the blight of already deteriorating neighborhoods. (See p. 13.)

Achievements of the office and the task force should result in improved acquired property sales. However, considerable time will be needed to dispose of the huge inventory of acquired properties. Market conditions in Detroit's older, declining neighborhoods will, in GAO's opinion, continue to hinder sales. (See p. 13.)

CHAPTER 1

INTRODUCTION

The Chairman of the Legal and Monetary Affairs Subcommittee, House Committee on Government Operations, requested GAO by letter dated October 18, 1972 (see app. I), to review the Department of Housing and Urban Development (HUD) Detroit area office efforts to dispose of property acquired through defaults on HUD-insured mortgages. In addition, the Chairman requested that we review the effectiveness of a temporary task force assigned to the area office to assist in disposing of the growing property inventory.

The Detroit area office is responsible for HUD's activities in 26 eastern counties of Michigan, including the city of Detroit. For 4 years--July 1, 1969, to July 31, 1973--the office acquired 20,407 houses as a result of homeowners defaulting on mortgages insured under HUD's single-family mortgage insurance programs.

The office had difficulty selling the properties. During this time, the office sold only 5,733 properties and its acquired property inventory rose from 810 properties to 15,484 properties--of which most were in the city of Detroit.

Concerned over the continuing increase in the inventory, HUD sent a housing management team to Detroit in January 1972 to review the office operations. The team found serious problems developing in disposing of acquired properties. One major problem was a lack of staff.

Although additional staff had been assigned, a second HUD review team reported in March 1972 that the inventory was continuing to increase. On receipt of this report, the HUD Assistant Secretary for Housing Management in May 1972 dispatched a special task force of 231 personnel from various HUD offices to Detroit to assist the area office in

--preventing further foreclosures and

--disposing of its huge inventory of acquired properties.

After the task force left in October 1972, the office continued its efforts to overcome the remaining problems.

SCOPE OF REVIEW

Our review was directed at determining the progress and problems of the office and the task force in disposing of acquired properties. We reviewed records and reports at the office and interviewed local and headquarters officials. Our evaluation, because it was limited to the Detroit office, should not be considered representative of HUD's nationwide progress and problems in disposing of acquired properties.

CHAPTER 2

PROPERTY DISPOSITION: PROGRESS AND PROBLEMS

Area office officials advised us that, before the task force personnel arrived, their problems included (1) the inability to hire enough qualified contractors to repair houses for sale, (2) the lack of qualified contractors to demolish houses not worth repairing so that the vacant lots could be sold, and (3) the difficulty in finding qualified buyers for repaired houses and vacant lots.

The HUD Detroit office, with the assistance of the special HUD task force, improved its property disposition operations by increasing staffing levels, instituting new methods of contracting for repairing and demolishing properties, and developing new sales techniques.

Although the office progressed in repairing and selling acquired properties, significant disposition problems remained. The number of acquired properties continued to increase, and contractors were not repairing or demolishing properties timely. Also the office continued to have difficulty in locating qualified buyers for some repaired properties in the city.

The property disposal problems were particularly acute in the older, declining Detroit neighborhoods where many of the acquired properties were located. Most acquired properties in these neighborhoods were not being repaired or sold because of vandalism and a lack of sales potential.

ACTIONS TAKEN

Area office and task force actions improved sales. For example, the office sold 1,124 acquired properties during calendar year 1972 and 2,189 in the first 7 months of calendar year 1973.

Increased staffing

Understaffing has hindered office property disposal activities. From June 30, 1969, to November 30, 1971, the inventory increased from 810 to 5,927 and monthly acquisitions went from 94 to 470 with no corresponding increase in the

number of persons, 22, assigned to property disposition activities. On December 15, 1971, the area office Director requested HUD headquarters to authorize the immediate assignment of temporary employees until additional permanent staff could be recruited and trained. By February 1972, the property disposition staff had increased to 57--25 permanent and 32 temporary employees.

During the period the task force was assigned to the office, 231 temporary employees were hired, the majority of which were assigned to property disposition. After the task force left, the office continued its efforts to increase its permanent property disposition staff. As of July 31, 1973, 91 persons were assigned to property disposition activities--74 permanent and 17 temporary employees.

Repairing and demolishing houses

A major objective of the task force was to provide direction in the area office's efforts to improve its operations, particularly in the repairing of houses that could be sold and demolishing houses not worth repairing so the vacant lots could be sold.

The first step in repairing houses is identifying needed repairs and preparing repair specifications necessary to solicit bids and award repair contracts. Before the task force arrived, the area office relied primarily on its private management brokers to determine needed repairs, prepare repair specifications, and inspect completed repairs. These brokers, who managed the acquired properties for the office, were also responsible for the properties' security and maintenance.

When the task force arrived, a private company, experienced in preparing repair specifications, was hired to prepare specifications for houses requiring repairs over \$3,500. The same company was to inspect the completed repairs to determine whether the work was done adequately. According to office officials, this new technique resulted in preparing more detailed specifications in less time.

The task force and, later, the area office turned their attention to repair contracting. Traditionally, the office had limited the value of individual contracts (purchase

orders) for repairs to \$2,000 and, as a result, had awarded many individual purchase orders for each house requiring major repairs.

The National Association of Housing and Redevelopment Officials made an analysis in May 1972 which showed that the office awarded an average of 6.7 purchase orders for each house repaired. To eliminate the administrative costs of awarding numerous purchase orders, the office began awarding a single contract for each house requiring repairs in excess of \$3,500. Using this procedure, the office awarded 1,127 repair contracts from July 1972 through July 1973.

In January 1973 the office initiated a bulk-repair program. Under this program the office awarded a single contract for repairing groups of 2 to 25 houses. This procedure was designed to reduce administrative costs and, at the same time, make the contract more attractive to repair contractors. In the first 7 months of the bulk repair program, the office awarded 160 contracts for repairing 1,002 houses.

Another improvement resulting from the task force efforts was the increased demolition of houses not worth repairing. Before the task force arrived, the office had demolished a total of about 840 houses. By intensifying its efforts, the office demolished 3,737 houses from May 1972 to July 1973 and had scheduled 2,881 other houses for demolition.

New sales techniques

Even with improvements in the office's repair contracting methods, property acquisitions continued to exceed sales. Recognizing this fact, the office initiated new sales techniques.

In March 1973 the office began an "as is" sales program, under which buyers were responsible for all repairs. In the first 5 months of this program--March 7, 1973, through July 31, 1973--the area office sold 1,294 "as is" houses. These sales accounted for 65 percent of total sales of acquired properties during this period.

In addition to the "as is" sales approach, the area office adopted a new method of selecting offers to expedite

the sale of repaired acquired properties. Previously an acquired property was offered for sale at a fixed price.

All offers received in the amount of the listed sale price and in compliance with minimum downpayment requirements were considered acceptable. The office selected two of these offers--a primary offer and a backup offer. According to a HUD headquarters official, temporarily assigned to the area office, this procedure was inefficient because the prospective buyers often canceled their offers or HUD rejected them because of poor mortgage credit risk.

Under the new procedure initiated in June 1973, HUD selects the most advantageous offer. HUD establishes a minimum acceptable price for the property and uses the following criteria in determining the most advantageous offer.

- Property to be paid for in cash (HUD-insured mortgage not involved).
- Largest downpayment above the advertised amount.
- Strongest offer from the standpoint of income and credit criteria.
- Shortest mortgage term.

In August 1973 the office introduced another technique to increase the number of acquired properties offered for sale. Under this technique the office awards a contract for the repair of a group of houses and subsequently offers the houses for sale before the repairs are made. After a house is sold, the office will instruct the contractor to repair the house on a priority basis. The advantage of this technique is that repaired houses are not left unoccupied for long periods while awaiting sale and therefore are not subject to vandalism. When we completed our review, sufficient data was not available to evaluate the effectiveness of these new techniques.

REMAINING PROBLEMS AFFECTING PROPERTY DISPOSITION

Although the office progressed in repairing and selling acquired properties, significant disposition problems remained.

- The number of acquired properties continued to increase.
- Contractors were not repairing or demolishing properties timely.
- Qualified buyers could not be found for some repaired properties in the city.

The office's disposal efforts were further complicated because almost half the inventory was in Detroit's older, declining neighborhoods. Because of vandalism and the lack of sales potential in these neighborhoods, most houses were not being repaired. Moreover, vacant houses scheduled for demolition have contributed to the blight of already deteriorating neighborhoods.

Continued increase in number
of acquired properties

The steady increase in the volume of acquired properties was one of the most significant problems complicating the office's attempts to reduce its inventory. From January 1971 through April 1972, the office acquired 7,105 properties, or an average of 444 a month. The office sold 1,890 properties during this period--an average of 118 a month. From arrival of the task force in May 1972 through July 1973, the office acquired 10,113 properties, or an average of 674 a month, and sold 2,700 properties--an average of 180 a month.

It appeared that the high volume of acquisitions would continue. At June 30, 1973, the office reported more than 14,000 mortgages in various stages of foreclosure--about 8,000 within the city.

The task force in May 1972 initiated a program to provide counseling services to defaulting mortgagors to help them find ways to make up missed payments. Although the program was intended to prevent foreclosures and reduce property acquisitions, it was not very successful. Before this program ended in October 1972, the task force contacted 9,363 defaulting mortgagors but only 393 mortgagors were prevented from defaulting as a direct result of its efforts. Because supporting data was not available, however, we could not determine whether the counseling had provided effective long-term solutions for the 393 mortgagors or whether they again became delinquent.

According to HUD officials, task force counseling efforts had limited results mainly because most of the defaulting mortgagors had fallen so far behind in their payments that little could be done to help them. According to the task force report, the majority of defaulting mortgagors had not made payments for 6 to 15 months and had not accumulated savings to make up missed payments. A HUD official advised us that, for counseling to be effective, counselors must contact defaulting mortgagors within the first 3 months of delinquency.

Contractors were not
repairing and demolishing properties timely

Between May 1972 and July 1973, the office demolished 3,737 houses and will demolish 2,881 more; about 1,800 of these were under contract as of July 31, 1973. Purchase orders the area office issued for demolishing houses generally required the work to be completed in 60 days. With the increased number of properties scheduled for demolition, contractors were having difficulty meeting the 60-day requirement. Our analysis of 1,479 open purchase orders showed that 589 orders had been outstanding over 90 days and 238 over 180 days.

The office had similar problems with repair contractors. As the number of houses to be repaired increased, repair contractors were also having difficulty meeting contract completion dates. As of July 31, 1973, repairs to 500 of the 1,100 houses under contract were overdue. Repairs on 133 houses had been overdue 2 months or more.

Marketability of repaired houses

Within the city, where the bulk of the inventory existed, the office was having difficulty finding qualified buyers for repaired houses. For example, in September and October 1972, the office listed 35 houses for sale in the city. More than 9 months later, sales on only 11 houses had been closed and offers were still being processed on 11 others. Qualified buyers had not been found for the remaining 13 houses.

Older, declining neighborhoods

Detroit's worst housing conditions are in its inner-city and adjacent middle-city neighborhoods (shaded area of map in app. II). Within these neighborhoods was 45 percent of the office's acquired property inventory--about 4,153 houses and 2,048 vacant lots, as of January 31, 1973. Most of these houses, however, were not being repaired because of vandalism and limited sales potential. For example, between July 1972 and July 1973, the office had repaired or was repairing about 2,100 houses for resale; however, only 471 of these were within the inner and bordering middle-city neighborhoods.

Most of these houses, if unrepaired, would be eventually demolished. The other alternative would be the sale of the houses "as is." To date, however, "as is" sales in these areas have met with limited success. Of the 390 "as is" sales closed in Detroit through July 31, 1973, only 82 were in these neighborhoods.

Because of delays in the office demolition program, lack of sales potential, and vandalism, many of these houses will stand vacant for indefinite periods and thus contribute to the blight of these neighborhoods.

CONCLUSION

The combined efforts of the HUD-Detroit area office and the special task force have resulted in

- increase staffing,
- improved repair and demolition capability, and
- new sales programs.

These efforts should result in improved acquired property sales. Considerable time, however, will be needed to dispose of the properties. The market conditions in Detroit's older, declining neighborhoods will, in our opinion, continue to hinder sales.

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NINETY-SECOND CONGRESS
Congress of the United States
House of Representatives
LEGAL AND MONETARY AFFAIRS SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM B349-A
WASHINGTON, D.C. 20515

October 18, 1972


Honorable Elmer B. Staats
Comptroller General
General Accounting Office
Washington, D. C.

Dear Mr. Comptroller General:

Since this Committee issued its report on defaults on FHA-insured mortgages in Detroit, considerable evidence of mismanagement in the disposition of HUD-acquired properties has come to our attention. The first indication of possible abuses in this area was contained in a Subcommittee staff report on the "Lycaste Project", which was contained in Appendix A of Part 2 of our hearings. Additional evidence of mismanagement of HUD's property disposition program in Detroit is contained in recent newspaper reports in the Detroit News, which I am enclosing for your information.

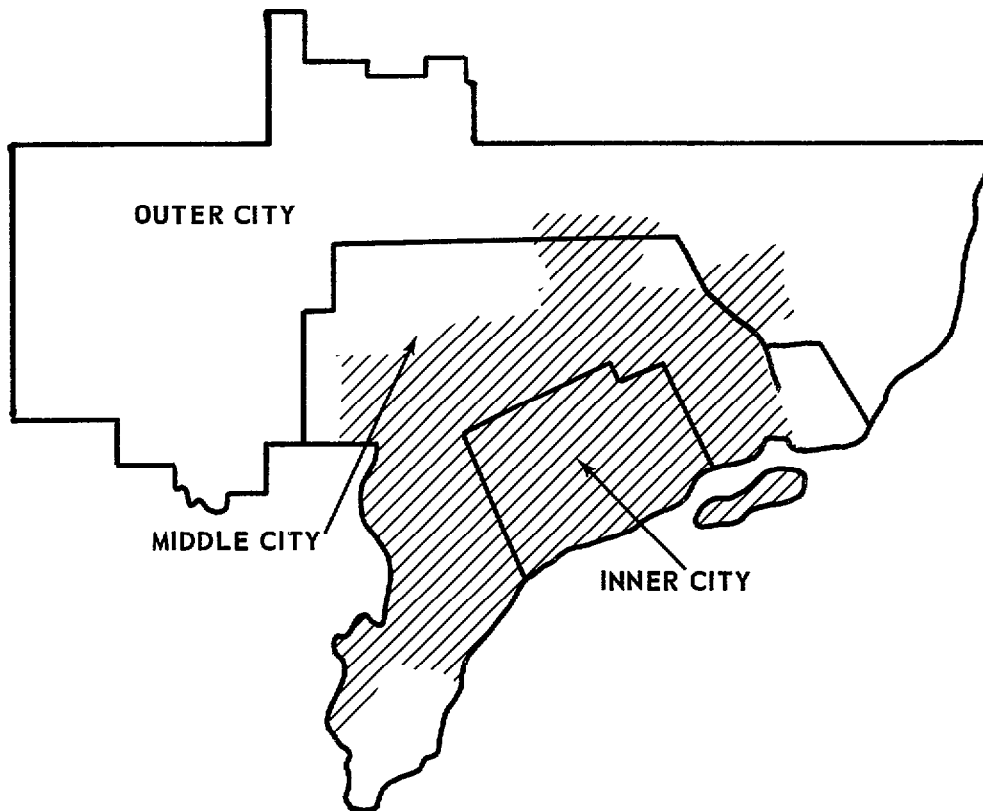
It is my understanding that the Detroit GAO office is about to undertake a review of HUD's property disposition efforts in Detroit and the effectiveness of the temporary task force assigned to the Detroit HUD area office to deal with accelerating acquisitions in that city. The Subcommittee would appreciate receiving a report on the results of this review.

Very truly yours,


John S. Monagan
Chairman

JSM:ig

Enclosure



PERSPECTIVE ON DETROIT

Chronologically, Detroit's residential buildup can be described as developing in three distinct periods of rapid growth. As a result, Detroit is often described as being three cities in one--the inner, middle, and outer cities.

Built without the benefit of building codes or zoning laws, the inner city generally consists of frame homes, a great many of which do not have central heating systems or other modern amenities. This area was built up by 1900.

The middle city was basically built between 1918 and 1930. Single-family homes are more predominant here than in the inner city. A large number of them, originally owned by some of Detroit's wealthiest residents, are now converted into boarding houses, rooming homes, convalescent homes, and other uses for which they were not designed.

The outer city was built up after World War II. Over 75 percent of the homes are single-family dwellings and owner occupancy is extremely high. Developed with the benefit of HUD regulations and a zoning ordinance, as well as a master plan, the area's housing conditions and street patterns are generally good. It is this outer city which best competes with the suburbs for residents.

Source: Detroit: the new city--
Summary Report Detroit Community
Renewal Program. pp. 8-10.

APPENDIX III

PRINCIPAL HUD OFFICIALS RESPONSIBLE FOR ADMINISTERING THE ACTIVITIES IN THIS REPORT

		<u>Tenure of office</u>	
		<u>From</u>	<u>To</u>
SECRETARY:			
James T. Lynn	Feb.	1973	Present
George W. Romney	Jan.	1969	Jan. 1973
ASSISTANT SECRETARY FOR HOUSING MANAGEMENT:			
H. R. Crawford	Apr.	1973	Present
Abner Silverman (acting)	Feb.	1973	Apr. 1973
Richard Dunnells (acting)	Jan.	1973	Feb. 1973
Norman V. Watson	July	1970	Jan. 1973
Lawrence M. Cox	Feb.	1970	July 1970

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