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RELEASED

JAN 16 1970

Dear Mr. Rooney:

Further reference is made to your telegram of October 17, 1969, and your letter of the same date requesting that we examine into the adequacy of the settlement proposed by the owner of the Tobyhanna Village housing project, in response to foreclosure proceedings initiated by the Federal Housing Administration (FHA), Department of Housing and Urban Development (HUD), the mortgagee of the project. The mortgage foreclosure proceedings were initiated by FHA in April 1969 for failure of the owner to maintain the premises in good repair and condition. The project is located on Army-owned land adjacent to the Tobyhanna Army Depot, Tobyhanna, Pennsylvania.

In a meeting on October 28, 1969, with Mr. Ray A. Huber of your staff, we informed him of certain information we had obtained regarding this matter and advised him that, during the course of our examination, FHA had decided to reject the owner's proposed settlement. We agreed to furnish you with a report summarizing the information we had obtained and to keep you informed of any significant developments which might come to our attention regarding this matter

We examined pertinent records at the FHA Philadelphia Insuring Office; the Tobyhanna Army Depot, Tobyhanna, Pennsylvania; and the HUD headquarters office in Washington, D.C. We also made an inspection of the Tobyhanna Village housing project and held discussions with HUD and Army officials and with the manager of the project. The information obtained during our examination is discussed below

On September 22, 1964, FHA sold the Tobyhanna Village housing project, which it had previously acquired through foreclosure of a mortgage to Dr. Gabriel Elias, who took title to the project in the name of his mother, Mrs. Bella Angel. For purposes of this report Dr. Elias is referred to as the owner.

The settlement of the sales price of \$436,300 consisted of a cash payment of \$36,300 and a mortgage note for the balance payable over a 39-year period with interest at the rate of 5-1/4 percent. Although Dr. Elias made all the required mortgage payments, FHA contended that he had failed to maintain the property in satisfactory physical condition and that its efforts to have him repair the property generally

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were unsuccessful. FHA therefore initiated foreclosure proceedings in April 1969 on the basis that the owner had failed to maintain the property in satisfactory physical condition as required by the mortgage and related regulatory agreement.

In July 1969, the Department of Justice filed a foreclosure complaint in the U.S. District Court for the Middle District of Pennsylvania on behalf of FHA and the court appointed a receiver for the project.

FHA's project records showed that, on October 8, 1969, the attorneys for Dr. Elias submitted to the Philadelphia Insuring Office a settlement proposal which provided that (1) the owner make certain repairs to the project property, (2) the FHA release not more than two thirds of the \$25,000 in the project's reserve for replacement to finance the repairs, (3) the owner provide FHA with a \$5,000 letter of credit to secure and guarantee performance under the settlement agreement, and (4) the FHA, within a maximum of 30 days from the date of the settlement agreement, cause the receivership to be terminated.

This proposal was forwarded by the Philadelphia Insuring Office to FHA's project mortgage servicing division with the recommendation that it be accepted. We found that, although the director of the mortgage servicing division initially agreed to accept the settlement proposal, subject to certain modifications, he subsequently advised the Philadelphia Insuring Office on October 23, 1969, that the proposal should be rejected because (1) the proposal did not provide for certain substantial repairs which the receiver, in a report to the court, stated were needed, (2) the owner's strong exception to certain items of repair that had been undertaken by the receiver indicated that the owner might be uncooperative, and (3) the proposed letter of credit submitted by the owner was unacceptable because it was couched in conditional language.

We found also that HUD's General Counsel had reviewed the proposed settlement and was critical of, among other things, the fact that the proposal required no outlay of funds by the owner other than possibly \$5,000 under the letter of credit and that the proposed agreement was loosely worded. The General Counsel suggested that a more detailed agreement be prepared by FHA to minimize the possibility of later disagreement

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with the owner and that the agreement provide that the pending foreclosure action be held in abeyance until January 1, 1971, to ensure that the work was satisfactorily completed.

Subsequent to our meeting with Mr. Huber of your staff, FHA officials informed us that the owner's attorney had met with them on November 21, 1969, in an attempt to negotiate a settlement of this matter. At this meeting FHA proposed a settlement which was generally in line with the criteria set forth in your letter of October 30, 1969, to the Assistant Secretary-Commissioner for the FHA. Essentially, the proposed settlement provided that:

1. The Philadelphia Insuring Office prepare a detailed schedule, with accompanying cost estimates, of the repair work necessary to restore the project to an acceptable physical condition.
2. The project owner pay for all work performed and be reimbursed from the reserve for replacement account for certain items of work considered appropriate for reimbursement; further, the owner be required to deposit with FHA an amount sufficient to cover the cost of items not reimbursable from the reserve for replacement account.
3. FHA's pending foreclosure action be held in abeyance until January 1, 1971, the date the repair work was scheduled to be completed.
4. The Philadelphia Insuring Office coordinate and oversee the implementation of the schedule of repair work agreed upon.

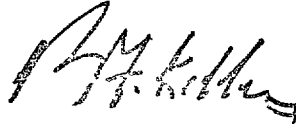
On December 16, 1969, FHA officials informed us that, although further discussions had been held with attorneys for Dr. Elias regarding the proposed settlement, no agreement had been reached. Also, the HUD General Counsel informed us that a court hearing was scheduled for January 13, 1970, at which time the owner's motion to vacate the order appointing a receiver would be argued. We shall attempt to keep abreast of this matter and shall inform Mr. Huber of any significant developments which may come to our attention.

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We did not obtain formal written comments from HUD officials concerning the matters discussed in this report; however, the information contained herein has been discussed informally with them and is based primarily on information available in HUD files or otherwise furnished to us by HUD officials.

We plan to make no further distribution of this report unless copies are specifically requested, and then copies will be distributed only after your agreement has been obtained or public announcement has been made by you concerning its contents.

Sincerely yours,



Assistant

Comptroller General
of the United States

The Honorable Fred B. Rooney
House of Representatives