Review Of Certain Aspects Of The Linda Pollin Memorial Housing Project In Washington, D.C.

B-118718

Department of Housing and Urban
Development

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

DEC. 15, 1971

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

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Dear Mrs. Green:

In accordance with your request of April 30, 1971, we have examined into certain aspects of the development, construction, and management of the Linda Pollin Memorial Housing project. As a result of subsequent discussions with your office, an agreement was reached that our report would discuss (1) the reasons for the current financial difficulties of the project and (2) the actions being taken to improve the financial position of the project.

During our examination we interviewed officials and reviewed records at the Department of Housing and Urban Development (HUD) headquarters, the HUD Washington, D.C., Area Office, the Government National Mortgage Association (GNMA), and the Linda Pollin Memorial Housing Corporation.

BACKGROUND

The project was financed by a 40-year mortgage loan for $4,848,400 and was approved for mortgage insurance by HUD pursuant to the below-market-interest-rate (BMIR) program authorized by section 221(d)(3) of the National Housing Act, as amended (12 U.S.C. 1715 l).

The BMIR program provides rental and cooperative housing for low- and moderate-income families at rents lower than those charged on the private market. Under this program HUD insures a mortgage loan, made by a private lending institution at the market rate of interest, to finance the purchase of the project site and the construction of the project. Upon completion of the construction work and its acceptance by HUD, the HUD-insured mortgage loan is purchased by GNMA and the interest rate is reduced to the below-market rate of 3 percent. A mortgage loan under the BMIR program has a maximum repayment period of 40 years.

The project is located in the southeast area of Washington, D.C., at 828 Bellevue Street SE. It was constructed during the period 1965-67 and is a garden-type complex, consisting of 20 four-story buildings containing a total of 332 dwelling units: 55 one-bedroom units, 165 two-bedroom units, 80 three-bedroom units, and 32 four-bedroom units.

The project was built and is operated by the Linda Pollin Memorial Housing Corporation, a nonprofit corporation chartered by the District of Columbia. The president of the corporation is Mr. Abe Pollin, a prominent Washington, D.C., contractor. The project, which was conceived as a memorial to Mr. Pollin's deceased daughter, was intended to provide a high percentage of large apartments for low- and moderate-income families with a a large number of children.

The results of our examination are summarized below.

REASONS FOR CURRENT FINANCIAL DIFFICULTIES

On February 10, 1966, HUD approved initial unit rental rates for the project that were $15 to $24 a month below HUD's November 1965 estimates of the rental rates needed to provide sufficient income to operate the project. The approved rental rates resulted in a gross rental income of about $71,000 less than HUD's estimate of the needed rental income.

HUD officials told us that HUD's approval of the lower rental rates had been based on the mortgagor's plan to have the tenants participate in the maintenance of the project, which would have resulted in a reduction in maintenance expense. The mortgagor's reason for establishing the initial rental at the lower rates was that the lower rates were in keeping with its primary purpose for the project; i.e., the best possible housing for large families at the lowest possible rents.

After the project operations began in June 1967, the mortgagor realized that the rents being charged were inadequate to meet costs, and, in October 1967, HUD approved a request for a rental increase. In July 1968 HUD approved a second request for a rental increase. About 3 months after the second increase in rental rates, the mortgagor--for the first time--defaulted on the mortgage payment which was about $23,400 a month. At that time the project was 100-percent occupied. In

April 1969 HUD approved a third request for a rental increase. The rental rates at that time closely approximated those originally estimated by HUD to be needed.

In July 1970 HUD approved a fourth request for a rental increase; however, in August 1970 certain of the tenants filed a law suit contesting the increase. The court ruled in June 1971 that the rent increase was justified; the tenants appealed the ruling. As of October 1971 a decision has not been rendered regarding the tenants' appeal of the court ruling.

Officials of GNMA told us that the mortgagor was charging rents at the rates approved by HUD in July 1970 and that the net increase was being deposited in an escrow account pending outcome of the tenants' appeal of the court ruling. The officials told us also that, if the appeals court upholds the lower court's decision, the funds in escrow would be applied toward the mortgage payments in arrears.

The financial statements of the project for the fiscal year ended April 1970 showed that the project's expenses, exclusive of mortgage payments, had exceeded HUD's November 1965 estimate of the annual costs by about $145,000. Most of the increase was in the operating expenses category, as shown below.

Operating expenses	HUD's November 1965 estimated annual costs	Expenditures for fiscal year ended April 1970	Increase or decrease(-)
Heating fuel	$27,056	$ 1,196	$-25,860
Janitor expenses (materials)	1,328	6,231	4,903
Electricity	24,900	45,085	20,185
Water	11,952	17,220	5,268
Gas	-	28,327	28,327
Garbage and rubbish removal	2,822	11,083	8,261
Payroll	24,000	111,289	87,289
Exterminating	830	840	10
Miscellaneous	-	5,289	5,289
Total	$92,888	$226,560	$133,672

The project's payroll expenses accounted for a substantial part of the above increase. Our review showed that the large increase in payroll expenses had resulted mainly from HUD's underestimating the number of personnel needed to operate and maintain the project. Although most of the increase in payroll was related to maintenance activities, the mortgagor had to provide security personnel for the project, which was not included in HUD's November 1965 estimate of payroll expenses.

ACTION TAKEN TO IMPROVE PROJECT'S FINANCIAL POSITION

Because of the mortgagor's belief that the project could become financially self-sufficient and because of its desire to maintain control of the project, GNMA agreed to the mortgagor's request of February 1969 to modify the mortgage contract to defer the monthly payments of loan principal from December 1968 to December 1969. Pursuant to the agreement, the deferred principal would be paid over the remaining life of the mortgage starting with the January 1970 mortgage payment.

In August 1970 the mortgagor requested an additional modification of the mortgage following default on several monthly mortgage payments. We were advised by officials of GMNA that, after reviewing the financial statements of the Linda Pollin Memorial Housing Corporation in August 1970, they were of the opinion that the project's payroll costs were excessive and that the mortgagor's request for a second modification of the mortgage contract should be denied. However, the mortgagor again pleaded its case with HUD and GNMA. An agreement was reached in December 1970 that all foreclosure actions would be held in abeyance to permit the mortgagor sufficient time to reduce its payroll costs and, at the same time, demonstrate its ability to make monthly payments equal to the current monthly installments for interest on the loan, insurance, taxes, and $6,550 to be applied to delinquent mortgage payments.

We were informed by GNMA that the monthly payments had been made through November 1971 and that the project's payroll costs had been reduced. As of November 1971 the delinquent mortgage payments totaled about $122,000.

A GNMA analysis of the project's April 1971 financial statements showed that project expenses still exceeded available income by about $5,800 a month. GNMA officials told us that the overall financial position of the project would improve if the rental charges, which had been placed in escrow because of the tenants' law suit, were determined by the appeals court to be justified. These rental charges amount to about $3,100 a month.

GNMA officials told us also that the mortgagor had petitioned the court for relief of the project's heavy tax burden. The mortgagor estimates that, if this action is successful, the project's tax expense will be reduced by about $70,000 a year, or $5,800 a month.

Favorable rulings by the courts in these matters would enable the project to meet current obligations with available income.

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The persons and agencies involved in the matters discussed in this report have not been given the opportunity to review and comment on the report; therefore this fact should be considered in any use made of this report.

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

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

The Honorable Edith Green
House of Representatives