

DOCUMENT RESUME

02856 - [A1993063] (Restricted)

[Alleged Discrimination in Insuring Profit-Making Multifamily Housing Projects]. CED-77-91; B-164855. July 12, 1977. 5 pp.

Report to Rep. Ronald V. Dellums; by Elmer B. Staats, Comptroller General.

Issue Area: Non-Discrimination and Equal Opportunity Programs: Discrimination in Housing (1006); Domestic Housing and Community Development: Housing for Low and Moderate Income Families (2101).

Contact: Community and Economic Development Div.

Budget Function: Commerce and Transportation: Mortgage Credit and Thrift Insurance (401).

Organization Concerned: Department of Housing and Urban Development.

Congressional Relevance: Rep. Ronald V. Dellums.

GAO investigated certain allegations by black developers that the Department of Housing and Urban Development's (HUD) San Francisco regional office systematically discriminated against minority developers in HUD's insured profitmaking housing projects. Findings/Conclusions: Walter J. Taylor and Albert L. McKee alleged that HUD conspired against them in refusing to insure their multifamily projects for reasons of racial discrimination and that HUD's underwriting regulations work to discriminate against blacks. No evidence was found by GAO to support the complainants' allegations. Further, the challenged underwriting procedures, specifically the fair market rent test and the financial resources requirement, were judged reasonable and necessary to help assure approval of economically sound projects and protect the Government's interest. Basically, both projects were affected by the same factor, building cost increases, that would have required charging higher rents than those charged for comparable dwellings in the area, which is specifically forbidden by HUD underwriting procedures. Also, HUD's income estimate for the projects was lower than the amount needed to justify the level of mortgage insurance required. (DJM)



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations.

B-164855

JUL 12 1977

The Honorable Ronald V. Dellums
House of Representatives

Dear Mr. Dellums:

In your letter of December 8, 1976, you requested us to review certain allegations by black developers that systematic discriminatory practices by the San Francisco area office of the Department of Housing and Urban Development exclude participation by minority developers in the Department's insured profitmaking multifamily housing projects.

At a February 5, 1977, meeting with your District Administrator in your Oakland, California, office we were given more detailed information on the Department's alleged discriminatory practices against multifamily developers, Mr. Walter J. Taylor and Mr. Albert L. McKee. Messrs. McKee and Taylor alleged that Department officials had conspired against them in refusing to insure their multifamily projects and that this conspiracy was due to racial discrimination. Additionally, the complainants charged that certain Department underwriting regulations have the effect of discriminating against blacks. It was agreed that we would focus on the specific charges made by the two developers.

On May 3, 1977, we provided your office with an oral briefing on the results of our review. As requested, we are sending you a synopsis of the data presented at the briefing.

We told your office that our review of the Department's processing of the complainants' projects, and of similar projects processed during the same period, disclosed no evidence to support the complainants' charges of discrimination. Our analysis of those Department underwriting procedures cited by the complainants as being discriminatory, specifically the fair market rent test and the financial resources requirement, indicated that they were reasonable and necessary to help assure approval of economically sound projects. In addition, our review of similar projects approved and disapproved by the Department indicated that underwriting procedures had been consistently applied.

CED-77-91

02856

2/16/77

Basically, both projects were affected by the same factor--building cost increases that occurred during the development of these projects would have required establishing higher rents than those being charged for comparable dwellings. Department underwriting procedures state that estimated rents must not be higher than rents charged for comparable dwellings in the area. Its underwriting procedures also provide that the maximum mortgage insurance for a project is to be limited to an amount calculated on the basis of estimated income. In both cases the Department's estimate of income, which appeared well supported and reasonable, was significantly lower than the amount needed to justify the projects.

For the Fidelis Towers project, with Mr. McKee as developer, the Department determined the maximum mortgage insurance to be \$6,203,600 instead of the \$10,136,600 requested. The Department determined the maximum mortgage insurance for the Cynthia Arms Apartments, with Mr. Taylor as developer, to be \$769,600 instead of the \$1,104,300 requested. As a result, Department officials concluded that these projects were not feasible as presented in the application.

The following tables summarize the estimated cost of the complainants' projects, the requested amount of mortgage insurance, the rents that would have been needed to satisfy loan or debt obligations, and the comparable fair market rents as determined by the Department.

Fidelis Towers

	<u>Proposal</u>		<u>Percent of increase</u>
	<u>Original</u>	<u>Final</u>	
Application date	10-26-71	10-7-74	-
Estimated cost	\$8,552,091	\$11,262,893	32
Requested mortgage insurance	\$7,696,800	\$10,136,600	32
Estimated monthly rents:			
Efficiency	\$162	\$225 to 205	39 to 64
One bedroom	\$241	\$299 to 360	24 to 49
Two bedroom	\$302	<u>a</u> /\$412 to 460	36 to 52
Comparable rents:			
Efficiency	\$175	\$190	-
One Bedroom	\$250	\$240 to 355	-
Two bedroom	\$315	\$300 to 310	-

a/Represents lower priced units. Ranges up to \$615 for two bedroom townhouses.

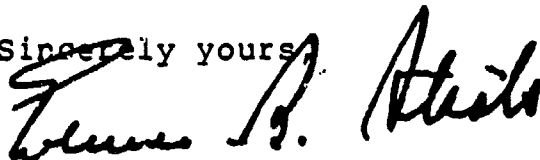
Cynthia Arms Apartments

	<u>Proposal</u>		<u>Percent of increase</u>
	<u>Original</u>	<u>Final</u>	
Application date	12-27-71	12-1-74	-
Estimated cost	\$691,800	\$1,227,000	77
Requested mortgage insurance	\$622,000	\$1,104,300	77
Estimated monthly rents:			
Efficiency	\$165	none	-
One bedroom	\$190	\$267	41
Two bedroom	\$210	\$332	58
Comparable rents:			
Efficiency	\$145	none	
One bedroom	\$175	\$225	
Two bedroom	\$200	\$280	

As shown in the tables on pages 3 and 4, considerable time was spent developing these projects. This delay appeared to be a major factor contributing to increased costs. The delay appeared to be due to problems the developers encountered in designing the apartment buildings. We found no evidence that the Department contributed to the delay by making the developers meet requirements not imposed on other developers.

We analyzed the Department's requirement for the market rent comparison test and its financial resources requirement, as the complainants stated these requirements served no purpose other than to discriminate against minorities. The purpose of the market rent comparison test is to compare the rental rates of proposed projects with rates of similar existing dwellings. For a proposed project to be considered feasible, it must have comparable rates so as to attract tenants and it must provide sufficient income to meet expenses. The financial resources of the sponsors are analyzed by the Department to determine if they have the financial capacity to complete the project. In our opinion, these requirements are reasonable to help assure approval of economically sound profitmaking projects and are necessary to protect the Government's interest.

Sincerely yours

A handwritten signature in black ink, appearing to read "Thomas B. Atchefs". The signature is written in a cursive style with a large, prominent initial "T".

Comptroller General
of the United States