

**Resources, Community, and  
Economic Development Division****B-249999****March 17, 1993**

148848

**The Honorable Paul S. Sarbanes  
Chairman, Subcommittee on Housing  
and Urban Affairs  
Committee on Banking, Housing,  
and Urban Affairs  
United States Senate**

**Dear Mr. Chairman:**

This letter responds to your request that we review the experiences of public housing authorities (PHA) in attempting to acquire federal foreclosed properties from the Resolution Trust Corporation (RTC) in order to satisfy the PHAs' needs for low-income housing. PHAs rely on public housing funds from the Department of Housing and Urban Development (HUD) to acquire properties.

Our objectives were to (1) find out the extent to which PHAs acquired federal foreclosed properties from RTC between RTC's inception in August 1989 and February 1992, (2) ascertain PHAs' perceptions about any obstacles they may have faced in attempting to acquire federal foreclosed properties from RTC and other federal agencies, (3) highlight specific obstacles, if any, that PHAs believed they had in working with RTC, and (4) identify actions RTC has taken through its Affordable Housing Disposition Program (AHDP) that may address difficulties PHAs believed they were experiencing.

To address our first objective, we sent a questionnaire to all 846 PHAs (of which 635 responded) in six states that had the highest inventory of RTC multifamily properties as of June 1991 or had a demonstrated need for additional low-income housing units as determined by HUD. To address our second and third objectives, we conducted interviews with officials from 31 PHAs. The 31 PHAs were selected because they indicated on the questionnaire that they had acquired federal foreclosed properties from RTC between August 1989 and February 1992 (8 PHAs) or because they were from the group of PHAs that indicated they had contacted RTC about

acquiring properties but had not done so by February 1992 (23 PHAs). To address our fourth objective, we conducted interviews with RTC officials. (See enclosure I for additional details on our methodology.)

In summary, 8 of the 635 PHAs that responded to our questionnaire reported that they had acquired federal foreclosed properties from RTC between August 1989 and February 1992 in the six states we selected.

Twenty-three PHAs that had contacted RTC about acquiring property but had not acquired any cited three obstacles that they perceived may have prevented them from acquiring federal foreclosed properties from RTC or any other federal agency: their lack of financing; poor advertising and marketing of the properties; and problems with the quantity, quality, and type of properties.

PHAs had mixed perceptions about RTC's helpfulness. Of the 23 PHAs that contacted RTC about acquiring properties but had not done so, 9 told us RTC was helpful; 12 identified ways they thought RTC was not helpful, such as inaccessible decisionmakers; and 2 gave no opinion. Other RTC practices that these PHAs found unhelpful included a lengthy approval process and unaffordable properties. In addition, some of the eight PHAs that acquired RTC properties encountered problems such as a lengthy acquisition process.

Through the AHDP--a program targeting families with very low to moderate incomes--RTC is taking steps that, if implemented properly, could eliminate some of these obstacles. A rule and subsequent directive issued in May 1992 should make RTC's AHDP staff more accessible to PHAs. Similarly, this directive should make RTC properties more affordable by allowing them to be sold at prices that are more greatly discounted than once permitted and by providing PHAs with bridge loans for purchasing properties. Although these actions by RTC may enable more PHAs to purchase properties, they may not be sufficient to enable other PHAs to overcome their difficulty in obtaining permanent financing for acquiring properties.

#### BACKGROUND

Approximately 3,400 PHAs nationwide are authorized to develop and operate public housing for low-income families in their area through contracts with HUD. PHAs apply to HUD for funds to develop properties and may receive operating

subsidies from the agency. Rather than constructing new units, many PHAs add units by purchasing and rehabilitating housing built by other developers.

The development of public housing today is almost at a standstill. According to HUD's records, 2,603 public housing units were developed in 1991. This amount is less than 10 percent of the 29,576 public housing units developed in 1981 and far less than the 91,539 units developed in 1971. Yet reports such as the annual report by the Joint Center for Housing Studies of Harvard University indicate that, in 1989, two-thirds of all poor renter households did not receive housing assistance.<sup>1</sup> Federal foreclosed properties represent one resource PHAs might use to help serve these households. As of 1991, RTC's inventory of foreclosed properties was about 75,000 units. Besides RTC, the other federal agencies with substantial inventories of foreclosed properties are HUD's Federal Housing Administration (FHA), the Department of Agriculture's Farmers Home Administration (FmHA), and the Department of Veterans Affairs (VA).

RTC, established in August 1989 by the Financial Institutions Reform, Recovery, and Enforcement Act (P.L. 101-73), is responsible for resolving cases involving thrift institutions that were previously insured by the Federal Savings and Loan Insurance Corporation and placed in receivership or conservatorship. RTC's major objective is to cost-effectively dispose of all thrifts and their assets in a relatively short time. RTC's principal methods of disposing of properties include contracting with private firms known as asset managers, which dispose of the properties; auctioning properties; placing listings with brokers; and undertaking other forms of sale.

In response to a mandate from the Congress, RTC developed the AHDP to maximize the preservation and availability of affordable housing for families with very low to moderate incomes while disposing of the agency's properties. To accomplish this objective, RTC is required to offer eligible properties to qualified purchasers--families with very low to moderate incomes, public agencies, nonprofit organizations, and for-profit organizations interested in providing multifamily housing units to serve families with

---

<sup>1</sup>Joint Center for Housing Studies of Harvard University, The State of the Nation's Housing, 1991.

very low to moderate incomes--for about 90 days before the properties are offered to the general public. This 90-day period may be extended an additional 45 days to allow qualified multifamily purchasers who expressed serious interest to make a purchase offer. Only properties with appraised values less than RTC's ceilings are included in the AHDP. To be eligible, a single-family dwelling, for example, must have an appraised value of no more than \$67,500, and a two-bedroom unit in a multifamily building, no more than \$41,120. As of 1991, the AHDP had about 16,000 affordable housing units from RTC's inventory of 75,000.

Through the AHDP, RTC can also donate to public agencies or nonprofit organizations units that are unlikely to be sold for enough money to enable RTC to recover the cost of maintaining, managing, and selling the units through the AHDP. These properties are generally valued at \$5,000 or less.

According to AHDP officials, multifamily properties in the program are generally sold to PHAs at prices lower than what the PHAs would have to pay if the properties were acquired through the private sector. (See enclosure II for additional details on the procedures for acquiring RTC properties through the AHDP.)

PHAs can also acquire RTC properties by working with state housing agencies. State housing agencies may purchase a number of properties from RTC and then transfer some of them to PHAs.

Finally, PHAs can acquire RTC properties outside of the AHDP. For these higher-priced properties, PHAs do not receive preferential treatment from RTC and must bid directly against private real estate investors.

#### FEW PHAS ACQUIRED FEDERAL FORECLOSED PROPERTIES FROM RTC

In the six states that we selected, we found that very few PHAs had acquired federal foreclosed properties from RTC. Only 8 of the 635 PHAs that responded to our survey reported that they had acquired federal foreclosed properties from RTC between August 1989 and February 1992, although 144 had expressed an interest in acquiring federal foreclosed properties but had not done so.

Altogether, these eight PHAs acquired 711 housing units from RTC's general inventory and through the AHDP.<sup>2</sup> About three-quarters of the RTC dwellings (509 units) were multifamily units in apartment buildings, all of which were purchased by PHAs rather than received through donation. In comparison, most of the single-family units these PHAs acquired (175 of 202 units) were donated to them rather than sold to them by RTC. (See enclosure III for additional details on PHAs that acquired RTC properties.)

PHAS SAID THEY FACED OBSTACLES IN  
ATTEMPTING TO ACQUIRE FORECLOSED PROPERTIES

Twenty-three of the 31 PHAs we interviewed had contacted RTC about acquiring property but, as of February 1992, had not acquired federal foreclosed properties from the agency or from any of the other major agencies that hold federal foreclosed properties (HUD, FmHA, or VA). According to these 23 PHAs, there are three obstacles that may have prevented them from acquiring any federal foreclosed properties: insufficient financing; poor marketing and advertising; and limitations in the quantity, quality, and type of federal foreclosed properties available. The eight PHAs we interviewed that had acquired properties from RTC also cited some of these issues as general problems they experienced when working to acquire federal foreclosed properties.

Financial Constraints Cited as  
One of the Principal Obstacles

According to about half of the 23 PHAs, an obstacle that may have prevented them from acquiring federal foreclosed properties was what they perceived as their small chance of getting federal funds to purchase the properties. PHAs have relied on HUD for financial assistance in acquiring or constructing housing. However, funding from HUD to acquire or develop public housing has been scarce, and about two-thirds of the PHAs we interviewed that expressed an interest in acquiring foreclosed properties were not even considering HUD as a possible source of funding. In addition, about a third of the 23 PHAs said that they were unable to acquire

---

<sup>2</sup>Although these PHAs were not asked how many units they acquired on the questionnaire, we gathered this information during subsequent telephone interviews.

federal foreclosed properties because they could not obtain funding from nonfederal sources.

Poor Marketing and Advertising  
of the Properties Seen as an Obstacle

About half of the 23 PHAs that had not acquired foreclosed properties believed federal agencies' poor marketing and advertising of the properties were obstacles.

Two of the eight PHAs that were able to acquire RTC properties said they had problems obtaining from RTC adequate information on the properties. These problems included incomplete information in property listings and out-of-date listings.

Quantity, Quality, and Type of Housing  
Cited as Limiting PHAs' Opportunities

The 23 PHAs that had not acquired properties from RTC perceived problems with the quantity, quality, and type of federal foreclosed properties generally available in their area. About a third of this group (7 of 23 PHAs) told us that they believed there were not enough federal foreclosed properties in the area they serve. A slightly smaller portion of PHAs (6 of 23 PHAs) also said their interest in acquiring federal foreclosed properties was lessened by their perceptions that the properties were in poor condition or were not the appropriate type to meet their needs.

The experience of the Phoenix PHA, one of the eight PHAs we interviewed that acquired property from RTC, exemplifies the mismatch between the available types of housing units and PHAs' needs. The Phoenix PHA said it prefers units suitable for larger families but units in the multifamily buildings RTC held tended to be studios and one-bedroom apartments.

PHAS HAD MIXED PERCEPTIONS  
ABOUT RTC'S HELPFULNESS

In our review, we found that PHAs had mixed perceptions on whether RTC was helpful in their attempts to acquire federal foreclosed properties. Of the 23 PHAs that had not acquired properties from RTC, 9 said RTC was helpful, 12 identified ways in which RTC was not helpful, and 2 gave no opinion. We did not ask the PHAs to differentiate between obstacles they experienced within the AHDP and those they experienced with other parts of RTC. The PHAs that had not acquired

properties most frequently cited the following four ways in which RTC was not helpful to them: (1) RTC was slow in responding to their requests; (2) decisionmakers were not accessible; (3) approval processes were lengthy; and (4) properties were not made affordable.

Even some of the eight PHAs that acquired RTC properties encountered such problems. For example, one PHA said that it had difficulty locating the asset manager of a property and that the process of acquiring the properties was too long and bureaucratic. Another PHA said acquiring a multifamily property took over a year. This PHA found that the process was plagued by many legal impediments.

However, other PHAs that acquired RTC properties had a good working relationship with the agency. One of the 8 PHAs that acquired property from RTC, the Phoenix PHA, said it had acquired 150 units from RTC and characterized its relationship with the agency as excellent. The Executive Director of the San Antonio PHA, which has acquired about 500 units from RTC in the last 2 years, said that although the PHA could not acquire every property it wanted, RTC has been very responsive to its inquiries.

#### RTC IS TAKING SOME ACTIONS DESIGNED TO IMPROVE THE AHDP

RTC has recently written procedures to assist PHAs that attempt to acquire multifamily properties in the AHDP. These procedures address some of the problems PHAs perceived, such as the unaffordability of properties and the inaccessibility of RTC's decisionmakers. However, the problems identified by some of the PHAs we interviewed may have occurred in RTC's operations outside the AHDP or with single-family properties in the program and therefore will not be corrected by these actions.

AHDP officials believe that a rule<sup>3</sup> and a subsequent implementing directive<sup>4</sup> issued in May 1992 clarify the AHDP's mission and will correct some of the problems PHAs and other public agencies have faced when they want to acquire multifamily properties from the AHDP. The rule and

---

<sup>3</sup>Interim Final Rule (12 C.F.R. part 1609, Federal Register, vol. 57, p. 19500, May 6, 1992).

<sup>4</sup>RTC Circular 10150.11, May 20, 1992.

directive implement changes mandated in the RTC Refinancing, Restructuring, and Improvement Act of 1991. In this act, the Congress changed the manner in which RTC is to identify, market, and sell certain affordable housing.

The directive, which is being implemented, may make the AHDP's multifamily properties more affordable by permitting AHDP staff to negotiate purchase prices directly with PHAs and to offer them a discount of up to 50 percent off the unrestricted appraised value of the property. Because AHDP officials recognize that public entities cannot compete with private investors or nonprofit organizations in acquiring foreclosed properties, the new directive also gives preference to PHAs and other public agencies in acquiring multifamily properties. For up to 30 days, AHDP properties will be available exclusively to PHAs and other public agencies. AHDP officials also assert that the May 1992 directive will reduce financing problems for financially capable PHAs purchasing a property from the AHDP by offering the PHAs a 2-year bridge loan of up to 99 percent of the purchase price of the property. During this 2-year period, RTC will also offer financing for certain operating expenses and capital improvements.

In accounting for PHAs' perceptions that RTC was too slow to respond to their requests and had an approval process too long for PHAs, AHDP officials acknowledged that PHAs may have experienced delays when intermediaries, such as asset managers, changed<sup>5</sup> or were not responsive to public entities. AHDP officials explained that in the past, intermediaries could have caused delays by holding contracts too long. The directive should lessen PHAs' difficulty in finding and dealing with intermediaries by giving AHDP staff more responsibility for directing the acquisition process and for soliciting the assistance of intermediaries. By permitting PHAs to deal more directly with AHDP staff, the directive might also address the criticism of some PHAs that RTC's decisionmakers are inaccessible.

#### VIEWS OF AGENCY OFFICIALS

We discussed the information presented in this letter with the Director and the Financing and Reporting Coordinator of

---

<sup>5</sup>The asset manager for a property could change when the property is conveyed to RTC or during conservatorship if a savings and loan institution changes hands.



RTC's AHDP. These officials generally agreed with the facts presented. However, they believed PHAs had acquired more RTC properties than reported in this letter because we did not take into account indirect sales to PHAs through state housing agencies. According to RTC's records, 3 other PHAs in the six states we reviewed had acquired 207 units through a state housing agency before February 1992. Because our questionnaire asked respondents whether they had acquired property from RTC or the other three federal property disposition agencies, we did not cover acquisitions through state agencies. In addition, RTC informed us that additional units had been acquired by PHAs after our survey period ended in February 1992. They stated that as of October 1992 six additional PHAs had acquired 385 units in the six states we reviewed. We have included their other comments where appropriate.

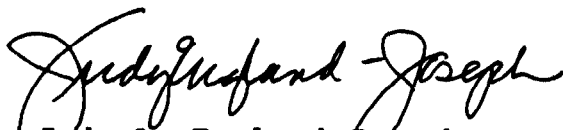
- - - - -

We performed our review from January 1992 to February 1993 in accordance with generally accepted government auditing standards.

As agreed with your office, unless you publicly release its contents earlier, we plan no further distribution of this letter until 14 days after its date. At that time, we will provide copies to interested congressional committees and Members of Congress, the Chief Executive Officer of RTC, and other interested parties.

If you or your staff have any questions about the information in this letter, please contact Marnie Shaul, Assistant Director, at (202) 566-1173. I can be reached at (202) 512-5167.

Sincerely yours,



Judy A. England-Joseph  
Director, Housing and Community  
Development Issues

SCOPE AND METHODOLOGY

We gathered information on the experiences public housing authorities (PHA) in six states--Texas, Arizona, Colorado, Florida, California, and Massachusetts--have had in acquiring federal foreclosed properties. Texas, Arizona, Colorado, and Florida were selected because in these states the Resolution Trust Corporation (RTC) had the highest inventories of multifamily properties as of June 1991. California and Massachusetts were selected because they had demonstrated needs for additional low-income housing units, had some RTC multifamily properties, and provided geographical balance for our review. The determination that California and Massachusetts each had a demonstrated need for additional low-income housing units was based on information provided by HUD.

We sent a screening questionnaire to the 846 PHAs located in these states to identify PHAs that had acquired federal foreclosed properties or had expressed a need to acquire properties for public housing between August 1989, when RTC was established, and February 1992. Approximately 635 PHAs, or 75 percent, responded to the questionnaire. Of these respondents, 144 replied that they had a need to acquire properties but had not acquired any federal foreclosed properties, 8 replied that they had acquired federal foreclosed properties from RTC, and 472 replied that they did not have a need to acquire properties.

We conducted structured telephone interviews with a random sample of 71 of the 144 PHAs that had a need to acquire but had not acquired federal foreclosed properties. Of the 71 PHAs, 23 indicated that they had contact with RTC about acquiring federal foreclosed properties. We obtained most of our information on PHAs that had not acquired federal foreclosed properties by conducting subsequent structured telephone interviews with these 23 PHAs. We also conducted telephone interviews with the eight PHAs that had acquired RTC properties between August 1989 and February 1992 to document these PHAs' experiences in dealing with the agency. For these eight, we collected information on the number and type of units acquired, the acquisition costs and types of financing used, and the ways in which RTC was helpful or not helpful. Because we felt PHAs might not be cognizant of distinctions among programs within RTC, we asked the PHAs to discuss their experiences with RTC and did not explicitly ask them to focus only on their experiences within the Affordable Housing Disposition Program (AHDP).

We interviewed RTC officials responsible for administering the AHDP. These officials provided us information on the procedures used and data on housing units sold or conveyed to PHAs under the

ENCLOSURE I

ENCLOSURE I

AHDP. These officials were not able to provide us with data on PHAs' acquisitions of properties outside of the AHDP.

PROCEDURES FOR DISPOSING OF RTC PROPERTIES THROUGH THE AHDP

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) established RTC to manage and sell the assets of failed savings and loan associations. Besides having the mission of minimizing losses to the federal government, RTC is to maximize the preservation and availability of affordable housing for families with very low to moderate incomes. To accomplish this objective, FIRREA established within RTC the AHDP, which sets aside certain eligible single-family and multifamily residential properties for acquisition by qualified buyers--families with very low to moderate incomes, nonprofit organizations, for-profit organizations, and public agencies interested in using the units to serve families with very low to moderate incomes. These organizations and families may either purchase RTC properties or receive them through donation.

All RTC single-family properties valued at \$67,500 or less must be included in the AHDP as affordable housing, as must duplexes, triplexes, and quadruplexes valued up to \$76,000, \$93,000, and \$107,000, respectively. Larger multifamily properties must be in the program if their price per unit does not exceed \$29,500 for efficiency apartments and \$33,816, \$41,120, \$53,195, and \$58,352 for apartments with one, two, three, and four bedrooms, respectively.

Eligible single-family properties are offered to qualifying families and to public agencies or nonprofit organizations that make the properties available for qualifying families to purchase or occupy. Eligible multifamily properties are offered to qualifying purchasers--including public agencies, nonprofit organizations, and for-profit entities--that promise to meet requirements to reserve, during the remaining useful life of the properties, a minimum of 20 percent of the dwelling units for families with very low incomes and at least 15 percent more of the units for lower-income families. As defined by RTC, families with very low incomes have adjusted incomes at or below 50 percent of the median income in the area, and lower-income families, at or below 80 percent.

RTC was required to notify organizations and agencies designated as clearinghouses to help it disseminate information about eligible properties within a reasonable time after acquiring title. Under FIRREA, RTC was permitted to designate state housing

finance agencies, the Federal Housing Finance Board,<sup>6</sup> and national nonprofit organizations as clearinghouses. RTC developed guidelines for contracts with clearinghouses for carrying out their responsibilities and for compensating them for the services they actually provided. Once new properties became available, the clearinghouses were then expected to notify families with very low to moderate incomes, public agencies, nonprofit organizations, and for-profit organizations interested in properties to serve families with very low to moderate incomes.

The May 1992 directive issued by RTC provides for a new procedure in disposing of multifamily housing to public agencies. At the time an eligible multifamily property is ready for sale, the RTC's AHDP staff in whose region the property is located bypass the clearinghouse and offer the property for sale directly to public agencies. For 30 days, the property is marketed exclusively to public agencies serving the jurisdiction where the property is located. An RTC affordable housing disposition specialist is responsible for obtaining a list of the public agencies serving the area where the property is located and ensures that all public agencies receive a notice explaining the marketing of the property. If no public agencies express interest in the property within 30 days, RTC markets it to nonprofit organizations for an additional 30 days. Properties remaining unsold to public agencies and nonprofit organizations are then offered through the clearinghouse process.

To reserve the property the public agency must, within 30 days following RTC's notice, submit a notice of serious interest in purchasing the property. If RTC is satisfied with the public agency's long-term capabilities of owning and managing the property, RTC may proceed to negotiate with the public agency. RTC will provide a letter of intent to negotiate with the agency.

---

<sup>6</sup>The Federal Housing Finance Board, which succeeds the former Federal Home Loan Bank Board, is an independent executive agency established by FIRREA in 1989.

PHAS IN OUR SURVEY THAT ACQUIRED RTC  
PROPERTY, AUGUST 1989-FEBRUARY 1992

Location of PHA	No. of units	Type of property	Method of acquisition
San Antonio, Tex.	151	Single-family	Donation
	344	Multifamily	Purchase
Mission, Tex.	15	Multifamily	Purchase
Peoria, Ariz.	25	Single-family	Purchase
Tucson, Ariz.	2	Single-family	Purchase
Phoenix, Ariz.	150	Multifamily	Purchase
Corpus Christi, Tex.	16	Single-family	Donation
Marble Falls, Tex.	1	Single-family	Donation
Temple, Tex.	7	Single-family	Donation

(385328)