

Processing Section 312 Loans and Disclosure of Project Funding

September 18, 1990

MEMORANDUM FOR: William H. Brown, Regional Administrator- Regional Housing Commissioner, 7S

FROM: Russell K. Paul, Deputy Assistant Secretary for Community Planning and Development, CG

ATTENTION: Miguel Madrigal, Director, Office of Community Planning and Development, 7C

SUBJECT: Office of Inspector General final audit report Davenport, Iowa, No. 89-KC-241-1010, April 19, 1989, (finding- city improperly processed Section 312 loans and inadequately disclosed project funding)

This is in response to your memorandum dated March 15, 1990, referring the audit findings for the Roosevelt and Courtland projects in Davenport, Iowa to Headquarters for resolution.

The Regional Inspector General's (IG) Office had made findings that the City of Davenport improperly processed Section 312 loans and inadequately disclosed CDBG project funding. Attached is a copy of our recommendations for resolution of the above audit findings as they were transmitted to Chris Greer, Assistant Inspector General for Audit. Also attached is the response from the IG's Office accepting our recommendations. We have made a management decision that the following actions should be taken.

HUD has determined that because of mitigating factors involved in the Roosevelt and Courtland projects, HUD and the City should share the responsibility for any financial loss that might result from the Section 312 underwriting. It is our determination that in the case of the Roosevelt, the City should reimburse HUD for 75 percent of any loss of Section 312 funds, and in the case of Courtland, for 50 percent of any Section 312 loan funds that may be lost.

In response to the remaining recommendations, the grantee should be advised to take the following actions:

- Put in place management controls as necessary to ensure that the citizens are fully notified, as required by the regulations, whenever the grantee elects to amend its programs as it did in this case.
- Reimburse the CDBG program immediately for the expenditure of CDBG funds for the payment of interest on the Section 312 loan. (---- a use of funds is ineligible according to program counsel, and the grantee reportedly used \$75,472 for this purpose).
- Discontinue its commitment to use CDBG funds as a guarantee of the private loan, in order the protect the CDBG program from sustaining any loss resulting from the sale of the property.

- Following the sale of the property, it should reimburse its CDBG account using non-Federal funds to the extent that the property sale proceeds fall short of enabling the repayment of CDBG funds loaned for the project or used to make payments on the private loan or to maintain the property pending its disposition.
- Do not advise the grantee to discontinue the use of CDBG funds to pay the costs of maintaining the property pending its disposition, since such use will help to protect the investment of program funds made to date. However, the grantee should be made aware that the Department will hold the grantee responsible for the reimbursement of all such expenditures from the proceeds.

Should the grantee fail to carry out the above described advice to resolve the CDBG matters concerning the Courtland project on a voluntary basis, it is my intention to pursue a recovery of an appropriate amount of CDBG funds through action under 24 CFR 570.913 of the regulations.

While not a matter raised in the audit report, the grantee should be further advised that a determination of whether the Courtland project meets the CDBG national objective of benefit to low- and moderate-income persons must await a review of the income characteristics of the households that occupy the units in the project, and if applicable, rental amounts. Should the project fail to meet regulatory requirements for that purpose, the Department would need to determine what additional remedial actions would be appropriate.

Please provide the Omaha Office of our decisions and request that Office to advise the City by September 30, 1990, of the decisions which have been made and the actions which should be taken to close the findings. In addition, the Omaha Office should negotiate a settlement agreement with Davenport for indemnification/repayment of any loss of CDBG funds. The Omaha Office should also establish target dates for completing the items outlined in our memorandum and forward these dates, along with a copy of the letter to the City, to both the Inspector General's Office and the Entitlement Communities Division of the Office of Block Grant Assistance.

If you have any questions, please contact the Entitlement Communities Division at FTS 458-1577.