



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-1000

**ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS**

MAY 19 2015

**The Honorable Steve Cohen
U.S. House of Representatives
Washington, DC 20515-3603**

MAY 28 2015

Dear Representative Cohen:

Thank you for your letters about the news coverage reports of unsafe living conditions in federally-assisted housing at Goodwill Village Apartments and Warren-Tulanes (Projects), which are located in Memphis, Tennessee.

Please be assured that HUD has been and will continue to be committed to providing safe and sanitary living conditions for all of the people that it assists through its programs. It is an essential part of HUD's mission to help increase the availability of quality affordable rental homes. In particular, HUD seeks to provide access to homes that improve peoples' quality of life and create sustainable communities. With respect to the specific properties in Memphis owned by Goodwill Ministries Foundation (GMF) and assisted through the Section 8 Housing Assistance Payments (HAP) program, HUD hopes that the following information, which was provided by HUD's Office of Housing, helps provide clarity around the issues brought up in your letters dated April 13, 2015 and April 17, 2015.

To ensure that HUD-assisted Projects are meeting allowable standards for occupancy, the Uniform Physical Condition Standard (UPCS) protocol is used to determine whether a multifamily rental housing project is maintained in a decent, safe and sanitary condition. This protocol outlines who is responsible for inspecting the units, provides a scoring methodology, indicates the frequency of inspections, and defines the appeal process. While HUD does not have enforcement jurisdiction over specific ordinance violations found by local inspectors, these local inspections and notifications from residents are used to hold the owner/agent accountable with the quality standards expected by HUD to receive assistance under the HAP contract.

As a matter of policy, HUD employs a physical inspection of the properties that it assists through the Real Estate Assessment Center (REAC) inspection. It is the primary asset management tool used to gauge a project's housing standard of quality. The REAC inspection frequency is based on the last physical assessment score on file for the units. Projects that receive REAC scores of 90-100 are inspected at least once every three years; projects that receive scores of 80-89 are inspected at least once every two years; and projects that receive scores of 70 and below are inspected at least once a year.

Another tool for monitoring Section 8 assisted properties is between REAC physical inspections are Management and Occupancy Reviews (MOR). The purpose of the MOR is to establish the quality of management and to verify an owner's compliance with the terms and conditions of its HAP contract or any other business agreement. These reviews are performed by

HUD's staff or by the Section 8 contract administrator on a periodic basis, or at any time HUD is made aware of any problems of non-compliance, or tenant concerns, by which HUD will require these issues to be addressed by management.

In the case of Goodwill Village and Warren-Tulane, both the physical inspections of the units and the management reviews have shown a satisfactory but overall declining level of performance between 2010 and 2015. Warren-Tulane has had REAC inspections in 2012, 2014 and 2015 that have found health and safety concerns that the owner and their management team have corrected or are in the process of correcting, mainly the presence of pests. Goodwill Village was last inspected by REAC in 2010 with a passing score and only minimal corrective issues. Due to that higher score, Goodwill Village was not scheduled for another physical inspection until 2013. However, when the scheduled inspection came due, the property owner requested a deferment to finalize repairs to units. A few-month deferral was granted by HUD to accommodate the repairs. While the repairs were completed, the re-inspection has not been rescheduled; an oversight that HUD's Office of Asset Management and Portfolio Oversight (OAMPO) is currently investigating to determine how that happened and place safeguards against it from happening again in the future.

The MOR's of both Projects have consistently shown "Below Average" to "Unsatisfactory" management and compliance with the business requirements of the respective HAP contracts. New property management (LEDIC Management Group LLC) has recently been brought in by GMF to help improve the MOR scores and the overall performance of the properties. Additional REAC inspections and MORs have been ordered by HUD to help judge the efficacy of this move. The physical inspections were scheduled for late April 2015, and the management reviews will be scheduled in May/June 2015. HUD's OAMPO, in coordination with the contracted REAC inspectors and Field Policy and Management staff, is always looking to improve the efficacy of its inspections protocols and policy, and will conduct investigations of its practices and operating circumstances to ensure that all projects with inspections due are scheduled as quickly as possible. In addition, any waivers of inspection policy requested by specific project owners or HUD's staff will be submitted by the Multifamily Regional Center Director to Headquarters for consideration.

Displaced tenants, living in unsafe units at these projects, are eligible to be temporarily relocated by what is called a Section 8 Pass-Through Lease. This option requires the owner to relocate the tenants at the owner's expense into housing that meets all quality standards until the original units are restored to a habitable condition. The Section 8 Pass-Through Lease feature requires the tenant to continue to pay the current property owner, but all rental payments received from the tenant and HUD would be immediately passed through to the site owner providing temporary housing. HUD inspectors would assess units at temporary sites to verify housing conditions are acceptable under its quality standards.

100 are inspected at least once every three years. Projects that receive a rating of 100 are inspected at least once every three years and projects that receive a rating of 90 are inspected at least once every three years.

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On April 23, 2015, HUD's Nashville Multifamily Program Center notified each ownership entity at Goodwill Village and Warren-Tulane that 10 units at Goodwill Village and 30 units at Warren-Tulane were cited and deemed uninhabitable. This notification was based on a sworn affidavit dated April 21, 2015 from the City of Memphis' Division of Code Enforcement. In response to these findings, 41 tenants have been relocated offsite into temporary housing in extended stay hotels. Furthermore, HUD and the owner have been working to restore the uninhabitable units to code so that tenants can return in a timely manner. While the tenants are in temporary housing, the owner will continue to receive assistance payments from HUD, but as already stated, must pass these payments along to the new owner providing the temporary housing.

Based on the City of Memphis' inspections, additional units may be found out of compliance during the REAC inspections that were held the week of April 27, 2015. HUD will provide GMF the opportunity to bring all the affected units into compliance, and if necessary, will pursue enforcement action against the owner after any administrative appeals.

As you noted, news reports have alleged tax code violations at GMF. HUD's oversight responsibilities are limited to the single asset entities that own the assisted projects, its principals, the affordable housing units, and the program participants benefitting from the rental assistance provided to the ownership entity. Issues related to alleged tax fraud and misrepresentations on Internal Revenue Service (IRS) forms are more appropriately investigated by the IRS and the Department of Justice.

HUD shares your concern about the condition of these projects and the welfare of the families that reside in them, and is committed to having a 100 percent unit inspection in accordance with all applicable business agreements within the next 90 days. HUD will monitor the Projects very closely, and take action as required. If you have questions, please contact John E. Hall, Deputy Director of HUD's OAMPO at 202-402-5907.

I hope this information is helpful. If I can be of further assistance, please let me know.

Sincerely,



Erika L. Moritsugu
Assistant Secretary for
Congressional and Intergovernmental Relations