

I would just like to associate myself with your remarks about the proposals of Secretary Kemp. I have reviewed them, and it appears to me that they really go a long way toward helping to resolve the problems that we have been looking into and specifically to ensure that they are funded on the basis of merit and not on influence. I have to be gone here for about ten minutes; I shall return and look forward to the rest of the day's hearing.

Thank you.

Mr. LANTOS. We look forward to having you, Congressman Shays.

Mr. SHAYS. Thank you, Mr. Chairman.

I also would like to align myself with your remarks and the remarks of my ranking Member. To say that the staff has done well is an understatement. They have done very well, and I have been very grateful for their work.

Our task, obviously, in Government Operations is to root out waste, fraud, and abuse, and I think we have done an incredible job as it relates to waste and abuse. I am not sure we have gotten into fraud. I am not sure we are ever going to get at the fraud, and I think we have got to try as best we can, but a congressional committee can only do so much.

I think—and I want to be on record with this committee's feeling—that we have accomplished 90 percent of what we set out to accomplish, uncovered more than we probably ever expected to, and that the cleaning up or the draining of the swamp and rebuilding this agency jointly with Secretary Kemp is our task.

I know the staff is beginning to prepare their reports and so on, and I just feel that I want to be on record as saying we know most of what we need to know to make the kind of recommendations, much of which were incorporated by Secretary Kemp, and to say that I look forward to working with him in that endeavor.

I do know, and I do agree with my ranking Member when he says there will be additional hearings necessary to tie in the loose ends and, very honestly, to make sure that we have established enough of a record on some of these individuals that the Justice Department does their job, which really leads me into my last point. It is really time for the Justice Department to be clearly conducting a very aggressive investigation and to prosecute those who have broken the law and to do that in a way that it is clear to this committee that they are performing their job as required by the law.

So I can't tell you what Justice is doing. I hope we find out soon, because it seems to me enough has been laid out for them that they could be well employed for a good long time.

Mr. LANTOS. Thank you very much.

I fully concur with the comments of my distinguished Republican colleagues, and I want to express my appreciation to the Republican side for their very professional and effective participation in all of these hearings.

Mr. LUKENS. Would the chairman yield on that point?

Mr. LANTOS. I would be happy to.

Mr. LUKENS. I would like to add this comment to Congressman Shays' remark about Justice. They have been, I am sure, very aggressive in pursuing the points that we have brought up under

your style of leadership and your consistent involvement with trying to get at these facts. I would hope at some stage in the next few weeks that we would be able to have a conference with Justice representatives as to what they have found that they can tell us and what direction they are going so that we don't waste a lot of time going in different directions.

Mr. LANTOS. Well, I thank Congressman Lukens for that observation.

When I had my conversation with the Attorney General, I indicated to him that both I and members of the subcommittee, I insure on both sides, are ready to meet with him at any time should he desire to do so, and that offer obviously stands.

Congressman Weiss.

Mr. WEISS. Thank you, Mr. Chairman. I have no opening statement.

Mr. LANTOS. I would like to ask our first witness, Mr. J. Michael Queenan, to come up to the witness table.

Would you raise your right hand, Mr. Queenan?

[Witness and attorney sworn.]

Mr. LANTOS. You may care to identify the gentleman who is with you.

STATEMENT OF J. MICHAEL QUEENAN, FORMER DIRECTOR, HOUSING DEVELOPMENT DIVISION, HUD REGIONAL OFFICE, DENVER, ACCOMPANIED BY LAWRENCE BARCELLA, ATTORNEY

Mr. QUEENAN. I will, Mr. Chairman. Mr. Lawrence Barcella is my counsel. He is with the firm of Laxalt, Washington, Perito & Dubuc.

Mr. LANTOS. We are pleased to have you, sir.

Mr. BARCELLA. Good morning, Mr. Chairman.

Mr. LANTOS. Mr. Queenan, for the record, the chair would like to state that, of course, you are appearing on a voluntary basis.

Mr. QUEENAN. I am, sir.

Mr. LANTOS. And you have been most cooperative in our preparatory work with staff of the subcommittee, for which I want to express my appreciation.

Mr. QUEENAN. Thank you, sir.

Mr. LANTOS. If you have any prepared statement, you may proceed. If not, we will move to the questions as soon as you have finished with any statement you would like to make.

Mr. QUEENAN. Mr. Chairman and members of the subcommittee, I haven't prepared a written statement for you this morning.

Mr. LANTOS. That is fine.

Mr. QUEENAN. I would, however, like to share some brief biographical information—

Mr. LANTOS. Please do, but pull the mike close to you, if you would.

Mr. QUEENAN [continuing]. Which will give you some insight into my career at HUD, essentially 13 years.

I was initially recruited by HUD while completing a master's program in 1971 to serve as a budget analyst in its summer intern

Mr. SHAYS. Could you lift the mike up a little bit? Thank you, Mr. QUEENAN. Additionally, in 1972, while working on a doctoral program at the University of Delaware, I was again recruited by HUD, this time to serve as an urban intern, specifically a community development representative in the Office of Housing in Denver, and subsequently, the Community Development Office in Denver, Colorado.

Between 1971 and 1984, I rose from a GS-7 urban intern to a GS-14, Director of Housing Development. I supervised as few as three employees and as many as 340 employees during that time period.

Between 1973 and 1976, I served as a government technical representative on HUD's Experimental Housing Allowance Program. One year was detailed to Washington, D.C., the other years working out of the Denver Regional Office.

In 1977 and 1978, I served as a program analyst in the Denver Regional Office, its Office of Program Analysis and Evaluation. My function there was to provide quantitative and qualitative evaluation of the delivery of housing assistance programs throughout Region VIII.

Between 1979 and 1984, I served in a variety of increasingly responsible positions, initially as Director of Housing Programs, subsequently as Chief Underwriter, and Acting Director of the Office of Regional Housing. I supervised, again, as many as 340 employees. I had direct line responsibility and accountability for the administration of HUD's Assisted Housing Programs, including but not limited to, the Section 8 Moderate Rehabilitation Program. I also had responsibility for the commitment of full mortgage insurance on both multifamily project mortgages and single family home mortgages throughout a six-State region during that time period.

During the time that I served, 13 years, within the Department of Housing and Urban Development, I was primarily or exclusively responsible for the implementation of a number of innovative multifamily rental housing programs. These included the administration of HUD's Section 8 Existing Housing Program on a statewide basis in the states of Montana, North, and South Dakota. Additionally, I was responsible for the implementation of a project self-sufficiency project, in fact, the first in the United States, which is designed to provide housing assistance and supportive services to single-parent households.

During my 13-year career at HUD, I received numerous commendations and awards from Democratic and Republican administrations alike. Included among those awards was one from Secretary Moon Landrum during the Carter administration for displaying the highest professional standards in implementing HUD's assisted housing programs and its multifamily mortgage insurance programs.

I have served for five years subsequently in the private sector. In 1985 upon resigning—or 1984, upon resigning from HUD, I established J. Michael Queenan Associates, Inc., which is a firm which specializes in the development of multifamily rental housing and the origination of multi-family project mortgages to HUD and HUD-approved mortgagees.

I think my career in HUD speaks for itself, sir. I believe that I have specialized in HUD programs; I have received, again, some of its highest awards during my career in HUD; and I am prepared to answer any questions that you might have this morning.

Mr. LANTOS. Well, thank you very much, Mr. Queenan. Let me just state for the record that, while this is the first time I have had the pleasure of meeting you, your reputation as one of the most knowledgeable people in this field precedes you. You are viewed as one of the most competent, expert, knowledgeable people who served with distinction at HUD, and I want to commend you for the various high awards you received under different administrations, and you have certainly been very successful in the private sector.

Just for the record, because I think we have had so much conflicting discussion about HUD career personnel with some people, like Mr. Watt, being highly critical of them, others, like myself, feeling that the overwhelming bulk of the HUD career staff did a highly commendable and professional and outstanding job—in many instances, had the political appointees followed recommendations of the career people, we wouldn't be holding these hearings, because we wouldn't have the scandal at our hand.

You said, I believe—and correct me, please—you began as a GS-7.

Mr. QUEENAN. That is correct, Mr. Chairman.

Mr. LANTOS. Just roughly, as a ball park, what was your salary as a GS-7 at the time?

Mr. QUEENAN. I believe from memory, Mr. Chairman, \$7,582.

Mr. LANTOS. Seven thousand—

Mr. QUEENAN. Annually.

Mr. LANTOS [continuing]. Dollars.

Now you concluded your HUD career as a GS-14.

Mr. QUEENAN. That is correct.

Mr. LANTOS. May I ask, as a ball park, what you obtained as a salary then?

Mr. QUEENAN. Approximately, Mr. Chairman, \$40,000 annually.

Mr. LANTOS. About \$40,000. That was your highest salary at HUD.

Mr. QUEENAN. It was, sir.

Mr. LANTOS. And while you don't have to say that, I will say that, that was your highest salary at HUD—

Mr. QUEENAN. Over 13 years.

Mr. LANTOS [continuing]. After 13 years, and being regarded by your peers as one of the most competent and knowledgeable people in the field.

Am I correct in saying that you taught training courses at HUD for the professional staff and others?

Mr. QUEENAN. Yes, I did, Mr. Chairman.

Mr. LANTOS. Can you tell us a little bit about that?

Mr. QUEENAN. Yes, Mr. Chairman. In really two areas. One was multifamily mortgage insurance programs, including Section 202, which is the Direct Loan Program and is at present—continues to be interfaced with Section 8, New Construction or Substantial Rehabilitation.

In addition, I also trained both nationally and regionally on HUD Section 8 Moderate Rehabilitation Program, initially being trained by headquarters staff and then translating it into the field to assist HUD staff and PHAs.

Mr. LANTOS. Is it reasonable to say—and your modesty might prevent you from answering—

Mr. QUEENAN. I am sure it will.

Mr. LANTOS. Is it reasonable to say that you were viewed as one of the top experts at HUD on mod rehab?

Mr. QUEENAN. I think other people would say that about me, yes, I do.

Mr. LANTOS. That is fair enough.

Now, having had a career from a GS-7 to a GS-14 and raising which resulted in your compensation going from \$7,500 to \$40,000, as a ball park, how much did you earn, on the average, in the private sector annually?

Mr. QUEENAN. Annually, sir? I would estimate over a four year period the average was approximately \$225,000 to \$250,000, in earnings.

Mr. LANTOS. So your income moved from \$40,000 to a quarter-million dollars.

Mr. QUEENAN. That is correct.

Mr. LANTOS. This, I suspect, again underscores and indicates the tremendous commitment to public service that large numbers of civil servants like yourself have in continuing to function in the public sector at a fraction of the compensation they would be receiving in the private sector. Would you agree with that?

Mr. QUEENAN. I do, most certainly.

Mr. LANTOS. Well, let's begin perhaps with your relationship with the Winn Group. If you could describe for us what is meant by the Winn Group and what was the role of each of the principals in this operation.

Mr. QUEENAN. Certainly, Mr. Chairman.

From my research, the label of the Winn Group was one that was conveniently derived by the Office of the Inspector General for audit and investigation.

Mr. LANTOS. Yes.

Mr. QUEENAN. There is no such animal as the Winn Group. There is, rather, four partners who came together on specific limited partnerships. Those individuals are Mr. Philip Abrams, Mr. Philip D. Winn, and Mr. Lance Wilson, including myself. Each of our capacities involved areas of specializations, high degrees of specialization, in fact.

For example, Mr. Abrams is extremely knowledgeable in the area of construction. He oversaw then and now, today, the implementation of all the programs, the acquisition of property, the development of plans and specifications, and joint work write-ups which were submitted initially to PHAs and subsequently to coinsuring lenders for coinsurance. His oversight continues today, much unlike you have been led to believe, I think, in past testimony.

Mr. Winn's involvement was also in the area of property acquisition but, more importantly, in the area of equity participation and also property management on a continuing basis.

Mr. Wilson's involvement was in the area of taxable and taxes in financing, bringing his specialization in those particular areas—capital markets—to our limited partnerships.

Mine was really, sir, in three principal areas: first—chronologically, too, if you would. The first area involved the submission and preparation of owners' proposals for Section 8 moderate rehabilitation assistance to public housing agencies in response to public notices that had been issued by those same PHAs.

The second step in the process would have involved the preparation and submission of applications for conditional and/or firm commitment for either 223(f) or 221(d)(4) coinsurance.

The third area for which I was responsible, again, on a continuing basis, was the preparation and submission of low income housing tax credits applications to various State housing agencies which also served as credit allocation agencies under the IRS program.

These, sir, are the areas in which I specialized and the other members of the partnership.

Mr. LANTOS. Would it be fair to summarize that you were basically the technical expert who knew how to put proposals together, who knew the rules and the regulations, and who understood how the programs operated?

Mr. QUEENAN. From the bottom up, I would agree.

Mr. LANTOS. Now my understanding is that Lance Wilson had a 33 percent equity interest in five of the Winn Group projects. Is that your understanding?

Mr. QUEENAN. Yes, it is, sir.

Mr. LANTOS. According to the HUD Inspector General, Mr. Wilson received over \$2 million from the syndication of the tax credits from these projects. Would this be your understanding?

Mr. QUEENAN. I have no understanding, Mr. Chairman, of the distribution of net proceeds to any of the partners other than myself.

Mr. LANTOS. Would this figure of over \$2 million, which appears in the Inspector General's report, be out of line on the basis of your experience with the projects?

Mr. QUEENAN. Mr. Chairman, I'd rather not comment. I have no way of knowing. I haven't seen those documents. All I know is the number that I received by partnership.

Mr. LANTOS. You know that Mr. Wilson had a 50 percent share in the Spring Hill Apartment Project in Casper, Wyoming?

Mr. QUEENAN. I believe that is correct, Mr. Chairman.

Mr. LANTOS. You believe that is correct.

Now at the time Mr. Wilson received the 50 percent share in the Casper, Wyoming, project, he was working full-time for PaineWebber in New York. Is that correct?

Mr. QUEENAN. I believe it is.

Mr. LANTOS. What did he do to earn this enormous range of benefits while working at PaineWebber?

Mr. QUEENAN. Mr. Chairman, again, Mr. Wilson's participation in our partnerships involved his special—specialization—excuse me—in both tax-exempt and taxable financings. All of the partnerships that we were discussing this morning to this point involved taxable financings.

Initially, we set out, as you have heard in previous testimony from Mr. Abrams and Mr. Winn, to utilize tax-exempt financing. We shifted in time because of changes in various programs, Federal programs, to an emphasis and utilization on taxable financing through the sale of Ginnie Mae mortgage backed securities in the secondary market. Mr. Wilson was particularly knowledgeable in that area. That was his principal contribution to our partnership in terms of knowledge.

Mr. LANTOS. I understand that, but I think you will have to become a little more specific, and let me tell you why. This is a very small group you are dealing with. You are dealing with Mr. Winn, Mr. Abrams, Mr. Wilson, and yourself. Is that correct?

Mr. QUEENAN. As partners. That is correct.

Mr. LANTOS. As partners. There were four partners.

Mr. QUEENAN. In five transactions, yes, sir.

Mr. LANTOS. In five transactions. You knew each other well.

Mr. QUEENAN. Not particularly, sir. The evolution of the partnership was originally Mr. Abrams and myself in Clark County, Nevada. As you have heard in his previous testimony, we were unable to meet the cash requirements for initial loan closing on our own. For that reason, Mr. Abrams invited Mr. Winn to participate with us.

Mr. LANTOS. He was basically the money man behind the project.

Mr. QUEENAN. The equity partner. That is correct.

Mr. LANTOS. Yes.

Mr. QUEENAN. Furnishing extensive letters of credit on all the transactions.

Mr. LANTOS. Right. And why was Mr. Wilson invited in?

Mr. QUEENAN. I believe in previous testimony, Mr. Chairman, you have heard Mr. Winn describe the establishment of their partnership. I was not initially a member of the partnership but, rather, in a subsequent meeting with Mr. Winn negotiated position with—involving his interest.

Mr. LANTOS. My understanding is that the Winn Group held more or less regular weekly meetings, partnership meetings. Is that correct?

Mr. QUEENAN. I'd have to distinguish, Mr. Chairman, between two types of meetings. We did have weekly meetings, which were project oriented, chaired by Mr. Winn, led by Mr. Abrams, with a variety of staff—the chief financial officer for Philips Development Corporation, the comptroller for Philips Development Corporation, and various specialists, including myself. Those projects were very specific, again, designed to take us through the entire process from PHA submission to initial endorsement of the mortgage and ultimately to final endorsement of the mortgage note.

Mr. LANTOS. You participated in most of these or all of these—Mr. QUEENAN. Virtually all.

Mr. LANTOS. Virtually all of these.

Did Mr. Wilson participate in these?

Mr. QUEENAN. I do not believe so, sir, on the project meeting level basis, but rather on a partnership basis.

Mr. LANTOS. How frequent were those meetings?

Mr. QUEENAN. I would estimate, Mr. Chairman, quarterly.

Mr. LANTOS. Quarterly.

Mr. QUEENAN. That is correct.

Mr. LANTOS. And you participated in those also?

Mr. QUEENAN. I believe I participated in all.

Mr. LANTOS. You participated in all.

Did Mr. Wilson participate in all?

Mr. QUEENAN. To the best of my recollection, he did.

Mr. LANTOS. Now my understanding is that in the Casper, Wyoming, project Mr. Wilson had a 50 percent share. That is the Spring Hill Apartment Project.

Mr. QUEENAN. That is correct, sir.

Mr. LANTOS. What money did Mr. Wilson have at risk in the Casper, Wyoming, project?

Mr. QUEENAN. I don't believe Mr. Wilson—and I know I didn't rather, the other partner, Bob Silvestri—had any money at risk, but

cific obligation, just as Mr. Winn did in our other transactions. So all the equity requirements, all the up-front costs, were supported by the managing general partner—offset by the managing general partner. Those costs—

Mr. LANTOS. So it is your—I'm sorry. Please.

Mr. QUEENAN. Those costs were then netted off syndication proceeds. So, in effect, Mr. Wilson and I and Mr. Silvestri all contributed upon initial endorsement of the mortgage note and subsequent equity closing.

Mr. LANTOS. When a project begins, someone has to put up some money. Is that correct?

Mr. QUEENAN. It is, Mr. Chairman.

Mr. LANTOS. There are all kinds of expenses involved. Isn't that correct?

Mr. QUEENAN. Yes, there are. There are, for example, earnest money deposits.

Mr. LANTOS. Can you sort of run through the categories of items for which funds are required when a project is begun?

Mr. QUEENAN. Certainly, Mr. Chairman.

Initially, the attempt is to control the property. That requires the deposit of earnest money with an escrow agent.

Mr. LANTOS. Right.

Mr. QUEENAN. That is the first step in the process.

Mr. LANTOS. Right.

Mr. QUEENAN. There are organizational costs in terms of overhead. There are also architectural fees to the design architect.

Mr. LANTOS. Legal costs?

Mr. QUEENAN. Legal costs in terms of preparation of limited partnership agreements, many of which are revised subsequently over time.

There are costs that are paid for appraisals, independent appraisals. There are examination fees that are paid in our case to

sureing lenders based on a formula established by HUD.

Mr. LANTOS. Right.

Mr. QUEENAN. There are CPA costs in terms of reviewing various documents that are prepared on behalf of the partnership, particularly, in our case, in the area of tax credit applications.

Mr. LANTOS. Now as a ball park—and I know they have varied somewhat—what would you say these up front costs were in these various projects? What was the range?

Mr. QUEENAN. The range, Mr. Chairman, would be approximately \$75,000 to \$300,000, depending on the transaction.

Mr. LANTOS. Okay. Seventy-five—

Mr. QUEENAN. And discount points. There were a number of transactions that required discount points.

Mr. LANTOS. I understand.

So would it be fair to say that maybe the average costs ran about \$200,000?

Mr. QUEENAN. It would, sir.

Mr. LANTOS. Okay. Now when these initial costs are incurred, is typically there is no assurance that the project will necessarily fly. Is that true?

Mr. QUEENAN. There is absolutely no assurance, sir.

Mr. LANTOS. Absolutely no assurance.

Mr. QUEENAN. No.

Mr. LANTOS. But there comes a point when the project becomes a safe project.

Mr. QUEENAN. I would call that, sir, final endorsement of the mortgage note and occupancy.

Mr. LANTOS. Exactly. Exactly.

Your testimony a minute ago was that Mr. Wilson had a 50 percent share in the Spring Hill Apartment Project in Casper, WY.

Mr. QUEENAN. That is correct.

Mr. LANTOS. Yet he didn't put up a dime of the initial costs which are really the only expenses which are at risk. Is that correct?

Mr. QUEENAN. Initially, that is correct. It is incorrect, sir, upon equity closing. All the up front costs incurred by the limited partnership were netted off syndication proceeds.

Mr. LANTOS. I understand that they are netted out, but that is not what I am asking you, Mr. Queenan. What I am asking you is very simple. When the initial costs are incurred, which you testified, run from \$75,000 to \$300,000—and we agree that, as a ball park, they averaged, in your project, a couple of hundred thousand dollars—at that point, Mr. Wilson puts in no money. Is that correct?

Mr. QUEENAN. I believe that is correct.

Mr. LANTOS. That is correct.

Mr. QUEENAN. Nor I.

Mr. LANTOS. I understand that.

Your participation in that project, in the Casper, Wyoming, project is—what?—6, 7 percent.

Mr. QUEENAN. 6.67 percent.

Mr. LANTOS. 6.7 percent.

You get that because of your enormous and readily accepted technical expertise. If somebody starts with a complex project and you are viewed as one of the experts in the country, you get an equity participation of 6.67 percent, which is—

Mr. QUEENAN. In certain transactions, that is correct.

Mr. LANTOS [continuing]. Which is for your remarkable technical knowledge of how these things are to be put together. Is that right?

Mr. QUEENAN. Yes, sir.

Mr. LANTOS. Well, if 6.67 percent is given to you, which I certainly can see why, for your expertise and your knowledge, you have about 93 percent left.

Mr. QUEENAN. That is correct arithmetically.

Mr. LANTOS. Now there must be some reason why one of the individuals who are partners in this gets 50 percent of that 93 percent—more than half—although that person doesn't put in a dime. What was the function of Mr. Wilson? What resulted in this remarkable compensation?

Mr. QUEENAN. Mr. Chairman, I didn't develop the partnership agreement.

Mr. LANTOS. I'm not blaming you for giving him 50 percent. I am asking you to explain why you think he got 50 percent although he didn't do the technical work—is that correct—you did that?

Mr. QUEENAN. Not in terms of a Section 8 owner's proposal or a tax credit application or a coinsurance application.

Mr. LANTOS. You did all of that.

Mr. QUEENAN. That is correct.

Mr. LANTOS. Okay. I mean if I would be in this business, I would probably want to hire you, too, to do all this because—

Mr. QUEENAN. I hope you would.

Mr. LANTOS [continuing]. You are a well-recognized expert. So you have now been hired; you have been given 6.67 percent of equity interest.

Mr. QUEENAN. Not hired, per se, Mr. Chairman, but, rather, admitted to the limited partnership.

Mr. LANTOS. Okay.

Mr. QUEENAN. I was not an employee.

Mr. LANTOS. That is correct. But you are contributing your technical expertise.

Mr. QUEENAN. That is correct.

Mr. LANTOS. What did Mr. Wilson contribute for the 50 percent equity interest he got?

Mr. QUEENAN. Again, the area of specialization in taxable financing.

Mr. LANTOS. Well, why didn't he—if that is a very complex area, let's assume it's as complex as yours—

Mr. QUEENAN. It is, and perhaps more complex.

Mr. LANTOS. Well, maybe it is; maybe it is less complex.

Mr. QUEENAN. Perhaps I can illustrate, Mr. Chairman, some of the trade-offs.

Mr. LANTOS. Well—but I want to follow this line, because you will need to resolve a mystery for the chairman and, I think, the other members of this committee. You contribute technical expertise for which you get 6.67 percent. The fellow who puts up all the money, is a Mr. Baker, isn't he?

Mr. QUEENAN. That is correct.

Mr. LANTOS. Mr. Baker puts up all the money, takes all the risks, and gets only 32.3 percent of equity.

Mr. QUEENAN. As a limited partner, that is correct.

Mr. LANTOS. That is correct. So the fellow who takes all the risks, who puts up all the money—a couple of hundred thousand dollars on the average in these projects—gets only a third of the

equity, but Mr. Wilson, putting up none of the money, maybe having technical expertise comparable to yours in a different field, gets 50 percent of the project. Explain to me why.

Mr. QUEENAN. Principally two areas, Mr. Chairman. One, again, is taxable financings. There were a variety of ways of structuring a 22(d)(4) coinsured loan. HUD does not allow under the (d)(4) coinsurance program for discount points to be paid within project mortgage proceeds. Rather, what it allows—

Mr. LANTOS. You are losing everybody. I understand it is complex, and we are not now in a seminar on the complexities of this issue, we are dealing with very simple matters, and I am asking you to address yourself to those.

Mr. QUEENAN. I'm trying to, Mr. Chairman.

In two areas, again: taxable financing and also representing—

Mr. LANTOS. Well, let me rephrase it.

Mr. QUEENAN. All right.

Mr. LANTOS. Let me rephrase it.

Suppose you run this whole project, it's your baby, it's your money and your technical expertise, let's assume that you financed this.

Mr. QUEENAN. All right.

Mr. LANTOS. Okay. Not Mr. Baker. You put in all the money, and you have all of your expertise that you now have, and you would do all of the work that you did for that project. What kind of an equity interest would you have insisted for yourself, and what kind of an equity interest would you have given to Mr. Wilson for whatever he brought to this project?

Mr. QUEENAN. Based on precedent that had been established for that specific set of projects, one-third to 50 percent. Again now, Mr. Chairman, the original partnership agreement between Mr. Winn, Mr. Abrams, and Mr. Wilson allocated one-third interest to each of them, so it would not be atypical for one-third to be allocated on a subsequent transaction.

Mr. LANTOS. Well, in this project Mr. Wilson got 50 percent.

Mr. QUEENAN. I believe that is correct.

Mr. LANTOS. And the person who did all the work—you—got less than 7 percent, and the person who put up all the money got 33 percent.

Mr. QUEENAN. Right.

Mr. LANTOS. This doesn't make sense to a rational human being unless you supply the missing ingredient, which is what I am asking you to supply.

Mr. QUEENAN. My perception of the missing ingredient—

Mr. LANTOS. I am not blaming you for Mr. Wilson getting 50 percent. You didn't give him 50 percent. You are an extremely intelligent person, and you are under oath. I am asking you to tell me why you think he got 50 percent.

Mr. QUEENAN. I don't know, Mr. Chairman.

Mr. LANTOS. I don't believe that, Mr. Queenan.

Mr. QUEENAN. I'm sorry, Mr. Chairman.

Mr. LANTOS. Try again. Try again.

Mr. QUEENAN. I will.

Again, the partnership interests were determined by three previous partners. I was not one of them.

Mr. LANTOS. I understand that.

Mr. QUEENAN. There were subsequent revisions in the partnership negotiations between, I believe, Mr. Winn and Mr. Wilson which resulted in a reallocation of interest. I was not party to those negotiations. I have no basis for knowing.

Mr. LANTOS. You wouldn't care to speculate why Mr. Wilson got 50 percent?

Mr. QUEENAN. I would not, sir.

Mr. LANTOS. And you have no idea—

Mr. QUEENAN. Not without knowledge.

Mr. LANTOS. You have no idea why he got 50 percent?

Mr. QUEENAN. I do not.

Mr. LANTOS. I want to send down a copy of a meeting agenda of the Winn Group dated April 22, 1988.

[The agenda follows:]

April 22, 1988

MEETING AGENDA

Richland: Richland Manor/North Trace Apartments:

A. Project status:

1. Regional office must now execute A.C.C. Any progress?
2. Tax credits: Results (amount received in 88 and 89) will be known by May 5th.
3. Architect's on schedule for June 15th closing. He has been notified of delays.
4. Communications with Vleno? MOFA date?
5. Setback requirements problem: City Planner has reversed his previous position on the setback requirements of the Richland Manor House Apartments. He is now asking for an application for variance, replacing of the property or other solution to the encroachment problem (BLDG. C)

Leinbach is working with Seller's attorney to resolve variance and title issues. Local architect will coordinate.

Casper: Spring Hill Apartments:

A. Project status:

1. Presentation to Board: Results:
 - a) No major objections encountered. Sharon there was confident that we would be selected.
 - b) Board Chairman Jim McKinnis asked if we will accept less units (as few as 100). Gerry Arundson feels that Jim would not have brought this up unless he was seriously concerned about it. Our response was that this was not something we could easily live with - privately. Sharon did not indicate that this would happen.
 - c) We will talk with Sharon soon on the critical issue of bidding the project as soon as possible.

Exhibit E

possible.

2. Progress of Lance with Brady? Date of approval? Architect's on schedule for June 1, 1988 closing. Further delays are contemplated at this time. Any delay would surely jeopardize our ability to have all final C.O.s in 1988.
3. Leinbach says that Seller has signed the waiver of the paragraph 12b contingency date for HUD Grant (to closing). Copy should be received today.
4. We will begin to look into lobbying for retaining 50% of tax credits in 1988 as soon as the Board has announced it's selection and the units have been confirmed.

Victoria, Texas: Fox Run Apartments:

1. Per SD: Victoria is on the list and will be selected by Regional.
2. AS & JD to Victoria first week of May.

Pasco: Ambassador Court Apartments:

1. Pasco project rated 3rd in list from Regional.
2. Our proposal was the only one submitted to PHA.

Leinbach now believes that the Lenders will all settle for a total selling price of \$2,340,000.00.

KEY ISSUE: availability of tax credits in the State of Washington. Since '89 is the last year of the tax credit program there is considerable risk that the project will not be able to obtain any tax credits. Decision to proceed or drop the project will be made based on the results of the May 5th allocations.

New Projects:

- Kansas City and Lawrence, Kansas, Philadelphia and Pueblo.

Status? It's been a waste since we decided to find another property. Do we have any prospects? What is the plan?

ALL EXPENSES must be billed to RSF on a monthly basis so that Sarah can keep accounts current.

Accounting:

1. All expenses must be billed to RSF on a monthly basis so that Sarah can keep accounts current.

Handwritten notes at top left: "Lance with Brady", "Date of approval?", "Architect's on schedule for June 1, 1988 closing."

Handwritten notes in middle left: "Lance with Brady", "Date of approval?", "Architect's on schedule for June 1, 1988 closing."

Handwritten notes in middle right: "Per SD: Victoria is on the list and will be selected by Regional.", "AS & JD to Victoria first week of May.", "Pasco project rated 3rd in list from Regional.", "Our proposal was the only one submitted to PHA."

Handwritten notes at bottom right: "Status? It's been a waste since we decided to find another property. Do we have any prospects? What is the plan?", "ALL EXPENSES must be billed to RSF on a monthly basis so that Sarah can keep accounts current."

2. RS, JQ, RM, SV: Method of accounting must conform with FHA Mortgage Loan Transaction Record. Set meeting to discuss the different uses of operating income (prefer to date of completion, from date of completion - FHA 5379 - to cut off date, and from cut off date to final endorsement). Preparations of RHP.

Handwritten: 8:00 AM - 10:00 AM
3/21/74 - 3/20/74
JQ

Handwritten: Per Sarah Vanderpool, Vice President, Gold Crown Mortgage:

EL = Ed Heintzsch, Realtor, Tulsa OK

Willo = Wilno Lindstrom, Exec Dir, Rickland Wash, Miss Ark.

JQ = Joe Queenan

RB = Ray Baker

RS = Robert Silvestri

SV = Sara Vanderpool

RM = Ronnie Mahon

SD = Silvio A. Sarchioloni

AL = Alan Lottner

Lance = Lance Wilton

Erudy = Erudy Maples

Sharm = Sharm Shore
Casper RA Franch

Handwritten: 3/21/74

Mr. LANTOS. I direct your attention to page 2.

Mr. QUEENAN. Yes, Mr. Chairman.

Mr. LANTOS. Point 2. This item on the agenda reads as follows: "Progress of Lance with Grady? Date of approval?" Explain these cryptic questions.

Mr. QUEENAN. I will, Mr. Chairman.

First, Lance is Lance Wilson; Grady is Grady Franklin Maples, the former regional administrator of the Denver Regional Office.

The discussion and the progress evaluation of the discussion really involved a determination by the regional office economist in the Denver region on the acceptability of insuring or coinsuring the property under 221(d)(4) and subsidizing it under Section 8 Mod Rehab.

Mr. LANTOS. Now this has nothing to do with syndication. Isn't that true?

Mr. QUEENAN. That is correct.

Mr. LANTOS. So "Progress of Lance with Grady" relates to using influence to push through a project with the regional administrator. Isn't that what we are reading here?

Mr. QUEENAN. Mr. Chairman, I believe the reference is to a market determination by the Regional Office economist in Denver on a request by the Casper Housing Authority to subsidize 127 units in Spring Hill.

Mr. LANTOS. That is not what it says. It says, "Progress of Lance with Grady?"

Mr. QUEENAN. I am trying to elaborate, Mr. Chairman.

His attempt there was to explain to Mr. Grady Franklin Maples all the facts, trying to overturn a decision by Mr. Grady Franklin Maples and his staff at that time.

Mr. LANTOS. Now you're cooking. Now you're cooking.

You had a staff recommendation against this project. Isn't that true?

Mr. QUEENAN. We did, sir.

Mr. LANTOS. Let me read to you that staff recommendation. This is the senior economist speaking. "The subject request"—that is the project where Mr. Wilson gets 50 percent, not for any syndication expertise, but for reasons that we will see in one minute—"The subject request would adversely affect both the subsidized and unsubsidized rental markets in Casper. With the HUD-insured subsidized projects experiencing recent vacancies and no waiting lists"—no waiting lists; the existing HUD-subsidized projects have vacancies, and there is no waiting list—"a large number of additional units would further worsen this situation."

I am an economist, too, but you don't have to be an economist to realize that the economist was doing his job. He said there is a subsidized project in Casper which has vacancies. There is no waiting list; nobody wants to get into a subsidized project even though there is one with empty apartments. A large number of additional units would further worsen this situation. Rents are low, and vacancies are high in the unsubsidized market, but the economist says, now, there is an unsubsidized market also. Not all the housing stock in Casper, Wyoming, is HUD subsidized. Much of it is unsubsidized. What is the story there? He says, Rents are low and vacancies are high in the unsubsidized market. Additional subsidized

units will take tenants from the lower rent apartments and further weaken the unsubsidized market. HUD-insured Mountain View Apartments has been recommended for foreclosure in March 1988." There is a HUD-insured project that they have to foreclose on; it is going belly up.

"Quayle Run Apartments has been decided back to the coinsurer." Guess who? DRG.

Mr. QUEENAN. That is correct.

Mr. LANTOS. That is correct. "DRG is now in the process of appraising this project. Its potential claim is unknown. Any limits on their future market potential affects present market value and will increase the amount of the claim or loss paid by HUD."

"In conclusion," says the wise economist, "we recommend that the requested number of units be reduced. The number and trend of vacancies reported in nonpublic housing authority managed subsidized projects, and the waiting list provided by the Public Housing Authority do not justify the 145 units of Section 8 Moderate Rehabilitation. The PHA waiting lists have not been purged since October 1987."

[Copies of memoranda relating to the Casper project follow:]

March 21, 1993

MEMORANDUM FOR: Barbara McCrevey, Director, Housing Development Division, BHV

FROM: James A. Cell, Program Planning and Evaluation, 9507

Subject: EYAS Review of ~~DRG~~ WTP, Section 221(d)(4) Co-insurance, and Section 8 Moderate Rehabilitation ~~WTP-10000~~, 125 units, Casper. (Madreona County), Wyoming

This project proposes the following bedroom distribution and rents:

Number	Type	Square Feet	Rent
31	One bedroom/one bath	675	\$504
95	Two bedrooms/one bath	750	\$596

These rents do not include utilities. The project includes a common area clubhouse, game room and a sauna. Washers and dryers are located in each apartment. The applicant indicates on their HUD Form 9203 that washers and dryers will be located in a common area and coin operated, which conflicts with the present, and preferred, arrangement. At present, rents (excluding utilities) are \$235 for the one-bedroom and \$255 for the two-bedroom units. The proposed rents are 110 to 126 percent above these rents and exceed the fair market rents (FMR) for 1988 by 7 to 8 percent. The applicant states that the project will receive Section 8 subsidy, although no formal application was received by our office.

Madreona County, Wyoming, has been dramatically impacted by the declining oil, gas and mining industries. The State of Wyoming estimates for labor force and employment reveal a decline of approximately 10,000 persons in both categories since 1980. This rate of decline has decreased over the past few years, but the decline is projected to continue in 1993. Correspondingly, State estimates show a population decline of nearly 7,000 persons since 1980 with a small gain projected in 1988.

The loss of employment/population also has been heavily felt in the area's housing market. Apartment vacancies have increased from 7 percent in the early 1980's to 30 percent in 1992 according to the U.S. postal survey published in April 1992. Our March 1988 survey of the seven largest apartment complexes in the area revealed an average vacancy of about 39 percent with the two large unsubsidized HUD projects (Quail Run and Mountain View Apartments) approximately 45 percent. Rents have declined an average of 30 percent since 1982 and of this total, 6 percent was recorded during the past year. The results of our March 1988 survey are as follows:

Type

	Monthly Rent*	
	Average	Range
One-bedroom	\$237	\$210 - \$265
Two-bedroom/one bath	\$275	\$200 - \$305
Two-bedroom/two bath	\$325	\$310 - \$345
Three-bedrooms	\$385	\$395

*unfurnished and excludes utilities

The overall housing market situation is clearly a soft one and one that will continue over the next few years. This has and will continue to profoundly affect the subsidized market. The availability of low-rent houses and apartments will dilute the Section 8/Voucher market since many very low income (VLI) households can now afford rents that will be below 30 percent of their income (further discussed below). We understand that some apartments and houses are going for as low as \$100 to \$150 per month. In addition, VLI household's preference towards using Section 8/Vouchers for houses further decreases the market for apartments with Section 8 subsidy.

The current HUD subsidized apartment market in Intraona County has weakened over the past year. The four large Section 8 elderly projects reported a total of 15 vacancies and all of which occurred during the past year. None of the projects reported waiting lists, a substantial change from 1 year ago. Two Section 8 family projects reported a total of 5 vacancies and no waiting lists. On the other hand, the public housing authority (PHA) reported no vacancies and significant waiting lists for all types of housing as follows: 22 one-bedroom elderly, 103 two-bedroom family and 90 three-bedroom family. The apparent different experience between the PHA and the other projects could stem from the popularity of using Section 8 certificates/vouchers for detached houses as mentioned above. Approximately 80 percent of all certificates and vouchers issued were for houses. Although the PHA currently reports significant waiting lists for their public housing units, vacancies and a 100 percent tenant turnover were reported to HUD's Public Housing Office during the later part of 1987.

The need for subsidized housing is difficult to precisely estimate given the severe changes in the Intraona County economy. Since the 1980 census the area has experienced both a rapid growth in employment, population, income and rents during the first few years of the 1990's to a steep decline in all categories during the past 4 years. Our best demand estimates for subsidized housing in the area indicate that much of the need for subsidized housing has been met. This is based on the production of over 300 units since 1980 and the degree to which lower rents have allowed VLI households to afford the market rents. For example, a three person household earning \$13,000 per year could pay rents at the current Spring Hill rents for a two-bedroom apartment with utilities (\$300 total) and be at 30 percent of income. This effectively eliminates all persons between \$13,000 and the three person income limit of \$17,200. We estimate that this will reduce the effective need for subsidized housing by approximately 40 percent over all VLI household

categories. Casper's 1985-1988 Housing Assistance Plan (HAP) indicates a small family goal of assisting 78 units over the 3-year period. To date 61 new Section 8/Vouchers have been awarded to the area leaving a remaining goal of 17. The subject project would require a re-evaluation and an amendment to the existing HAP regarding small family goals.

The subject project is requesting Section 8 subsidy for all of their 125 units, and the potential for absorption is questionable. Once the HAP Contract is executed, the owner must lease all units to eligible VLI families, including elderly (52+), handicapped or disabled individuals. Failure to do so can result in a reduction of the units under contract. Placing these units at the market rents and in a soft market situation. The subject bedroom mix is 31 one-bedroom and 95 two-bedroom units. We expect that the one-bedroom units will not be suitable for elderly given the potential mixing of families and elderly. Additionally, the lack of an elevator will make the upper floors unsuitable for elderly given handicapped or disabled individuals. It is, therefore, very likely that most of the one-bedroom units will have to be rented to nonelderly single persons. This requires authorization by HUD and is typically based on the owner demonstrating authorized vacancies because of their inability to rent to eligible two-person families. At present, Spring Hill has a 31 percent vacancy rate for their one-bedroom units. The two-bedroom units under a better market situation would be very suitable for small family use. The location is in a good neighborhood, close to schools and shopping. Given the market conditions stated above, we find it unlikely that the project will operate at a reasonable occupancy rate even with Section 8 subsidy.

The proposed subject will have a negative impact on the two HUD Section 8 family project's Platte View and Village Garden Apartments, mentioned above and the HUD Insured Mountain View and Quail Run Apartments. Mountain View (39 percent vacant) has just come under HUD assignment and is in the process of a loan renegotiation. Quail Run (51 percent vacant) did not bring the loan current during the cosponsor's (DRC Co.) loan redemption period just ending and DRC is uncertain as to whether a foreclosure action will be taken. The Section 8 family project (Platte View Apartments) has had five vacancies during the past year and operating at a marginal or less than marginal basis and would be further hurt with the addition of a large number of project specific Section 8 waits.

In conclusion, the overall market for subsidized units in Intraona County has weakened during the past year as a result of a continued decline of the employment and population base. The economy is projected to decline in 1988, albeit at a slower rate. The housing market will remain soft for years to come. Low market rents and the existing subsidized units will meet most of the VLI household needs and the existing strong VLI household preference for Section 8 Certificates/Vouchers not attached to a particular subsidized project. The subject property,

therefore, will have difficulty renting up to a level adequate to support expenses. Section 8 projects in Casper now are experiencing vacancies and no waiting lists. This situation has deteriorated over the past year and especially during the past few months. The one exception is the PHA Section 8 Certificate/Voucher program which largely uses rental houses. Furthermore, the projects impact on HUD's Section 8 family projects and unsubsidized market rate apartments would further weaken a very poor market situation. The potential for the two large unsubsidized projects to foreclose is great. Other non-HUD projects, both small and large would be negatively impacted as well.

Therefore, we do not recommend approval of this project. Without Section 8 subsidy, this project clearly faces a soft market situation. Even with subsidy, the underwriting of a large number of project specific subsidized units would be an unacceptable risk to HUD, have an adverse impact on the housing market and create a soft market situation for subsidized units.

James G. Bell
Supervisory Regional Economist

cc: Chron
Subject: Spring Hill, 221(d)(4) Co insurance and Section 8 Mod Rehab W9-36602, Casper (Natrona County), Wyoming
BSOM:ARTOE NE:jbp 35757 W4066d-page 8-11 3/21/88 Log #6

BSO
ARTOE NE



U.S. Department of Housing and Urban Development
Denver Regional Office, Region VII
Executive Tower
1405 Curtis Street
Denver, Colorado 80202-2349

April 27, 1988

MEMORANDUM FOR: Barbara MacRavey, Director, Housing Development Division, BHD

FROM: James A. Coll, Program Planning and Evaluation, BSOM

SUBJECT: EMAS Review of Section 8 Moderate Rehabilitation, W99-1004-001, 145 units, Casper (Natrona County), Wyoming

Please refer to our March 21, 1988, memorandum to you regarding Project No. 109-36602, Section 221(d)(4), for background information on the Casper, Wyoming, market. The applicant is requesting family Section 8 moderate rehabilitation for the following units:

	Bedrooms	No. of Units
1		31
2		100
3		14
Total		145

Casper's economy is expected to begin to stabilize in 1988 after experiencing a loss of nearly 14,000 jobs (approximately 30 percent) since 1981. Small employment gains are projected for 1989 and 1990 but it will take many years to return to the employment (and population) levels that the area experienced in the early 1980s. Correspondingly, the housing market will take many years to come into balance.

Our demand estimates for subsidized housing in the area indicates that much of the need has been met. This is evidenced by vacancies and the absence of waiting lists in both elderly and family Section 8 projects. Conversely, the Casper public housing authority (PHA) reported substantial waiting lists and provided "preliminary tenant applications" as follows:

No. of Bedrooms	No. of Applicants	
	Section 8 only	Section 8 or Public Housing
1	4	14
2	41	131
3	22	118
4		8
Total	67	271
		8
		338

Exhibit D

The application asks for a preference between "public housing" and Section 8 units in the open market" or both. The PHA uses primarily single family detached houses under both programs. We are concerned that many of these applicants would prefer detached houses and/or open market units and may not be interested in project specific apartments. This is particularly an issue in a soft market with very low rents. In the interest of time, we did not survey these applicants to verify if this was the case or not. The PHA did report that for public housing units, it took three or four calls to confirm one tenant and for Section 8 existing one call. They did not report calls based on open market and/or detached houses versus project specific apartments.

The market for the subject request is most comparable to the existing stock of public housing. Using the applicant category of Section 8 or public housing, we found that a better than a two to one call/tenant ratio would be needed to fill 100 two-bedroom units. This would be significantly lower than the PHAs rate of three or four to one and leads us to doubt that 100 two-bedroom units could be filled from this list. The requested 31 one-bedroom units would be obviously excessive with only 14 names on the waiting list. The three-bedroom units have the greatest chance of filling. Even with the combined Section 8 only and Section 8 or public housing categories and using a three or four to one ratio, the list would still fall far short of supporting 145 units.

The city of Casper's Housing Assistance Plan (HAP) will have to be amended to accommodate the subject request. We understand that the City is in the process of amending their HAP. We would not support an amendment to allow 145 units of project specific moderate rehabilitation given Casper's current market, especially if it was to be largely concentrated.

The subject request would adversely affect both the subsidized and unsubsidized rental markets in Casper. With the HUD insured subsidized projects experiencing recent vacancies and no waiting lists, a large number of additional units would further worsen this situation. Rents are low and vacancies high in the unsubsidized market. Additional subsidized units will take tenants from the lower rent apartments and further weaken the unsubsidized market. HUD insured Mountain View Apartments, Project No. 109-35020, has been recommended for foreclosure in March 1988. Quail Run Apartments, Project No. 109-10501, has been deeded back to the coinsurer (DRG). DRG is now in the process of appraising this project; its potential claim is unknown. Any limits on their future market potential affects present market value and will increase the amount of the claim or loss paid by HUD.

In conclusion, we recommend that the requested number of units be reduced. The number and trend of vacancies reported in non-PHA managed subsidized projects and the waiting lists provided by the PHA do not justify 145 units of Section 8 moderate rehabilitation. The PHAs waiting lists have not been purged since October 1987. We expect that the prospective tenants have a strong preference for vouchers and certificates not attached to a particular subsidized project. In a soft rental market this factor is of particular importance.

Therefore, we recommend that the number of requested units be scaled down to 30 or 40 units. A project of 28 two-bedroom and 10 three-bedroom units would be within the present HAP. The impact on the market would be lessened and the risk to HUD would be reduced. Growth in future subsidized needs can be best met by the use of vouchers and certificates not attached to a specific project.

James C. Hest
Supervisory Regional Economist

cc: Krefman, RCP
Maples, BS

May 24, 1985

MEMORANDUM FOR: Charles Kreiman, Director, Program Operations Division, BCP

FROM: James A. Dill, Program Planning and Evaluation, ESOH

SUBJECT: EMAS Review of the 3-Year Housing Assistance Plan (HAP) Amendment, B-85-KC-56-0001, Casper (Natrona County), Wyoming

The city of Casper, Wyoming, has submitted an amendment to their 3-year HAP. The proposed amendment significantly increases the total goal for HUD resources from 230 units to 400 units and modifies the distribution among household types. This proposed amendment was precipitated by the City's desire to accommodate a Section 8 Moderate Rehabilitation project of 145 units (W99-B004-001). Our review of that application is attached.

As indicated in the attached review, it is unlikely that the housing authority can fill 145 project-specific Section 8 units from their present waiting list. More importantly, to the extent these units are filled, remaining projects in the subsidized and nonsubsidized market will be adversely impacted. In particular, we expect this action to increase the claim HUD will pay on Quail Run (109-N501, 206 units) and limit our ability to recover the claim likely to be paid on Mountain View (109-35020, 95 units).

For these reasons, we recommended a reduction in the Moderate Rehabilitation program to 38 units, a level consistent with the currently approved HAP and one less likely to cause significant disruption in the market. To increase goals to accommodate a major addition of project-specific subsidies is "plainly inappropriate" in view of present market conditions. We continue to recommend a reduced Moderate Rehabilitation program which makes the proposed amendment not only inappropriate, but also unnecessary. Therefore, we recommend disapproval of the proposed amendment.

Supervisory Regional Economist

Attachment

cc:

~~Charles Kreiman~~
~~James A. Dill~~
~~John J. ...~~

Mr. LANTOS. What does that mean? That the waiting list is even shorter than it appears because it hasn't been purged; the names haven't been struck of people who got housing or moved away or what not.

What this tells me—and I'm sure it tells you the same thing, Mr. Queenan; I will ask you to answer that in a minute—there was a project here that should never have been approved. The expert on the project, the man who understood the ins and outs of all of these subsidized mod rehab operations, is sitting right here, Mr. Queenan. Mr. Queenan is not sent up to deal with the HUD regional manager, although you worked in that office for 14 years with great distinction; you know more about this than anybody. It is Lance Wilson who is sent up there, and the cryptic agenda reference says, "Progress of Lance with Grady? Date of approval?" Well, what that means to a child of 10 is that the objective conditions do not justify this project. The regional economist, the senior economist, as I just read to you, says, don't do it; there's no need for it; the subsidized market has vacancies, no waiting list; the unsubsidized market has low rents, vacancies; this is not the place to go in with a mod rehab unit. But the Winn Group has an ace in the hole. The ace in the hole is called Lance Wilson, and Lance Wilson is sent in to deal with the Regional Director and make progress with him, which, in plain English means, use his influence to overrule the technical people who are opposing this project.

Would you agree with my analysis?

Mr. QUEENAN. No, I would not, sir.

Mr. LANTOS. I'm sorry?

Mr. QUEENAN. I would not, sir.

Mr. LANTOS. Okay, then, explain to me why it is wrong.

Mr. QUEENAN. I will. For several reasons, Mr. Chairman.

First, a market rejection from a HUD senior economist is not atypical in underwriting a multifamily project mortgages or assisted housing projects. I would estimate that during my 13-year career in HUD the economist rejected 25 percent of the applications that were submitted to HUD for either assisted housing or multi-family mortgage insurance. That is not unusual.

At the time that the senior economist prepared that memorandum—

Mr. LANTOS. Let me just stop you there because you won't slip by with a 25 percent average figure. That means they approved three-quarters, didn't they?

Mr. QUEENAN. If I had personally intervened and tried to raise—

Mr. LANTOS. Well, you just said that they recommended against one-quarter and did not recommend against three-quarters.

Mr. QUEENAN. That is correct.

Mr. LANTOS. That is correct.

So I would say that the economist—by the way, are you suggesting that these economists had any personal reason for favoring or disfavoring projects?

Mr. QUEENAN. Not at all, sir.

Mr. LANTOS. Not at all. So these people were professional people giving their best judgments.

Mr. QUEENAN. Then and now.

Mr. LANTOS. I'm sorry?
 Mr. QUEENAN. Then and now, sir. That's true.
 Mr. LANTOS. Then and now. You and I are in full accord.
 Mr. QUEENAN. We are, and we are both economists.
 Mr. LANTOS. That is correct.
 Now, a hundred projects come in on the average, and you tell me your experience is, three-quarters of these are approved by economists, are recommended by economists, and 25 percent are recommended against. Is that correct?

Mr. QUEENAN. It is, sir.
 Mr. LANTOS. Yes.
 Now, on the basis of all of the projects you worked on, had you been the economist, what percentage would you have turned down? None?

Mr. QUEENAN. No, sir, I wouldn't suggest that at all.
 Mr. LANTOS. Ten percent? Twenty percent? Fifty percent?
 Mr. QUEENAN. Probably 10 percent. It would be a reasonable interval.
 Mr. LANTOS. Okay. So you are a more optimistically bent economist—

Mr. QUEENAN. I am extremely optimistic.
 Mr. LANTOS [continuing]. Than the ones you dealt with. What you are saying is that of the 100 projects—we are talking ball park figures; we both understand that—if you had that job of giving the economic recommendation, out of 100 projects you probably would have approved 90; you would have recommended 90.

Mr. QUEENAN. For subsidy, that is true.
 Mr. LANTOS. For subsidy, that is true. So you would have rejected 10—10 percent.

Mr. QUEENAN. Correct.
 Mr. LANTOS. Well, the economists you dealt with are a little more pessimistic, maybe a little wiser on the basis of the DRG experience, lots of other experiences we have; they recommended against a quarter. So this wasn't singled out by them.

Mr. QUEENAN. It was not, sir.
 Mr. LANTOS. It was not. And the reasons they give seem to me to be very persuasive. The reasons they give are, there is a subsidized market which has vacancies; there is an unsubsidized market with low rents and vacancies. So they don't want to pour money into a big mod rehab project, and that is why they are recommending against it, and Mr. Wilson's job is to overturn that recommendation.

Mr. QUEENAN. Mr. Chairman, if I might.
 Mr. LANTOS. Please.
 Mr. QUEENAN. I also spoke to Mr. Grady Franklin Maples and to a number of his staff members, including the senior economist who, I believe prepared that memorandum, trying to put forth objective information so that it could be considered on balance. That information involved, in part, the fact that the waiting list had not been updated by the housing authority, because it had no assisted housing for which it could advertise. When it advertised for assisted housing, it received a large number of applications from eligible households.

All three projects in Spring Hill Apartments I, II, III are completely leased and have been since the completion of rehabilitation, I think belying the argument on the senior economist's part.

So I did speak personally to Mr. Maples and to his career program staff trying to provide information to them to affect their decision-making.

Mr. LANTOS. But you did not persuade them.

Mr. QUEENAN. I believe I did in part, but not completely.

Mr. LANTOS. Is it fair to say that Mr. Wilson's clout as Pierce's former Chief of Staff was the effective argument that did persuade them?

Mr. QUEENAN. It was one argument, sir. There were other arguments advanced by the Chairman of the Casper, Wyoming, Housing Authority, other board commissioners, and by the former Executive Director of the Casper Housing Authority, who met, I believe on at least two occasions, with Mr. Maples and his senior staff on this specific project.

Mr. LANTOS. This was at a time when Mr. Wilson was a full-time employee of PaineWebber. Is that correct?

Mr. QUEENAN. I believe so, sir.

Mr. LANTOS. When officials of PaineWebber testified before us, they stated that, according to their code of conduct, "Employees must not engage in outside activities prior to obtaining written approval of the Compliance Department." PaineWebber claims that they have no record of Mr. Wilson requesting any such approval. Furthermore, at the end of 1988 Mr. Wilson signed the annual certificate required of all PaineWebber employees certifying that he had complied with all PaineWebber policies, including their code of conduct.

Do you have any comment on this?

Mr. QUEENAN. I do not, sir.

Mr. LANTOS. You are extremely knowledgeable about moderate rehabilitation programs. You served as a national trainer in that program. We agree on that.

Mr. QUEENAN. Thank you, Mr. Chairman.

Mr. LANTOS. Yet I find it remarkable that in some mod rehab projects in which you were involved you hired consultants.

Mr. QUEENAN. I did, sir.

Mr. LANTOS. Why did you hire them? For what projects? And why did you retain them? What could they offer that you did not already know about the programs?

Mr. QUEENAN. I hired two previous witnesses who had appeared before this subcommittee, Mr. William Taylor and Associates, Lynda Murphy; and the Winn Group. I believe that's it, Mr. Chairman.

Mr. LANTOS. Mr. Bill Taylor of Florida.

Mr. QUEENAN. That is correct.

Mr. LANTOS. Now how would you compare Mr. Taylor's technical expertise in the Mod Rehab Program to your technical expertise? Mr. QUEENAN. They are incomparable.

Mr. LANTOS. They are not comparable. Can you expand on that? He had no expertise, and you had a lot. Is that what you are saying?

Mr. QUEENAN. I wouldn't disagree.

Mr. LANTOS. You would not disagree. That is a gracious way of putting it.

Why did you hire Mr. Taylor?

Mr. QUEENAN. A former business associate, Mr. Chairman, Neston Navarro, referred me to Mr. Taylor and said that he had been responsible for providing assistance to the community in trying to work through a Section 8 Moderate Rehabilitation Program in the State of Alabama. That is how I met him, and that was his role—to work through the community.

Mr. LANTOS. When you say assistance, you really mean influence-peddling, don't you?

Mr. QUEENAN. I don't sir.

Mr. LANTOS. Well, then, precisely define for me what assistance he provided.

Mr. QUEENAN. He provided assistance working with the Birmingham, Alabama, field office and also with the Mayor of Bessemer, Alabama, in trying to explain what we were attempting to do. The community in that case, Mr. Chairman, was trying to rehabilitate a vacant, existing building within Bessemer, Alabama. When I reviewed it, I found a number of technical deficiencies in the proposal as it had been previously submitted by another development group. Those deficiencies involved environmental hazards and infeasibility under the Section 8 Moderate Rehabilitation Program. It simply was not feasible within the existing fair market rents or 120 Mod Rehab. I recognized that quickly on the basis of one singular on-site inspection.

I then proposed another development, at least in the discussion stage, Mr. Chairman, which was never approved by the housing authority.

Mr. LANTOS. Yesterday, when you were interviewed by our staff, you indicated that you hired Mr. Taylor, Ms. Murphy, and Mr. Abrams because of—

Mr. QUEENAN. Philips Development Corporation was the entity, Mr. Chairman, rather than Mr. Abrams as an individual.

Mr. LANTOS. Yes, because they had access to the allocation of units.

Mr. QUEENAN. That is correct.

Mr. LANTOS. So it was their access to unit allocation that prompted you to hire them.

Mr. QUEENAN. In two of the three cases, that is correct, Mr. Chairman. With respect to Philips Development Corporation, there were other services that were provided: evaluation of development alternatives; financing options; various Federal, state, and local housing programs that might be utilized.

Mr. LANTOS. Since the chairman is trying very hard, and with a modicum of success, to conduct these hearings in a totally bipartisan fashion, before I ask the next question let me stipulate that clearly in early Democratic administrations people made political contributions who were involved in these programs. We have heard references to that in earlier hearings. So I am suggesting that this has not been unique to either political party.

In September of 1988, you donated \$100,000 to the Republican National Senatorial Committee. Is that correct?

Mr. QUEENAN. The entity was the Republican National State Election Commission. Yes, I did, sir.

Mr. LANTOS. Was this a corporate donation, or was this a personal donation?

Mr. QUEENAN. It was a corporate donation, Mr. Chairman, issued on the account of Milestone Housing Development Corporation, one of my subchapter S corporations.

Mr. LANTOS. Now the Milestone Housing Development Corporation made this \$100,000 campaign contribution from retained earnings. Is that correct?

Mr. QUEENAN. It is, sir.

Mr. LANTOS. Where were these retained earnings derived from?

Mr. QUEENAN. From earnings that I generated through a number of entities, subchapter S corporations, and also from personal savings that I had developed over the years since I left HUD.

Mr. LANTOS. It was basically from work in Federal housing—

Mr. QUEENAN. Multifamily rental housing—

Mr. LANTOS. I'm sorry?

Mr. QUEENAN. Multifamily rental housing programs, especially, Mr. Chairman, HUD programs.

Mr. LANTOS. Let me stipulate, this was a perfectly legal act, but I would like also to have you comment on an earlier witness's observation. Mr. James Watt indicated that his fees did not come from any Federal, state, local, or any other public funds, but they obviously came from the earnings of the people who hired him to do mod rehab projects.

Is it fair to say that these retained earnings initially were originated by Federal housing subsidies?

Mr. QUEENAN. In part, sir. They were more largely attributable to correspondent fees that I had received by performing services for HUD-approved coinsuring lenders or for fully insured lenders. In addition, there were development fees that I had received, admittedly attributable to the syndication of low income housing tax credits on HUD subsidized projects.

So I believe that I would agree with you in large part.

Mr. LANTOS. All right. So what we have here—and the chair again wants to stipulate that in earlier administrations this worked to the benefit of the other party—but what we have here is Federally subsidized housing projects generating earnings which are then recycled into the coffers of political parties. Is that a fair description, Mr. Queenan?

Mr. QUEENAN. I think not, Mr. Chairman.

Mr. LANTOS. I'm sorry?

Mr. QUEENAN. I think not, for two reasons.

First of all, the projects that I developed and that are a subject of the audit were all developed and completed prior to the time that I made the contribution to the RNSEC. In addition, while I served at HUD I was unable, because I had to comply with both the spirit and the intent of the Hatch Act, to make any political contributions. I was politically inactive then and largely now. I subsequently decided, on my own initiative, after reading an article that appeared in the *Wall Street Journal* on August 17, 1988, written by Brooks Jackson, that I would make a contribution to the RNSEC. Those funds were directed at, as I understand it, State elections

and not presidential elections. One-third of that money, I believe, resulted or was returned to the State of Colorado for candidates for congressional office or State office, my home State.

Mr. LANTOS. Did you make any contributions to a charity that Mr. Demery was interested in?

Mr. QUEENAN. I made a contribution to F.O.O.D. for Africa, as have a number of other individuals. I have also made contributions to other nonprofit organizations.

Mr. LANTOS. Let's talk about F.O.O.D. for Africa for a second. What was the amount of your contribution?

Mr. QUEENAN. From memory, sir, approximately \$35,000 to \$37,000 on a matching basis. That is, I matched other contributions from other givers, as I had previously agreed to do with Reverend Pretorius.

Mr. LANTOS. Who solicited you for that particular charity, the F.O.O.D. for Africa charity?

Mr. QUEENAN. No one solicited me, sir; I offered my services in terms of fund-raising and being involved, getting committed to a nonprofit organization. I had worked during my career at HUD with other nonprofit organizations over a 13-year period, so it was not foreign to me.

Mr. SHAYS. Excuse me, Mr. Chairman.

Mr. LANTOS. Please.

Mr. SHAYS. Did you ask him who solicited for F.O.O.D. for Africa?

Mr. LANTOS. Yes, I did.

Would you care to repeat your answer for Congressman Shays. Mr. QUEENAN. Yes, I believe I said, Congressman Shays, that no one solicited me; I initiated the offer to Reverend Pretorius after having attended a fund-raiser elsewhere.

Mr. SHAYS. So it is your testimony, under no time did Lance Wilson suggest that you contribute to F.O.O.D. for Africa?

Mr. QUEENAN. I didn't interpret the question that way, Congressman Shays. Lance Wilson was active in—
Mr. SHAYS. Did Lance Wilson encourage you to contribute to F.O.O.D. for Africa?

Mr. QUEENAN. Not directly, sir. He encouraged our partnership to consider that and other charitable contributions, as we had and had contributed over time. I did attend a fund-raiser in New York City which I believe the committee has heard previous testimony about which—

Mr. LANTOS. At whose invitation did you attend?

Mr. QUEENAN. Either Mr. Winn or Mr. Abrams, ultimately through Mr. Wilson, sir.

Mr. LANTOS. Mr. Lance Wilson's invitation was extended, as I understand it, to you—

Mr. QUEENAN. Indirectly.

Mr. LANTOS [continuing]. Mr. Winn, and Mr. Abrams.

Mr. QUEENAN. And a number of other people.

Mr. LANTOS. Large numbers of other people, but in the Winn Group it was the three of you who received that invitation.

Mr. QUEENAN. It was, sir.

Mr. SHAYS. I just wonder if you want to clarify—the question was, did anyone solicit or suggest that you contribute to F.O.O.D.

for Africa? And I'm just uncomfortable with your answer when you said really no one.

Mr. QUEENAN. I am suggesting, sir, that I wasn't solicited; rather, I voluntarily gave. I was made aware of a fund-raiser for F.O.O.D. for Africa.

Mr. SHAYS. Who made you aware of that, again?

Mr. QUEENAN. I believe, sir, either Mr. Winn or Mr. Abrams through Mr. Wilson.

Mr. SHAYS. Through Mr. Wilson.

Mr. QUEENAN. That is correct.

Mr. SHAYS. So Mr. Wilson made Mr. Winn and Mr. Abrams aware of it, and, through that, then you proceeded to—

Mr. QUEENAN. I attended a fund-raiser in New York City.

Mr. SHAYS. Now you didn't live in New York City.

Mr. QUEENAN. I did not, sir.

Mr. SHAYS. You actually went from where to New York City?

Mr. QUEENAN. From Denver, Colorado, to New York City.

Mr. SHAYS. At whose invitation?

Mr. QUEENAN. Ultimately Mr. Wilson's.

Mr. SHAYS. Thank you.

Mr. LANTOS. I just have a couple of more questions.

You wanted to say something?

Mr. QUEENAN. No, Mr. Chairman.

Mr. BARCELLA. Excuse me. Can I have the chairman's indulgence for a moment?

Mr. LANTOS. Please do.

[Mr. Queenan consults with Mr. Barcella briefly.]

Mr. QUEENAN. Mr. Chairman, if I could, for clarification.

Mr. LANTOS. Please.

Mr. QUEENAN. At the time that I attended the fund-raiser in New York City, I didn't make the sizable contribution to F.O.O.D. for Africa but, rather, a much, much smaller, \$1,000 contribution to F.O.O.D. for Africa. But it was at that fund-raiser that I became aware of the work and the commitment of Mr. Pretorius and his wife and others in terms of F.O.O.D. for Africa.

Mr. LANTOS. Very good.

Now, getting back to the Winn Group, whose role within the Winn Group was to get the units?

Mr. QUEENAN. Mr. Chairman, I believe in previous testimony, first on the part of Mr. Abrams and subsequently on the part of Mr. Winn, you heard them testify that in Mr. Abrams' case he did write three letters to a then HUD official, Ms. Deborah Gore Dean. In addition, I believe you heard Mr. Winn say that he either met or spoke with Ms. Dean on several occasions. Beyond that, I am not aware, sir, I certainly didn't make any calls or write any letters to anyone at HUD on those Section 8 Mod Rehab projects.

Mr. LANTOS. I think that is very accurate.

Was Mr. Wilson's assignment also to get units, as in the case of the Casper, Wyoming, project?

Mr. QUEENAN. I believe as a partner he spoke to some HUD officials. I have no direct knowledge, though, sir, that he did.

Mr. LANTOS. Who would those HUD officials have been?

Mr. QUEENAN. I don't know, sir. I wasn't involved in those conversations, if they took place.

Mr. LANTOS. Please tell us about your involvement in the Pebble Creek project in Arlington, Texas. When and how did you become involved in that project, and what was your responsibility?

Mr. QUEENAN. Yes, Mr. Chairman.

I became involved, I believe, Mr. Chairman, in January of 1987, principally in three areas, again, as I have explained previously to the committee. Those areas were the submission—preparation and the submission of an owner's proposal for Section 8 moderate rehabilitation assistance; preparation and submission of a conditional commitment and, subsequently, a firm commitment for 221(d)(4) co-insurance to the coinsuring lender; and, thirdly, to involve the preparation and submission of a low income housing tax credit application to the state agency, which I believe was the Texas housing agency.

My involvement was, I believe, attributable to a reference on the part of Mr. Abrams to one of the two developers involved in the transaction—one of two owners—because, again, of my specialization in those particular programs.

Mr. LANTOS. Now, earlier on, when we talked about people you hired to help you, we chatted a bit about Mr. Taylor of Florida. We haven't yet gotten to Ms. Murphy. Why did you hire Ms. Murphy?

Mr. QUEENAN. I hired Ms. Murphy on a retainer basis to try to further the application submitted by the Tucson Housing Authority for Section 8 moderate rehabilitation assistance. The application, as I understand it, prepared by the Housing Authority was funded by HUD. I was not approved for participation in the program—Section 8, that is.

Mr. LANTOS. What did Ms. Murphy do specifically for you?

Mr. QUEENAN. She, I believe, had a number of discussions with HUD officials, congressional delegation in the state of Arizona, attempting to state the facts in terms of a need for housing in that particular community, particularly moderate rehabilitation assistance.

Their application, I believe, Mr. Chairman, was somewhat unique. They were trying to provide under the Section 8 Mod Rehab Program for transitional housing. It is an excellent PHA, one of the best that I have encountered in 13 years.

Mr. LANTOS. Why did you need Ms. Murphy?

Mr. QUEENAN. In terms of the allocation process, Mr. Chairman.

Mr. LANTOS. So we are back to the influence-peddling issue, aren't we? You certainly didn't need her technical help, just as you didn't need Bill Taylor's technical help.

Mr. QUEENAN. I did not, Mr. Chairman.

Mr. LANTOS. Just as you didn't need Phil Abrams' technical help.

Mr. QUEENAN. I wouldn't say that, Mr. Chairman. I'm not a contractor, Mr. Abrams is, and he is experienced—

Mr. LANTOS. But you didn't hire him for contracting expertise.

Mr. QUEENAN. No, I did not; that is correct.

Mr. LANTOS. What expertise did you hire him for? Contacting expertise.

Mr. QUEENAN. If you will.

Mr. LANTOS. Well, there is a profound difference.

Mr. QUEENAN. You said "contacting," not "contracting."

Mr. LANTOS. Contacting, yes. He knew how to contact the right people.

Mr. QUEENAN. He certainly was persuasive.

Mr. LANTOS. Okay. I don't know how persuasive he was, but he knew the right people. Isn't that basically the issue?

Mr. QUEENAN. He knew the key players in HUD.

Mr. LANTOS. Okay. And Ms. Murphy, similarly?

Mr. QUEENAN. Similarly.

Mr. LANTOS. And Mr. Taylor?

Mr. QUEENAN. I don't know that relationship. Mr. Chairman.

Mr. LANTOS. Yesterday, you told the subcommittee, Mr. Queenan, that you had heard that Mr. Wilson contacted Ms. Dean but you were not sure that that was a fact.

Mr. QUEENAN. That is what I said then and I would also state today.

Mr. LANTOS. From whom would you have heard that?

Mr. QUEENAN. I believe from Mr. Winn.

Mr. LANTOS. Is there any reason for you to doubt Mr. Winn's statement on that score?

Mr. QUEENAN. Not on any score.

Mr. LANTOS. Not on any score. So if you heard it from him—and you obviously seem to be impressed by his veracity—would you assume that his statement to you accurately reflected the facts?

Mr. QUEENAN. I would, sir.

Mr. LANTOS. Thank you very much.

Before I turn the questioning to Congressman Lukens we will take a one-minute recess.

Mr. QUEENAN. Thank you, Mr. Chairman.

[Recess.]

Mr. LANTOS. The subcommittee will resume its hearing. We will begin with Congressman Lukens.

Mr. LUKENS. Thank you, Mr. Chairman.

As the ranking Member on this side, we have a slightly different viewpoint, although we are in agreement on 95 percent of what the chairman has asked about and, I think, what he is moving toward. I am very grateful for the graciousness and the fairness of the chairman, pointing out that the program has been a target of abuse for many, many years, not just during the Reagan years, Republican, the Carter years, Democrat, etc.

Just to underscore that point briefly, the State of Massachusetts received \$73 million Section 8 housing funds in 1979, the largest allocation of any State in the Union; 70 percent of the money raised in Massachusetts by Mr. Carter in 1980 was given by Section 8 developers. So the program, really, has been abused in many ways. One additional fact. One hundred percent Section 8 developers in Massachusetts who contributed to Mr. Carter's campaign received Section 8 projects for approval.

So what I am getting at is, what do we do about it? I have a lot of questions. The chairman has asked probably 50 percent of the questions I wanted to have, and the answers keep coming out about the same way. But I am really interested in, how can this happen? How can this continue? And I am going to get into your feelings and why you would continue to use a system that obviously is open to abuse.