

# Kemp turns HUD into Gestapo for wiping out low-income housing

by Steve Parsons

Jack Kemp, the Secretary of Housing and Urban Development, is on a crusade. "I'm gonna clean house," said Kemp on a nationally televised program in June. "I'm going to be the secretary that cleans up the programs and the policies across the board in HUD. There's got to be reform and overhaul of . . . HUD. The auditing that is being done . . . is going to be handed over to the Attorney General. My moral outrage is that there was so much political influence in the program. It is unseemly that people who attacked big government and said they would fight corruption, take funds for themselves and were greedy, rather than helping the needy."

Has Jack Kemp suddenly turned into a liberal advocate of the downtrodden, out-performing the histrionics of Jesse Jackson? Hardly.

As he has done all his life, ex-quarterback Kemp is just executing plays designed by his coaches—in this case, vicious orders from his Establishment masters. Kemp, who is the oligarchical Mont Pelerin Society's former congressional member, has been told to dismantle federal housing programs and turn HUD into a Gestapo-style police arm of the FBI and Attorney General Richard Thornburgh's renegade Justice Department.

## The rigged scandal

Almost every day for the past month, the news media have carried major stories of the burgeoning scandal at HUD. The common denominator is that unscrupulous real estate swindlers have fraudulently exploited various federal loan and mortgage guarantee programs at HUD, with the aid and abetment of former Reagan administration influence peddlers and Reagan's HUD secretary Samuel Pierce. The result has been the loss of hundreds of millions, if not billions of dollars by the federal government on defaulted but federally guaranteed mortgages.

While no doubt there are indeed substantial shady dealings around HUD programs, the proliferation of such shenanigans was virtually ensured up by just such free-enterprise ideologues as Jack Kemp.

These brilliant free-marketeers, under the banner of reducing big government, undertook an overhaul of bureaucracies at HUD and other federal departments, aiming to

"streamline" and "privatize" as many of their functions as possible by utilizing companies in the free market.

Take just one HUD program featured in the media attacks, the "Co-insurance Program," as a paradigm.

Up until 1983, HUD provided full mortgage insurance for construction and renovation of multi-family housing projects, did its own real estate appraisals, and supervised loan repayment. Now, private mortgage lenders make the appraisals and loans, with the government providing insurance—the co-insurance program—for up to 80% of the mortgage costs. The private lenders can also get fees up to 4% of the mortgage amount for the renovation loans—on top of the mortgage earnings. HUD staff was laid off in the process, and that eliminated any effective monitoring and assessment capability.

This arrangement was a virtual legal *carte blanche* for clever free-market ripoffs by such enterprising businessmen as mortgage lenders, bankers, and political influence peddlers. The obvious happened, in at least some cases: Some lenders inflated the reported property values in order to get bigger mortgages from mortgage companies, which would yield bigger 4% fees. And it was almost all insured by the federal government, regardless of whether people actually lived on the property or paid rent.

More than any other government department, HUD's budget was "successfully" cut to ribbons. Its staff was reduced by one-third, from 16,000 to 11,000. Subsidized housing outlays were slashed 70%, from \$26 billion to less than \$8 billion, forcing intense competition and influence peddling to grab what little money was left. The administration refused to fill top-level positions and even refused to permit Pierce to name his own deputy.

As early as 1981, Charles L. Dempsey, a former HUD inspector general, warned about the lack of internal controls in the department. "How can you correct poor accounting systems, poor cash flow, when you're cutting your staff?" Dempsey said. "There was a hell of a brain drain at HUD."

"The whole system just collapsed," said Gerald McMurray, staff member and expert with the House Banking, Finance, and Urban Affairs Committee. The depleted staff was told to concentrate on selling properties the department

controlled, under a quota system, and could not audit what was going on, so that escrow agents like the infamous Marilyn Harrell, who stole over \$5 million, could get away with murder.

Kemp has already suspended or terminated three HUD programs. These include:

- The Retirement Service Center Program, which provides housing and support services to elderly persons over age 70. Kemp said the program has cost HUD \$119 million in payments to banks to cover defaulted loans by private developers, who generally did not build the housing for low-income people, but for those in the middle- and upper-income brackets. Some \$600 million in mortgages are guaranteed under this program alone, and many more defaults are expected. Implicated is Reagan's HUD secretary Samuel Pierce, who approved one project that converted a factory in North Carolina into 151 apartments for the elderly. The project was lobbied for by longtime cronies of Pierce.

- The Moderate Rehabilitation Program, which provided rent subsidies for developers who renovate rental properties which would qualify for low-income tax credits and government-backed loans.

- The Title X land development program, which allowed developers to purchase land that often ended up as high-income housing.

HUD Undersecretary Alfred DelliBovi announced that the department will intensively examine 28 of HUD's 48 programs for fraud; the other 20 are either very small or have been effectively terminated already. All will be, at the least, sharply cut back.

The scale of the programs is enormous and affects probably millions of poor and elderly Americans. "HUD manages a trillion dollars worth of assets every year," said DelliBovi. "If HUD was a corporation on the Fortune 500 list, it would be number one."

"Think of this as management triage," DelliBovi told the *New York Times*.

Even Rep. Tom Lantos (D-Calif.), Government Operations Subcommittee on Employment and Housing which has been working with Kemp to blow the scandal, admits the actual intent behind the exposes. Lantos acknowledged that the scandals could "be used as an avenue for not meeting the needs that these programs were originally designed to [meet] . . . [and] to discontinue them."

Indeed, HUD is slashing even its basic housing subsidy programs for low-income tenants. To take just one example, 25 low-income families in a Hagerstown, Maryland apartment complex are facing astronomical rent increases of more than 2,200%! With no notice, HUD refused to renew the five-year subsidy agreement it had with the landlord, resulting in rent hikes from the current rate of \$21 to \$489 by September. These families will have to move, but have nowhere to go. The waiting list in their area for subsidized housing is 300 names long.

Other horrors attend the HUD rationalization process. Kemp announced two of them in an interview with the *Washington Post* on July 7. First is tenant "co-participation" management of housing projects, whereby tenants will themselves proudly "manage" their projects under a regime of dwindling HUD allocations and maintenance budgets. Second, tenants themselves will increasingly assume vigilante-style police functions through policing the drug scourge in the projects, with shrinking budgets for the projects. Third, and most important, HUD will increase their effort toward creating Hong Kong-style, cheap-labor free enterprise zones in help impoverished areas.

### HUD's own Gestapo

Kemp has created an "Asset Recovery Strike Force" that will function as a virtual Gestapo empowered to conduct wild unconstitutional witchhunts and seizures. In a June 28 letter to Attorney General Thornburgh, Kemp said the force would "identify assets of persons who embezzled, misappropriated, or withheld HUD funds," freeze those funds, initiate recovery suits, and begin suspension and debarment actions against those found guilty. Kemp noted that the Justice Department is now investigating 630 cases, which Kemp requests be moved "to priority status."

But these cases are just the tip of the iceberg. When Kemp took office, there were 849 internal audit reports with 3,589 recommendations; decisions have been made on only half of these recommendations, and of these no action has yet been carried out. Representatives of HUD's inspector general have scheduled appointments with all 94 U.S. attorneys and local FBI officials to review both criminal and civil cases involving housing programs.

This strike force complements the war Thornburgh is conducting against independent savings and loan institutions. During the week of July 4, Thornburgh demanded that Congress double the \$50 million provided in the pending S&L legislation, so that he could hire twice the number of FBI agents and federal prosecutors going after so-called S&L fraud.

The HUD strike force police measures will likely be extended throughout the government bureaucracy. Office of Management and Budget Director Richard Darman has directed all 14 cabinet departments, as well as the National Aeronautics and Space Administration and the Environmental Protection Agency, to review all operations to determine those "vulnerable to fraud and waste." As in the HUD scandal, enemies of the Bush clique, old Reagan administration "influence peddlers," and department programs and budgets that actually do some good, will all be targeted. Underscoring this "hit list" policy, on July 6 Kemp for the first time publicly criticized Reagan's HUD secretary Samuel Pierce for his poor management of HUD, amid increasing media revelations of Pierce's personal involvement in influence peddling and sweetheart deals during his tenure.