

WEST OAK LANE, PHILADELPHIA, PENNSYLVANIA  
CASE STUDY

PROPERTY DISPOSITION  
DEMONSTRATION  
DATA GATHERING,  
ANALYSIS, AND EVALUATION PROGRAM

Prepared For

THE OFFICE OF POLICY DEVELOPMENT  
AND RESEARCH  
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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## OVERVIEW OF THE PROBLEM

In early 1976, the Philadelphia Field Office of HUD was experiencing serious problems in reducing its inventory of single-family properties. The office was still recovering from a 1973 court decision requiring that HUD comply with the lead-based paint standards of the City of Philadelphia. This ruling had a dramatic effect on increasing the size of the inventory. After the litigation was over, HUD had employed the full range of conventional disposition techniques with heavy emphasis on "as-is" sales to reduce inventory. However, HUD was experiencing great difficulty in recruiting qualified contractors for its repair-and-sell and bulk repair programs. Community organizations were increasingly critical of HUD's inability to dispose of properties in an efficient and timely manner in order to maintain neighborhood stability and property values. These organizations were particularly opposed to the use of as-is sales where no guarantee existed that the properties would be repaired or reoccupied by the new owners.

## DEVELOPMENT OF THE BULK SALE STRATEGY

In a reassessment of its disposition program, the Philadelphia Field Office determined that its current efforts had failed to meet HUD's major objectives, namely:

- . to reduce the inventory of acquired properties in a manner that ensures the maximum return to the Mortgage Insurance Fund; and
- . to preserve and maintain urban residential areas and communities.

The Philadelphia Field Office concluded that an alternative to existing conventional disposition techniques should be tested. The Property Disposition Section had already reduced the use of the as-is sales program throughout Philadelphia, partially in response to citizen group pressure. The bulk sales program offered a method for quickly disposing of a large volume of properties.<sup>1</sup> However, other bulk sales programs had met with varying degrees of success. The Philadelphia Office believed there were not enough qualified contractors, minority or otherwise, to participate effectively in a large bulk sale. In addition, bulk sale purchasers were concerned that HUD's application of the "modified cost formula" to determine the value of a property in repaired condition did not allow for a reasonable profit on an entire bulk purchase. In

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<sup>1</sup>Disposition technique used by HUD usually as a last resort to dispose of acquired properties. See Bulk Sale Formula later in this section.

light of these considerations, HUD developed a proposal to use a variation of the conventional bulk sale technique.

### Components of the Bulk Sale Proposal

The Philadelphia Office developed the following modifications to the conventional bulk sale technique:

- . mandatory rehabilitation and resale by the developer within 180 days of bulk purchase;
- . application of uniform repair standards for all properties;
- . issuance of conditional FHA commitments to the developer at the time of bulk purchase;
- . relaxation of some of the components in the formula to establish the minimum acceptable bulk price;
- . cost certification of developer's profit and overhead (limited to 30 percent); and
- . waiver of the modified cost formula.<sup>1</sup>

Through the bulk sale proposal, HUD sought to:

- . be responsive to neighborhood groups that wanted abandoned properties repaired and reoccupied more rapidly;
- . decrease the inventory of HUD-acquired properties in Philadelphia at a faster rate, minimizing HUD holding costs, and maximizing the return to the HUD Insurance Fund;
- . stabilize the neighborhood to prevent further acquisitions; and
- . determine the feasibility of stimulating inner city rehabilitation by encouraging the participation of experienced high-quality builders able to perform high-quality rehabilitation with minimum HUD supervision.

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<sup>1</sup>A technique used by FHA to establish the upper limit of value of certain properties, described later in this section.



The original proposal involved the eventual disposition of 480 HUD-acquired properties in groups of approximately 120 properties each.<sup>1</sup> The first 120 properties were located in six census tracts on Philadelphia's far northwest side, in an area generally known as West Oak Lane. This area was selected because HUD's inventory there was considered highly saleable. Exhibit 1 shows four examples of the West Oak Lane properties.

Because of its dissatisfaction with other techniques, HUD proposed to use an experienced, large-scale developer to purchase, rehabilitate, and sell its acquired properties. Based on its past experience with small bulk purchasers, HUD felt that a large experienced developer would have a more timely and cost-effective approach to a bulk sale contract. Because of its size, a large development entity should be able to achieve economies of scale which normally could not be realized by small contractors.

To address the concerns of many community groups, HUD required that all properties be rehabilitated and ready for sale within 6 months of their purchase by the developer. Community groups had criticized HUD for not following up on properties after they had been sold. However, HUD had no enforcement mechanism (other than breach of contract) if the developer failed to repair and sell the properties within the 6-month requirement. Both HUD and the community groups had to rely on the good faith and ability of the developer.

HUD decided to apply uniform repair standards for all properties because of its unfavorable past experience with drawing individual repair specifications for each property. Specification writing had proved to be inexact and inconsistent in many cases. In addition, individual specifications created time and audit problems for the HUD staff.

The issuing of a conditional commitment to the developer at the time of purchase was done essentially as a time-saving technique and as an incentive to performance. Rather than negotiating with HUD over individual commitments after rehabilitation, the developer was given the commitment "up front."

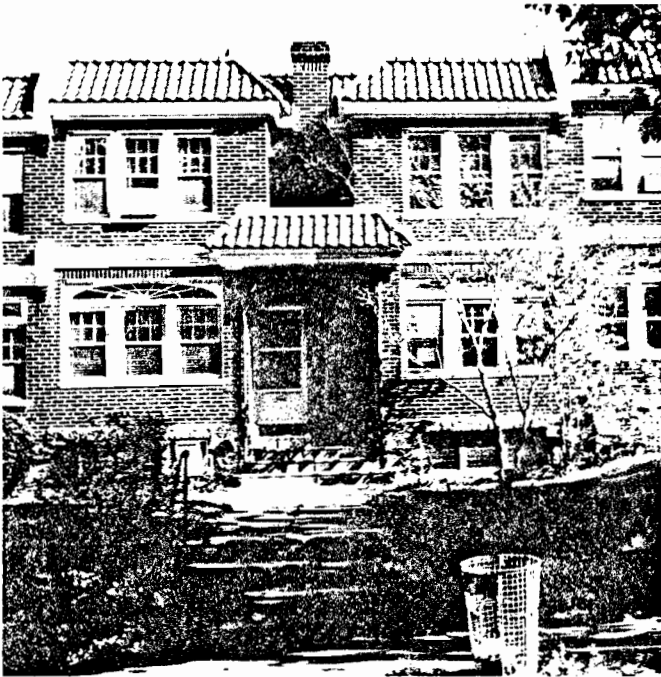
By liberalizing the formula for calculating the minimum bulk purchase price, HUD met developer concern over narrow profit margins. From HUD's viewpoint, reducing the bulk sales price and selling quickly, permitted HUD to avoid the costs of holding the property in the future.

To avoid the appearance of giving a large developer a financial windfall, HUD required that the developer's profit and overhead be limited to a maximum

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<sup>1</sup>HUD subsequently decided to limit the innovative bulk sale to the original 120 properties.

EXHIBIT 1  
EXAMPLES OF WEST OAK LANE PROPERTIES



of 30 percent. This figure was arrived at through a survey of profits expected by contractors and developers.

In its conventional disposition programs, HUD uses two methods for computing the sale price of acquired properties. Upon acquisition by HUD, the Property Disposition Section first establishes the fair market value of the property, and then subtracts the costs of repairs and the "bulk write-off" (projected cost to HUD for holding the property for a period of time) to obtain the bulk sale price.

Once a property has been sold to a developer and repaired and the resident purchaser has applied for a firm mortgage commitment, HUD proceeds to estimate the fair market value and the replacement cost, using the modified cost formula for computing the mortgage amount. The firm commitment is then issued upon the lower of the two amounts. The following illustrates the computation for both the bulk sale formula and the modified cost formula:

<u>Bulk Sale Formula</u>		<u>Modified Cost Formula</u>	
Fair Market Value		Bulk Sales Price	\$ 8,700
Repaired	\$ 15,000	Holding Cost (a)	
Estimate of Repairs	<u>- 3,700</u>	Interest at 9%	392
As-Is Value	11,300	For 6 Months (b)	
Less Bulk Sale Write-Off	<u>- 2,600</u>	Taxes	225
Bulk Sale Price	\$ 8,700	Settlement Cost	145
		Estimate of Repairs	3,700
		Points (6) (\$14,550	
		Mortgage)	<u>+ 873</u>
		Total	14,035
		25% Overhead and Profit	<u>+ 3,509</u>
			17,544
		Sales Commission (6%)	<u>+ 1,053</u>
		Modified Cost by Formula	\$ 18,597

In this instance, the developer would pay \$8,700 for a property included in the bulk package. After the rehabilitation is completed, a firm commitment of \$15,000 would be issued to an approved family to finance the sale since the value after repair (\$15,000) is lower than the replacement cost (\$18,597) computed by the modified cost formula.

### Criteria for Developer Selection

Prior to advertising notice of the bulk sale, the Philadelphia Field Office informally contacted several developers and home builders to discuss the proposed sale and determine their interest in participating. The developers stated that HUD should consider, in addition to bid price, the financial and technical ability of the individual firms bidding.

Faced with this informal response to its proposal, HUD developed a rating system to evaluate bid proposals. This rating system included selection criteria not limited to price alone. A review of the rating system by the area counsel revealed that the system would be in conformance with applicable HUD regulations. The price factor was given a relative weight of 80 percent. The five following qualification factors were developed and given an overall weighting factor of 20 percent:

- . architectural and engineering capacity;
- . effectiveness of sales organization;
- . supervisory staff experience;
- . financial capacity to acquire, rehabilitate, and complete approximately 120 properties within 180 days of conveyance; and
- . demonstrated success and continuity in the building industry.

### Bidding Process

On May 24, 1976, HUD placed advertisements in local papers regarding the bulk sale proposal. As a result of the advertisement, seven developers expressed interest and submitted their qualifications to HUD. HUD determined that four of the seven developers did not have sufficient financial or technical ability to undertake the bulk sale proposal. The three firms judged best qualified by HUD included the Korman Corporation.

Meetings were held between HUD and the three development corporations to obtain additional information and supply the potential bidders with the addresses of the 120 properties for their inspection. HUD decided not to reveal

the minimum acceptable bid offering price to the developers until the day of bid opening, but it did reveal the HUD commitment amounts of the properties. The winning high bid of \$282,000 was eventually submitted by the Korman Corporation, to which title to the 120 properties was formally conveyed in September.

## REHABILITATION AND SALES PROGRAMS

### Status of Properties

The Korman Corporation adopted a strategy of marketing most of the inventory before rehabilitation. The 120 properties conveyed to Korman were placed in 8 geographic groups, and rehabilitation proceeded on a group-by-group basis. The properties were grouped and scheduled for repair according to the following two factors:

- . Properties were rehabilitated based on their relative marketability; i.e., those properties that promised to generate the greatest return and sell the fastest were repaired first.
- . Properties were grouped geographically to maximize the efficiency of the subcontractors.

As a result of Korman's advertising and marketing strategy, many buyers purchased properties well in advance of their delivery date. Because of the rehabilitation schedule, a purchaser sometimes had to wait 7 months or more from the time a sales agreement was signed to the actual settlement date. In most cases, purchasers bought their properties after inspecting them in an unrehabilitated condition.

As of October 1, 1977, 46 properties were occupied by purchasers. Six additional properties were scheduled for settlement, while 16 were in the process of FHA compliance inspection, VA paperwork, or other procedures. The remaining 52 properties were in various stages of repair, with settlement dates scheduled for late 1977 and early 1978.

As of October 1, 1977, 13 months after conveyance, all but 1 of the 120 properties had been sold. The remaining unit was being used as the sales office and model. Korman had received several offers for this duplex unit and anticipated no problem selling it. Because of problems such as credit rejections, loss of employment, or family difficulties, 20 sales agreements had been voided. The properties involved were all resold within a short period of time.

## Sales Prices

As shown in Exhibit 2, Korman consistently sold its properties above the FHA repaired market value; this is indicative of the relative strength of the sales market for well rehabilitated properties. It should be stated that the FHA's repaired market values were established in 1975. Assuming the FHA's repaired market values of the properties were accurate, Korman apparently took advantage of appreciation in the marketplace.

A comparison of Korman sales prices and those of other "comparable" sales on the same blocks shows that Korman properties, as a group, sold at higher prices. Of the 101 blocks on which Korman properties are located (for which there are comparable sales data), only 14 cases existed in which the Korman average sales price was below that of the sales of somewhat comparable properties. In the remaining 87 blocks, Korman sales prices were significantly higher than comparable sales. Exhibit 3 compares Korman sales and comparable sales on the same blocks. The sales prices of Korman properties were significantly above comparable sales in Census Tracts 265, 266, 267, and 277. This can be partially explained by the fact that some of the comparables in these tracts were in poor condition. It is in Tracts 267 and 277 that the sales of Korman properties may have the greatest impact in stabilizing and potentially upgrading the market.

## IMPACT OF THE PROGRAM

### Response to Community Organizations

The Philadelphia Field Office's decision to decrease the use of as-is sales in favor of the innovative bulk sale technique received a positive response from neighborhood groups. A successful rapport was established between the Korman site staff and neighborhood organizations. A significant effort was made by Korman staff to maintain frequent contact with these groups and inform them of the progress of the sales and rehabilitation program. This proved an effective public relations technique for Korman. Neighborhood organizations acted as unofficial brokers by "talking up" the Korman project. Because of the acceptance gained by Korman among residents, the fact that the rehabilitation program was considerably behind schedule never emerged as an issue; residents were impressed with the quality of the work and were aware that units were being sold to stable owner-occupants.

### Neighborhood Stabilization

From a real estate perspective, neighborhood stabilization consists of two primary elements: decrease in the number of foreclosures and HUD-acquisitions; and stable-to-rising market values. The impact of the Korman

**EXHIBIT 2**

**AVERAGE HUD APPRAISED VALUE VERSUS THE  
AVERAGE KORMAN SELLING PRICE\*  
(October 1, 1977)**

<b>CENSUS TRACT</b>	<b>AVERAGE HUD APPRAISED VALUE**</b>	<b>AVERAGE KORMAN SELLING PRICE</b>	<b>AVERAGE KORMAN SELLING PRICE AS A RATIO OF THE AVERAGE HUD APPRAISED VALUE</b>
263	\$18,790	\$19,380	1.03
264	19,300	20,560	1.07
265	15,120	15,920	1.05
266	16,480	17,230	1.05
267	14,580	15,760	1.08
277	11,300	11,870	1.05

\* Based on sales commitments.

\*\* Based on the appraised repaired value of all units sold by the Korman Corporation.

**EXHIBIT 3**

**COMPARISON BETWEEN KORMAN SALES  
AND COMPARABLE SALES ON SAME BLOCKS \***

<b>CENSUS TRACT</b>	<b>NO. OF KORMAN SALES</b>	<b>NO. OF COMPARABLE SALES</b>	<b>AVERAGE KORMAN SALES PRICE</b>	<b>AVERAGE COMPARABLE SALES PRICE **</b>	<b>RATIO OF KORMAN PRICE TO COMPARABLE PRICE</b>
263	26	93	\$19,380	\$18,827	1.03
264	5	24	20,560	21,258	.97
265	17	61	15,920	14,929	1.07
266	26	78	17,230	15,775	1.09
267	27	56	15,760	12,099	1.30
277	18	37	11,870	8,330	1.42
<b>TOTAL</b>	<b>119</b>	<b>349</b>	<b>\$16,787</b>	<b>\$15,203</b>	<b>1.15</b>

Judgment was exercised in the selection of "comparable" sales. Very low prices (indicating "as-is" sales) and very high prices (indicating multifamily or commercial properties) were eliminated. This may have distorted the average price for comparable sales in Cansus Tract 277 because of the generally low sales prices. In Cansus Tract 277, it is difficult to distinguish between sales of properties ready for occupancy and "as-is" sales of property in need of rehabilitation.

\*\* For period between 1/1/76 and 7/7/77.



bulk sale on these two elements of neighborhood stabilization cannot be quantitatively measured. The 120 properties sold to Korman constitute less than 1 percent of the total housing stock in the 6 census tracts comprising the study site. In addition, these properties are dispersed throughout the area with no significant areas of concentration. Thus, whatever impacts the Korman properties may have on the surrounding neighborhood can only be assessed qualitatively.

The Korman bulk sale has had an important psychological impact on the West Oak Lane community, initially because of the substantial publicity surrounding the sale. Local and citywide newspapers, as well as the electronic media, have given extensive coverage to the housing situation in Northwest Philadelphia. Much of the coverage focused on the problems of HUD-acquired housing units. The meetings and confrontations between community groups and HUD prior to the bulk sale to Korman were given wide coverage in the news. As a result, when the bulk sale agreement was reached between Korman and HUD, it had become highly visible in the neighborhood. Unlike situations in which HUD carries out conventional disposition activities, residents were aware that HUD was undertaking an innovative project with a large well-known developer. Community organizations formerly critical of HUD's as-is sales to "fly-by-night" real estate speculators were pleased with the selection of a developer of Korman's status.

Therefore, the choice of Korman, in and of itself, has probably resulted in a stabilizing influence in the West Oak Lane area. Residents who were concerned about the future of their homes and neighborhood were encouraged by Korman's action. The fact that an organization such as Korman invested its money in West Oak Lane created a more positive atmosphere in the community. While this is not measurable, it is an important element in the neighborhood stabilization process.

Qualitative assessments can be made about the relationship between Korman's sales prices and those of comparable properties selling on the same blocks. An analysis of "comparable" sales revealed that Korman properties have been selling at or above the existing market prices. This would indicate that, at a minimum, the Korman properties are not negatively affecting surrounding market values. Because of their small number, all that can be said analytically is that the sales prices of Korman properties are participating in and reinforcing a gradually stabilizing market situation. This observation is particularly true in the northern census tracts where the market was already relatively strong. Here, Korman's sales prices are generally closer to comparable sales activity. It is in the lower three census tracts that a greater differential exists between Korman's prices and those of other properties. The Korman properties may exert a more direct and upward influence on the market in these areas. However, here again, it is not possible to attribute a direct cause and effect relationship between Korman's activity and any upturn in the market.

A further factor which may impact neighborhood stabilization is the quality of repair work Korman performs. The use of uniform repair specifications is resulting in the sale of "like new" properties. In the great majority of cases, all major mechanical systems are being replaced by new equipment; this reduces the likelihood of mechanical failure in the near future. In addition, the mechanical systems are accompanied by the manufacturer's warranty, while Korman warrants its structural work for 1 year.

While there have been problems with the quality of some of Korman's work (see following section), these have been confined largely to cosmetic factors rather than structural or mechanical systems and have been corrected through the inspection process. The assessment by HUD property inspection personnel revealed that the quality of Korman's rehabilitation work is as good as or better than the current rehabilitation work by other contractors under conventional disposition or production programs.

An important indicator of neighborhood stability is the overall "credit worthiness" of the purchaser and the relationship of the purchaser to other residents in the neighborhood. Approximately 20 percent of the potential purchasers who signed conditional sales agreements either changed their minds about purchasing or were rejected. According to Korman staff, most of these persons cancelled their sales agreements because of lost employment or family problems. Only a few were rejected because of an adverse credit finding. The latter reason is important insofar as Korman set up a prequalifying procedure to screen out bad credit risks.

Korman has required a minimum deposit of \$500 on each property it sells, regardless of sales price. Exhibit 4 shows the ratio between the average household income and the average sales price by Census Tract. The ratios reveal that Korman purchasers are buying well within the guidelines established by FHA mortgage credit standards.

A comparison between the Korman purchasers and existing neighborhood residents indicates that most of the Korman purchasers seem to share similar socioeconomic characteristics, as shown in Exhibits 5 and 6. It should be recognized, however, that the 1976 estimates for income are based on 1970 data and are thus subject to error.

One characteristic of the Korman purchasers that may be significant is the relatively high percentage of single-headed households with children. Exhibit 7 provides a breakdown of these data, by census tract. Single-headed households with children tend, as a group, to be more vulnerable to family and financial pressures; this factor may increase the potential for default. It is important to stress that the majority of Korman purchasers have satisfied FHA's mortgage credit criteria under the 203(b) program. In addition,

**EXHIBIT 4**

**AVERAGE INCOME OF KORMAN HOME BUYERS  
VERSUS ESTIMATED INCOME OF CENSUS TRACTS\*  
(October 1, 1977)**

<b>CENSUS TRACT</b>	<b>AVERAGE KORMAN SELLING PRICE</b>	<b>AVERAGE INCOME OF KORMAN HOME BUYERS</b>	<b>AVERAGE INCOME OF KORMAN HOME BUYERS AS A PERCENT OF SELLING PRICE</b>
263	\$19,380	\$15,935	82%
264	20,560	14,942	73%
265	15,920	14,310	90%
266	17,230	13,642	79%
267	15,760	14,572	92%
277	11,870	12,704	107%

\* Based on sales commitments.

**EXHIBIT 5**

**COMPARISON BETWEEN KORMAN PURCHASERS' INCOME AND  
EXISTING POPULATION**

<b>GEOGRAPHIC AREA  INCOME</b>	<b>CT 263</b>	<b>CT 264</b>	<b>CT 265</b>	<b>CT 266</b>	<b>CT 267</b>	<b>CT 277</b>	<b>STUDY AREA-ALL TRACTS</b>
Actual Average Household Income of Korman Purchaser	\$15,935 \$16,154	\$14,942 \$15,853	\$14,310 \$14,322	\$13,642 \$13,445	\$14,572 \$14,278	\$12,704 \$12,683	\$14,350 \$14,454
Projected 1976 Median Family Income	\$15,566	\$15,842	\$13,982	\$14,017	\$14,278	\$14,311	\$14,754
Projected 1976 Average Family Income	\$16,599	\$16,966	\$15,026	\$15,135	\$15,029	\$15,577	\$15,950

Source: Estimate of 1976 income provided by Urban Decision Systems.

**EXHIBIT 6**

**SOCIOECONOMIC CHARACTERISTICS OF  
KORMAN PURCHASERS**

Census Tract	Marital Status	Average Number of Children Per Household	Race	Average Annual Household Income
263	Married	15	Black - 23 White - 2 Interracial - 1	\$15,935
	Single/no children	4		
	Single/with children	4		
	Separated	1		
	Widowed	1		
	Divorced	1		
264	Married	1	Black - 5	\$14,942
	Single/no children	2		
	Single/with children	-		
	Separated	2		
	Widowed	-		
	Divorced	-		
265	Married	6	Black - 17	\$14,310
	Single/no children	3		
	Single/with children	4		
	Separated	1		
	Widowed	1		
	Divorced	2		
266	Married	8	Black - 26	\$13,642
	Single/no children	1		
	Single/with children	9		
	Separated	4		
	Widowed	-		
	Divorced	4		
267	Married	10	Black - 27	\$14,572
	Single/no children	2		
	Single/with children	7		
	Separated	7		
	Widowed	-		
	Divorced	1		
277	Married	7	Black - 18	\$12,704
	Single/no children	3		
	Single/with children	4		
	Separated	2		
	Widowed	-		
	Divorced	1		
	Not Reported	1		
Total	Married	47	Black - 116 White - 2 Interracial - 1	\$14,350
	Single/no children	15		
	Single/with children	28		
	Separated	17		
	Widowed	2		
	Divorced	9		
Not Reported	1			

EXHIBIT 7

PERCENTAGE OF SINGLE-HEADED HOUSEHOLDS WITH CHILDREN  
AMONG KORMAN PURCHASERS

Census Tract	Percent of Korman Purchasers Who Are Single with Children
263	23%
264	40
265	47
266	54
267	44
277	33

because of the small number of Korman properties (and even smaller number of single-headed households with children) in relation to the entire neighborhood, the impact on the neighborhood would be minimal even in the event of defaults or foreclosures.

## COST ANALYSIS

### The Korman Sale

The bulk sale of 120 properties in one transaction to the Korman Corporation was an effective method for rapidly reducing HUD's inventory. We cannot say with certainty whether HUD could have achieved the same level of reduction in as short a period of time using as-is and/or repair and sell techniques. Those properties located in the strongest market areas (i.e., Census Tracts 263, 264, and 265) might have been sold as quickly using a conventional disposition technique. For those properties with negative values and others located in the more difficult market areas (i.e., Census Tracts 266, 267, and 277), HUD would most likely not have been able to sell so quickly. Because of the packaging of highly marketable properties with less marketable properties, HUD was able to assemble a large number of properties that could be sold more quickly taken as a whole than disposed of individually.

HUD's holding costs are minimized whenever the as-is or bulk sale technique is used. As-is dispositions result in the greatest savings with respect to holding costs. However, when the bulk sale technique is used, savings due to decreased holding costs are in part passed on to the purchaser through the application of the "bulk sale write-off" in the pricing formula. Under normal circumstances, the bulk sale write-off amounts to 40 percent of the monthly average office turnover rate. In the case of the Korman bulk sale, the Philadelphia Field Office obtained a waiver from HUD Central to apply the full 100-percent turnover rate in computing the bulk sale price. This was considered a necessary financial incentive to make the overall bulk sale price attractive to a large-scale developer such as Korman. As a result, the savings HUD would have realized through the sale of the 120 properties (in terms of holding costs alone) were largely passed on to Korman, as reflected by a lower bulk sales price.

To determine whether the innovative bulk sale to the Korman Corporation was the best alternative for HUD from a financial standpoint, a comparison was made with other conventional disposition financial experiences. Projections were developed based on: HUD's experience in the 18 months before the Korman sale of the additional properties in the inventory after initiation of a disposition plan; the implicit costs associated with this holding period;

and the costs involved in the repair and/or sale of the properties. These projections were combined with actual data (such as the FHA-appraised fair market value) to develop the estimated loss to the HUD Insurance Fund resulting from each of the disposition techniques.

### Costs of Other Disposition Scenarios

At the time of the Korman sale, HUD had used four other property disposition techniques in the Philadelphia area: as-is sales, a bulk sale to a nonprofit housing development corporation (HDC), repair and sell, and a bulk repair and sell. To develop estimates of the financial loss to the Insurance Fund that would have been experienced had one of these techniques been used for the 120 properties, several simplifying assumptions were made:

- . The estimated property repair costs developed by HUD for the initial bulk sales price of \$340,000 were based on repair costs previously experienced by HUD in its repair and sell programs. These programs used individual detailed specifications for the work to be done by the contractor rather than a uniform standard as used in the Korman sale. It is assumed that HUD would have continued to use the individual specifications for the repair and sell techniques. Consequently, these initial repair estimates are used for the repair and sell scenarios and as a basis for computing the sales price for a bulk sale to the HDC and for as-is sales.
- . For the purposes of calculating holding costs for the repair and sell and the as-is scenarios, the additional time in inventory is assumed to approximate that actually experienced by HUD for these techniques in the respective census tracts. The holding cost per day used is the national HUD average.
- . HUD is assumed to forego a 10-percent return on the investment in the properties during the additional holding period.
- . In view of the strength of the market in the affected census tracts demonstrated by the rapidity with which Korman sold the properties, it was assumed that placing all 120 properties on the market in a short period of time would not significantly affect HUD's holding period after September 1976, or the ability to sell at the price derived from the HUD-appraised value.

### Description of the Individual Scenarios

Exhibit 8 presents the primary characteristics of each alternative disposition technique.



## EXHIBIT 8

### A COMPARISON OF THE PRINCIPAL FEATURES OF THE ALTERNATIVE DISPOSITION POLICIES USED IN THE OAK LANE STUDY AREA

ALTERNATIVE DISPOSITION STRATEGY  FEATURES OF DISPOSITION STRATEGY	AS-IS SALE	BULK SALE TO THE HDC	BULK REPAIR CONTRACT	TRADITIONAL REPAIR AND SELL	KORMAN SALE
DESCRIPTION OF TECHNIQUE	The on-hand properties would be sold in an unrehabilitated condition to buyers who bid the highest for individual properties. The properties are sold as soon as a buyer is found.	All properties would be sold to the HDC at a bulk sale price. The properties would be sold in an unrehabilitated condition.	The properties would be contracted to a single contractor and sold by HUD for the HUD repaired market value when repairs are complete.	The properties would be repaired by many small contractors and sold by HUD for the HUD repaired market value when repairs are complete.	The properties would be disposed of in bulk to a single large contractor who must make specified uniform repairs to the properties and subsequently sell the properties through his own marketing program.
TYPE OF REPAIR STANDARDS	None required by HUD	No repair standards are explicitly specified by HUD.	Individual repair specifications are prepared for each property.	Individual repair specifications are prepared for each property.	Uniform repair standards are prepared for all properties, the repair standards are more demanding than conventional Property Disposition standards.
HUD MONITORING OF REPAIR STANDARDS	None required	None required	Monitoring is conducted by HUD Property Disposition staff.	Monitoring is conducted by Property Disposition staff.	A final inspection will be conducted to insure compliance with general repair standards.
HUD HOLDING COST	Holding costs accrue up to the time of sale, holding periods are less than with repair and sell techniques.	Holding costs accrue up to the time of sale, holding periods are less than with repair and sell techniques.	Holding costs accrue while the properties are being repaired until the properties are finally sold.	Holding costs accrue while the properties are being repaired until the properties are finally sold.	Holding costs accrue up to the time of sale, holding periods are less than with repair and sell techniques.
HUD REINSURANCE PROVISIONS - Conditional Commitment	No automatic reinsurance on as-is sales.	Determined by HUD at time of resale of properties by HDC.	Determined by HUD at time of sale.	Determined by HUD at time of sale.	Conditional commitment for reinsurance guaranteed by HUD at time of sale to Korman.
HUD RESPONSIBILITY FOR POST-CLOSING COMPLAINTS	None	HDC is responsible for post-closing complaints.	HUD is responsible for post-closing complaints.	HUD is responsible for post-closing complaints.	Korman is responsible for post-closing complaints.
HUD SALES TECHNIQUE - Auction - Negotiated Sale	Auction of properties by HUD to individual buyers.	Sale negotiated by HUD with HDC.	Auction of properties by HUD to individual buyers.	Auction of properties by HUD to individual buyers.	Auction of properties by HUD to developer.
SPECIAL FEATURES	None	HDC would be given 100 percent turnover rate.	None	None	Korman would be given 100 percent turnover rate. Korman profits in excess of 30 percent in sale are returned to HUD and will serve to increase the return to the insurance fund.

As-Is Sale: The 120 properties would be sold in an unrehabilitated condition to the buyers with the highest bid for each individual property. The price paid for the properties is estimated at the HUD-appraised value less the estimated cost of repairs. HUD would incur some additional holding costs and opportunity costs for the period from September 1976 to the date of sale. It is assumed that HUD would incur a 5-percent sales commission.

Bulk Sale to the HDC: The 120 properties would be sold to the HDC in an unrehabilitated condition in September 1976, for a bulk sales price. No repair specifications would be given to the HDC. The bulk sales price would be computed as the HUD-appraised value less the cost to repair and less the bulk write-off. The cost to repair is the initial HUD estimate. The bulk write-off is assumed to be equivalent to that ultimately given to Korman, which approximates 100 percent of the average HUD holding cost plus sales commission and closing costs. The bulk sales price is adjusted as needed so that no individual property sells for less than land value.

Bulk Repair and Traditional Repair and Sell: In these two scenarios, the properties would be repaired by contractors either in one package of 120 bulk repair or in numerous smaller packages and then sold by HUD for the HUD-appraised value. The repair costs are again assumed to be the initial HUD repair estimates. Holding costs and opportunity costs would be incurred from September 1976 to the date of sale by HUD. A 5-percent sales commission and 3 percent of the sales price for other costs associated with the sale would be incurred. Finally, the cost of staff time required to deal with contract amendments is included (based on HUD's experience).

The loss to the Insurance Fund computed for each of the scenarios is shown in Exhibit 9.

### Conclusions

The financial analysis indicates that in terms of return to the Insurance Fund, the three basic alternatives are: as-is sales, bulk sale, or repair and sell. From a financial standpoint, as-is sales constitute the best alternative, bulk sales the middle alternative, and repair and sell the least desirable both overall and in the individual census tracts.

The bulk sales to Korman and to the HDC are not significantly different financially. The increased repair estimates for Korman were largely offset by the premium paid over the bulk sales price. Furthermore, the competitive bidding did not result in a material advance between the bid price and what the fixed price used to deal with the HDC would have been. Therefore, although the end product generated by Korman may exceed that of the HDC

EXHIBIT 9

ESTIMATED LOSSES TO THE HUD INSURANCE FUND FOR THE  
KORMAN SALE VERSUS ALTERNATIVE DISPOSITION SCENARIOS IN THE WEST OAK LANE AREA

	AS-IS SALE	BULK SALE TO PHDC	BULK SALE TO KORMAN	TRADITIONAL REPAIR & SELL	BULK REPAIR AND SELL
<u>CENSUS TRACT 263</u>					
Average loss per acquired unit	13.8	17.6	18.3	18.2	19.0
Total Loss (27 units)	372.6	475.2	494.1	491.4	518.0
<u>CENSUS TRACT 264</u>					
Average loss per acquired unit	9.3	12.8	12.4	12.9	13.9
Total Loss (5 units)	46.5	64.0	62.0	64.5	69.5
<u>CENSUS TRACT 265</u>					
Average loss per acquired unit	15.2	18.7	18.5	20.5	19.8
Total Loss (17 units)	258.4	317.9	314.5	348.5	336.6
<u>CENSUS TRACT 266</u>					
Average loss per acquired unit	12.1	15.5	16.7	17.3	16.4
Total Loss (26 units)	314.6	403.0	434.2	449.8	426.4
<u>CENSUS TRACT 267</u>					
Average loss per acquired unit	15.3	18.8	18.8	21.2	21.0
Total Loss (27 units)	413.1	507.6	507.6	572.4	567.0
<u>CENSUS TRACT 277</u>					
Average loss per acquired unit	15.6	16.3	16.3	19.1	20.5
Total Loss (18 units)	280.8	293.4	293.4	343.8	369.0
<u>TOTAL-ALL CENSUS TRACTS</u>					
Average loss per acquired unit	14.1	17.2	17.5	18.9	19.1
Total Loss (120 units)	1692.0	2064.0	2100.0	2268.0	2292.0
Percent Increase in loss over the next better alternative		22.0%	1.7%	8%	1.1%

in quality, these two alternatives are essentially identical in terms of the dollar return to the Insurance Fund.

The two repair and sell alternatives differ from each other only in terms of the time in inventory and the staff time devoted to contract amendments. The difference in these two factors is minimal; consequently, these two alternatives are financially equivalent.

### Major Determinants of Differing Financial Impacts

The repair and sell scenarios are the least desirable financially. With these techniques, HUD is forced to bear holding costs and opportunity costs while the properties are being repaired and until the point of sale by HUD. The opportunity costs are further compounded by the increased HUD investment required for the cost of repairs. These costs, combined with the selling costs incurred by HUD, exceed the write-off given in bulk sales, even when 100-percent turnover is given. Consequently, HUD reduces its sales price in a bulk sale by less than the amount that it increases its costs (other than repair) by using a repair and sell alternative. (This effect would be further pronounced if the normal 40-percent turnover rate were used. For the Korman properties, a 40-percent rate would decrease the loss to HUD by approximately \$2.2 thousand per property in a bulk sale, thus broadening the gap between the two alternatives.)

In the softer market areas, the financial attractiveness of the repair and sell techniques further diminishes. In these tracts, there are numerous properties for which the repair costs alone exceed the expected net sales receipts and still more for which the total additional HUD investment for repair and sell (repair cost, holding cost, and opportunity cost) exceeds the receipts. In these cases, HUD loses not only its initial investment, but also a portion of the incremental investment required to repair the properties. Under a bulk sale or as-is sales program, the properties are never sold for less than the land value. Consequently, in the softer market areas, a repair and sell program will yield properties with a negative value to HUD, while in the other programs, a negative value is avoided by requiring that the minimum price be land value.

The bulk sales techniques are less favorable financially than the as-is program because of the bulk sale write-off. The additional holding period after initiation of the disposition method is minimal for as-is sales and nonexistent for bulk sales. However, the savings to HUD in holding costs are passed on to the bulk sale purchaser through the bulk sale write-off, while HUD receives the full benefit of these cost savings in an as-is sale.

In summary, the as-is sales represent the best financial alternative because: the additional holding period is relatively short; HUD's investment is kept at a minimum, thus minimizing opportunity costs; properties are not sold for less than land value; and no bulk sale write-off is given. The bulk sale techniques represent the middle alternative because there is no additional holding period, and hence no additional holding or opportunity costs. However, a bulk sales write-off representing the savings in holding and selling costs to HUD is given to the bulk sale purchaser. The repair and sell techniques represent the least favorable alternative because: holding, opportunity, and selling costs exceed the bulk sale write-off due to the long holding period and the increased investment involved in the repair costs; and in softer market areas, some of the properties have a negative value to HUD-- a circumstance avoided in the other scenarios by requiring that the minimum price be land value. Greater, more positive neighborhood impacts tip the scales in favor of the repair and sell disposition policy in most instances, however.

#### PROGRAM OPERATION

The innovative bulk sale concept served a limited useful purpose. Within the historical context the Philadelphia Field Office faced in 1976-77, the innovative bulk sale was a viable alternative to conventional disposition techniques. Given these circumstances, it should be looked upon as a nonconventional method reserved for special cases (i.e., when conventional techniques are inappropriate or ineffective).

The sales agreement between HUD and Korman contained no provisions for imposing penalties in case of time overruns. The 180-day time limit was an important objective of the innovative bulk sale. As cited earlier, community groups did not raise this as an issue, primarily because of Korman's efforts to keep these groups informed. While they were aware that Korman was late, they believed that a "good faith" effort was made. This feeling is not universally shared within HUD. Disagreement exists among HUD personnel as to whether the 180-day time limit was realistic. Some staff members believe that an organization such as Korman has the capability to rehabilitate 120 properties within the time frame. Others think that 1 year would have been more realistic.

It is beyond the scope of this report to isolate the exact causes or of responsibility for the time overrun experienced by Korman. However, two factors appear to have played an important role: the severe winter of 1976-77 and the HUD property inspection process. HUD and Korman agree that the winter weather significantly delayed the progress of rehabilitation, and considerable dissatisfaction regarding the HUD inspection process has been expressed by Korman staff.

HUD agrees that some initial scheduling problems arose in detailing inspectors out in the field on a timely basis. HUD attributes this problem to inadequate staffing due to the assignment of inspection personnel to special disaster duty. In addition, HUD maintains that this situation existed for a short period of time only and caused no more than 1 month of delay. HUD inspection personnel state that Korman has been treated very fairly and that every turndown has been fully justified.

It is now estimated that Korman will be 9 to 11 months late. A large part of this delay can be attributed to the extremely harsh winter of 1976-77. It was not until the spring of 1977 that Korman initiated repairs in earnest. At this same time, some HUD inspection staff were detailed to Johnstown, Pennsylvania, for disaster relief work. The combination of the severe winter and disaster relief work by HUD resulted in a total delay of approximately 3 to 4 months. The Korman staff attribute the remaining period of delay to the HUD inspection process.

The issue that divides HUD and Korman is whether the inspection-related delays were due to overzealous inspectors or legitimate deficiencies in the repair work. It should be reemphasized that the HUD inspection personnel interviewed by PMM&Co. stated that once a Korman property did pass inspection, the quality of the overall workmanship was as good as or better than other rehabilitation work inspected by HUD. Deficiencies cited by HUD have been confined largely to cosmetic-type repairs. While these in no way affect the structural integrity of the unit, in HUD's opinion they detract from its overall appearance. A frequent source of turndowns has been the use of putty to cover rotten wood in door jams and window sills, rather than replacement of the old wood. Other deficiencies cited in a sample of inspection reports included:

- . spot pointing in exterior masonry;
- . inoperable bath tub drain trip levers;
- . fence not installed in rear yard;
- . more electrical circuits required;
- . stopped-up toilet;
- . downspout not installed;
- . basement walls not patched and parged;
- . toilet bowl not properly secured;

- . thermostat not installed; and
- . locking handles not installed in windows.

An additional cause of some initial problems was the practice of "escrowing" certain items. Such items as gas ranges, carpeting, and the final sealer coating on hardwood floors are often not installed until just before settlement. In the course of HUD inspections (which may precede settlement by several days or weeks), an inspector can approve the property without these items being installed at the time of inspection. His approval is subject to the proper installation of the escrowed items as verified by the purchaser or mortgagee. The rationale for this procedure is that the developer does not want to install equipment or features in a property that may remain vacant for several days or weeks and be subject to possible vandalism. In most cases this procedure has worked well. However, Korman staff did cite instances in which some of their properties were turned down because no gas range was installed.

When a property fails to pass inspection, it takes a minimum of 1 week to have it reinspected by HUD. Depending on the number and nature of deficiencies cited, work crews must be taken off ongoing rehabilitation to make the required repairs. This affects the overall scheduling and progress of the rehabilitation effort and results in additional time and costs.

In summary, inspections have materially affected the pace of the project. This necessarily impacts the costs incurred by Korman. Because this final evaluation is being issued prior to the required cost certification, the total dollar impact on rehabilitation costs cannot be estimated.

#### Conditions for Using the Innovative Bulk Sale Technique

The innovative bulk sale technique is an alternative to conventional disposition programs. It should be considered for use when analysis shows that conventional disposition programs are ineffective or inappropriate. The innovative bulk sale technique should be considered when any or all of the following problems exist:

- . inability to reduce inventory (or a portion of it) at a rate that meets demand for properties;
- . frequent cost overruns or repair and sell or bulk repair contracts that increase losses to the Insurance Fund;
- . conventional disposition programs that have adversely affected neighborhood stability and market values; and

- . neighborhood residents and organized groups that are strongly opposed to conventional disposition programs, particularly the use of as-is sales.

Based on its implementation in Philadelphia, the innovative bulk sale technique can be most effective when implemented under the following conditions:

- . The HUD Field Office has relatively large concentrations of acquired properties in limited geographical areas.
- . The inventory is highly saleable.
- . The local real estate market is sound with neighborhoods in stable or stabilizing conditions.

The objective of the innovative bulk sale is to create the maximum positive impact in a short period of time. Heavy concentrations of HUD-acquired properties are necessary in that HUD can exert the greatest leverage through large-scale rehabilitation. While no rule of thumb exists to estimate the optimum size of the project area, it should be limited to clearly defined neighborhood areas in an urban setting or subdivisions in suburban areas. Based on the policy objective of creating the maximum positive impact in a short period of time, a minimum of 50 to 100 properties is desirable to use this technique. The innovative bulk sale technique differs from the conventional repair and sell program, which proceeds on a piecemeal basis, and from the conventional bulk sale program, for reasons that will be explained in the following sections.

The innovative bulk sale technique is designed for those areas where HUD has not been able to dispose of its inventory fast enough or where its inventory is not in good enough condition to meet market demand. It is not meant for use in severely deteriorated neighborhoods whose overall housing stock is in poor condition with very limited marketability. The innovative bulk sale technique should be undertaken in situations when public intervention is needed only to stimulate and assist the action of the local real estate market. A profit-motivated sponsor would necessarily be more concerned about selecting neighborhoods with strong or stable real estate markets than would be a nonprofit sponsor. The nonprofit sponsor may be willing to take greater risks than its profit-making counterpart. However, even nonprofit sponsors must limit their losses in order to remain viable.

The presence of active and organized neighborhood groups, while not a necessary precondition for using the technique, can be beneficial in developing and implementing a disposition strategy. An important element of any



neighborhood stabilization program is retaining existing residents. Continuing turnover resulting from foreclosure or depressed sales can diminish whatever positive effects the innovative bulk sale may generate. For instance, residents who cannot afford to sell their properties may revert to renting them. Introducing a significant number of rentals may alter the economic mix and marketability of the neighborhood as a whole. A major intervention strategy such as the innovative bulk sale can serve to bolster residents' attitudes about their neighborhood. It is therefore important to make residents aware of the stabilization program. Efforts should be made to familiarize them with the nature and scope of the program, and the developer should be encouraged to meet with them to explain the rehabilitation process and show them how rehabilitated homes will look. Such actions can generate a positive atmosphere between the developer and residents and also help the developer's marketing program by creating word-of-mouth advertising. Neighborhood residents can also assist the developer by "keeping an eye on" the vacant properties to prevent or minimize vandalism. It is in the residents' self-interest that the developer's properties be secured and vandal-free so that they remain marketable.

#### Design of an Innovative Bulk Sale Strategy

If based on an analysis of its disposition problems and neighborhood conditions, the local HUD Field Office decides that the innovative bulk sale technique is a viable alternative, a program must be designed to fit the individual needs of the Field Office. Variations in the Philadelphia Office approach should be explored when appropriate or necessary.

The major features and requirements of the innovative bulk sale technique are as follows:

- . Rehabilitation must be completed within a specified time period.
- . "Like new" uniform repair standards are applied to all properties in place of individual repair specifications that meet minimum FHA property standards.
- . Conditional FHA insurance commitments are offered on all properties at the time of sale to the developer.
- . The bulk sale write-off (a measure of HUD's holding costs based on the average monthly turnover rate) used in the formula for computing the bulk sales price is increased from the normal 40 percent to anywhere up to 100 percent.

- . In the case of profit-motivated developers, profit and overhead is limited to a fixed percentage of the entire bulk sales cost and subject to cost certification.
- . The modified cost formula is waived and replaced by appraisals based on market comparison in estimating the as-repaired fair market value of the units.

Establishment of a time frame for completing rehabilitation should be included as a requirement in the sales contract between HUD and the developer. The stipulated deadline should be realistic and enforceable. Penalties should be specified in the contract for failure to comply with deadline requirements. The contractual deadline also serves as an assurance to neighborhood residents that the work will be performed within a given time limit.

The use of uniform repair standards is a procedure aimed at ensuring high quality rehabilitation with a minimum amount of HUD oversight. In the case of Philadelphia, "like new" repair standards were employed. This was done in part to increase the value and marketability of the units, and not because most of the units were in such a state of disrepair that "like new" rehabilitation was necessary. The decision to rehabilitate to this level must be based on an assessment of local market conditions. Uniform repair standards eliminate the need to develop costly and time-consuming individual repair specifications for each property; however, the potential for waste exists when they are used. For example, if all mechanical and structural systems are to be replaced rather than repaired, some still functional items may be removed. One way to avoid discarding still usable items is to create a waiver system. Depending on the age and physical condition of the unit, such items as bathroom fixtures, floors, and furnaces may be in perfect condition. The waiver system should be constructed in such a way that salvageable items are retained with the minimum amount of red tape. When original items are retained, the developer should be required to issue a warranty for a reasonable period of time. This requirement may act as a disincentive to the developer to retain such items. However, if the waiver process is operated efficiently, the developer can keep its costs down and avoid the needless replacement of functioning systems.

The developer can be offered conditional FHA commitments if the rehabilitated properties comply with the uniform repair specifications. Offering the conditional commitments at the time of the bulk sale, rather than when each unit is resold, expedites the sales process. The conditional commitments are offered up to the repaired market value as estimated by HUD. Depending on the particular housing objectives of the HUD Field Office and the local market conditions, one or more insured mortgage programs may

be made available to subsequent purchasers. The FHA conditional commitments backed by one or more mortgage insurance programs increase the marketability of the units for the developer.

Based on market conditions, the Philadelphia Field Office found it necessary to subsidize the developer by using 100 percent of the turnover rate in computing the bulk sales write-off in the formula, which had the effect of reducing the selling price to the developer. The bulk sales write-off represents the cost of holding a property in inventory. In conventional bulk sales, HUD normally absorbs 40 percent of these estimated costs. By using 100 percent of the turnover rate, HUD absorbs all holding costs. The determination of whether to use a higher percentage must be based on an assessment of the market for acquired units. A profit-oriented developer may require additional financial incentives in terms of greater bulk sale write-offs. Non-profit sponsors may not require such an incentive. The selected percentage used to compute the write-off must be acceptable to both HUD and potential developers. If the local Field Office determines that conditions warrant a rate in excess of 40 percent, it must receive a waiver from HUD Central.

To make sure that profits would not be excessive, the Philadelphia Field Office limited the developer's profit and overhead to 30 percent on the entire bulk sale package. By imposing the limitation on the entire package rather than individual units, HUD gave the developer some additional financial flexibility. In this instance, the bulk sale package consisted of units with repaired market values ranging from \$10,000 to \$21,000. Since uniform repair specifications were used, the developer would incur approximately the same repair costs on all units regardless of the resale value. The imposition of the profit/overhead limit on the whole package enabled the developer to sell some units in excess of 30 percent as a balance against lower-priced units where little or no profit might be made. As with other components of the innovative bulk sale technique, the Field Office must determine an acceptable profit margin given the current housing stock circumstances, market conditions, and availability of interested developers. If a profit ceiling is specified, it must be high enough to reflect the risk and opportunity cost of the developer, yet not so high as to constitute "windfall" profits. This issue is moot if the Field Office selects a nonprofit sponsor.

### Implementation of the Innovative Bulk Sale Technique

#### Step 1: Identify and Assemble Bulk Sale Package

Based on the conditions identified in the preceding section, the Field Office must identify 50 to 100 properties to include in the bulk sale. As a group, the properties selected must be marketable. This does not preclude the inclusion of lower-valued properties in less desirable locations. However, it

is important that such properties constitute a relatively small portion of the bulk sale package. In this way, properties resold with little or no profit are compensated for by the sales of higher-valued units allowing greater profit margins. If the cost of repairs exceeds the market value of repaired units, the developer will require major subsidies and the innovative bulk sale technique will not be appropriate. A nonprofit sponsor will be able to absorb more negatively valued units than a profit-making sponsor. This factor should be considered when properties are being assembled and a developer selected.

### Step 2: Contact Potential Developers

The purpose of this step is to determine the extent of developer interest in the program and the necessary conditions under which they might participate. Both profit-motivated and nonprofit organizations should be contacted. With respect to profit-motivated firms, HUD will be able to establish the kind of profit levels required to attract private developers and, on this basis, identify the type of incentives or subsidies necessary. This process is important in that HUD and potential developers can establish a common understanding of each other's needs. These contacts can be made informally, and neither party should consider them binding.

### Step 3: Prepare Contractual Material

Based upon the design of the program and the input of developers in Step 2, the HUD Field Office should prepare a sales contract. Any waivers of HUD Property Disposition Standards should be obtained from HUD Central before the drafting of the sales contract. The sales contract should contain at least the following items:

- . repair specifications;
- . allowable profit and overhead;
- . time limits for completion of rehabilitation; and
- . sanctions and penalties.

### Step 4: Establish Bulk Sales Price and Repaired Market Value of Units

Concurrently with Steps 2 and 3, HUD must develop the financial information upon which the sale will be based. As discussed in the Design section, a waiver must be obtained from HUD Central to use market comparison appraisals for establishing the repaired market value of units in order to issue

conditional commitments. The HUD office must also determine which percentage (40 to 100) to use in computing the bulk sale write-off. This determination will depend on feedback from potential developers and on market conditions. The local HUD office must balance the need to reduce losses to the HUD Insurance Fund with the development of a sales formula that will be acceptable to potential bidders when a minimum acceptable bid price is being established.

At this point, the Field Office must formally determine whether to contract with a profit-motivated developer or a nonprofit sponsor. Whenever possible, HUD should seek to identify qualified profit-motivated developers. Some of the reasons for doing so are as follows:

- . By selling to the private sector directly, the burden of risk is transferred out of the public sector.
- . Whenever possible, it is preferable to stimulate private reinvestment in troubled neighborhoods.
- . In a real sense, a nonprofit sponsor would face many of the same problems HUD experienced in disposing of its inventory (i.e., finding qualified contractors, avoiding costly time delays, etc.).

In addition to these factors, profit-motivated sponsors in general can call upon greater financial and skilled manpower resources. This is particularly true of the larger development companies that would be required to undertake this form of housing rehabilitation. From HUD's viewpoint, one of its business objectives is to maximize the return to the Insurance Fund. In many cases, this can best be achieved in a competitive, profit-motivated environment.

Due to the conditions of the market, it may be appropriate or necessary for HUD to have a nonprofit sponsor. In this case, HUD may wish to negotiate a bulk sale directly with the nonprofit sponsor. The criteria for selecting a nonprofit sponsor should be similar to those for choosing a profit-motivated developer (see following section).

#### Step 5: Develop Rating System for Developers

The Field Office must establish criteria for selecting a contractor. This can be accomplished in a two-stage process consisting of a prequalification screening (see Step 7) and final selection procedure. Property Disposition regulations allow the Field Office considerable flexibility in developing selection criteria. Among those that should be considered are:

- . bid price;

- . architectural and engineering capabilities of firm;
- . effectiveness of sales organization;
- . financial capacity;
- . staff and firm experience; and
- . reputation.

In the case of Philadelphia, potential developers told HUD they would not compete in the bidding process if price were the sole determining factor in award. As a result, the Philadelphia HUD office created a point system which gave a relative weighting of 80 percent to price and 20 percent to the other criteria cited above.

#### Step 6: Advertise for Bidders

At this point, notification of the bulk sale is printed in local general circulation newspapers.

#### Step 7: Prequalify Bidders

Once potential contractors have been identified, HUD determines which ones have the necessary technical, financial, and managerial qualifications to perform the project based on criteria established in Step 5. Only those HUD judges sufficiently capable to undertake the project according to the specified guidelines are invited to submit bids. Once qualified bidders have been identified, the local HUD office should supply the addresses of the properties and the FHA conditional commitment value, but not the minimum acceptable bid price.

#### Step 8: Request Bids

At this point, HUD requests bids from all prequalified developers.

#### Step 9: Evaluate Bids

HUD must determine which, if any, of the bids meet the minimum acceptable bid price established in Step 4. If none do, several alternatives can be explored:

- . reject the innovative bulk sale technique;
- . revise the criteria for prequalifying bidders; or
- . revise the design of the program.

### Step 10: Select Developer

Once the minimum acceptable bid has been reached or exceeded, HUD must select the developer based on the criteria established in Step 5. Having selected the developer, HUD then executes the sales contract.

### Step 11: Post-Sale Monitoring

One of the objectives of the innovative bulk sale technique is to reduce the amount of time and expense HUD must exercise in monitoring the developer's performance. HUD's involvement is in four main areas:

- FHA inspection of rehabilitated properties to ensure compliance with repair specifications;
- processing of FHA-insured mortgages;
- monitoring of developer's progress to determine whether deadline will be met; and
- profit/overhead cost certification.

Remedial action may be necessary if the contractor has not fulfilled the contractual requirements. The exact nature of the actions depend on the contract specifications. They may range from legal action (such as breach of contract) to withholding FHA mortgage insurance. If the contractor's profit/overhead exceeds the stipulated level, the excess is either returned to HUD or divided between HUD and the developer.





APPENDIX A  
LEGAL OPINION



## APPENDIX A LEGAL OPINION

The following analysis is based on a legal review of the selection process and sales contract between HUD and the Korman Corporation. The legal analysis was performed by attorneys with the firm of Brownstein, Zeidman, Schomer, and Chase under subcontract to PMM&Co.

### SELECTION PROCESS

The Korman Contract was let with a minimal amount of advertising: apparently only a medium-size newspaper advertisement run for 1 or 2 days (see Exhibit A-1). There were informal efforts to interest contractors including off-the-record letters, telephone calls, and meetings. However, there were only three bidders on the final contract and only two of them could seriously be said to meet the qualifications originally contemplated by the HUD area office. In fact, only one of the builders (Korman) was of a size, capability, and reputation completely satisfactory to HUD personnel.

Although the bidders for the Korman Contract did have to go through a general "qualification" procedure, HUD officials felt forced by procurement law to pick the highest bidder without considering factors such as experience or staff size during the final bidding and auction sessions.

Since this bulk sales contract, especially as originally drafted, depends so heavily for its success on the capability and reputation of the contractor, HUD will need to find ways to have a wider selection of qualified contractors and a procedure for giving proper credit to the qualifications of contractors.

### THE SANCTIONS AND INCENTIVES IN THE CONTRACT

Under the current Korman Contract, the contractor receives deeds to 120 houses, a conditional commitment of FHA insurance at a predetermined, fully rehabilitated, appraised value, and the possibility of up to 30-percent profit. However, there are no real sanctions or controls in the contract to guarantee that the contractor properly rehabilitates the houses within the specified time limit except the general right of HUD to sue for breach of contract. Since there may be no meaningful measure of damages in such action, the potential refusal by HUD to do future business with the contractor may be the only actual sanction. (The sanction of HUD's refusing to insure the

## EXHIBIT A-1

# U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### NOTICE OF BULK SALE PROPOSAL

The Department of Housing and Urban Development proposes to enter into agreements with qualified developers for the sale in stages of approximately 480 residential properties within the City of Philadelphia to be rehabilitated and resold to home buyers.

#### 1. PROPOSALS-MINIMUM CRITERIA FOR DEVELOPERS

The Department will receive and consider proposals from interested developers who shall meet the following requirements:

- a. Can demonstrate administrative capability.
  1. Have architectural and engineering capacity.
  2. Have an effective sales organization.
  3. Have an experienced supervisory staff.
- b. Have financial capability to successfully undertake and complete the rehabilitation and have ready for sale of not less than 120 properties within 180 days from conveyance.
- c. Have demonstrated success in the building industry.
- d. Can satisfy HUD's Previous Participation requirements.

#### 2. NUMBER OF PROPERTIES

HUD will convey to successful developers approximately 480 properties over a period of 12 months. Properties will be conveyed in four groups of approximately 120 properties each.

#### 3. SELECTION AND LOCATION OF PROPERTIES

Properties to be sold to Developers will be selected by the Philadelphia Area Office of the Department of Housing and Urban Development within the City of Philadelphia.

#### 4. ABSENCE OF LEAD-BASED PAINT

Properties will be free from lead-based paint when sold by the developer. Developer shall execute an affidavit agreeing to be bound by the terms of an order of the U.S. District Court, Eastern District of Pennsylvania issued in the case of *City-Wide Coalition, et al. v. HUD, et al.*, C.A. No. 72-1515 to remove lead-based paint from the properties. A form of affidavit and a copy of the order are available for inspection at the HUD Area Office. Conveyance of the properties by HUD to the developer is conditioned upon the Court's lifting its injunction to permit HUD to convey the properties.

#### 5. MINIMUM "AS IS" OFFERING PRICE TO DEVELOPER

The minimum "as is" offering price to the developer shall be determined by a residual appraisal method.

#### 6. METHOD OF PAYMENT

At the time each group of properties is conveyed, the developer shall pay to HUD in full the agreed price for all properties in the offering.

#### 7. EQUAL OPPORTUNITY REQUIREMENTS

Construction employment on this project will be subject to the Philadelphia Plan and the marketing of the repaired units must be in conformity with the Department's Affirmative Fair Housing Marketing Regulations.

#### 8. CONDITIONAL COMMITMENT AVAILABILITY

The execution of a sales agreement between HUD and the developer shall obligate HUD to issue a conditional commitment to insure a mortgage on each property upon its resale to a qualified home buyer; provided, that the property shall have been rehabilitated in accordance with the sales agreement between the developer and HUD.

#### 9. REHABILITATION

The Department will furnish an established repair standard to which all properties must conform which will be part of the sales agreement. Developer shall be responsible for complying with applicable local building codes and licensing requirements. All work shall be subject to HUD inspection and approval before resale to the home buyer. It will be the developer's responsibility to obtain the necessary building permits.

#### 10. WARRANTY PROVISIONS

The developer will be required to provide a one-year warranty to each home buyer equivalent to that in paragraph 11 of the Standard Retail Sales Contract, Form HUD-9548 (July 1974), and in addition provide appropriate warranties on each structure's roof, heating, plumbing and electrical systems.

#### 11. SELECTION OF DEVELOPER

The developer(s) will be selected from among those meeting or exceeding the minimum criteria for developers set forth in paragraph 1. The award shall be made to the developer whose offer is most advantageous to HUD, price and other factors considered.

#### 12. COST CERTIFICATION

The developer will be required to certify all costs based on Cost Certification factors specified by the Department which will be set forth in the sales agreement. Profit and overhead will be limited to 30%.

DEVELOPERS INTERESTED IN QUALIFYING FOR PARTICIPATION IN THIS PROGRAM MUST SUBMIT EVIDENCE OF THEIR QUALIFICATION TO PAUL T. CAIN, DIRECTOR, PHILADELPHIA AREA OFFICE, HUD, 625 WALNUT STREET, PHILADELPHIA, PENNSYLVANIA, 19106. ATTENTION: JAMES L. HATTER, ON OR BEFORE THE CLOSE OF BUSINESS JUNE 3, 1976. INQUIRIES CONCERNING THIS MATTER SHOULD BE MADE TO JAMES L. HATTER, 597-7911.

homes is limited both by the contract terms which do not seem to allow such a refusal for failure to meet the time requirement and by the conventional mortgage money which is apparently available to Korman in the Philadelphia area.)

Also, there are minimal provisions for positive incentives in the contract and the contract does not seem to deal adequately or fairly with such typical contractor problems as marketing risks, construction financing, and greater than allowed profit. Basically, this is a "good faith" contract in which HUD is dependent for its basic performance guarantee on the contractor's reputation and successful marketing effort.

### THE CONTRACT LANGUAGE

There are several contract provisions needing clarification. For example, the excess profits section found in Paragraph 16 is ambiguous as to whether the 30-percent profit figure is to be calculated on each unit as it is sold or on the units as a whole at the end of all sales. Logic and our interviews with HUD personnel have indicated that the intention was to compute the profit figure on all 120 units as a whole. The contract language should be redrafted to make that clear. Another example of an ambiguous provision in the contract is found in Paragraph 1; it is unclear whether HUD will be required to insure an individual unit even if the contractor does not meet the 180-day time limit and even if he is defaulting on other houses in the contract. As written, the contract appears to require HUD to insure each fully rehabilitated unit even in the face of these negative eventualities. However, logic and our interviews indicate that HUD personnel do not intend this result and, therefore, the contract language should be clarified.

### BENEFITS FOR VERY LOW INCOME AND MINORITY GROUPS

The Korman Contract does not provide, nor was it apparently intended to provide, benefits for very low income individuals, community groups, or minority businesses other than to stabilize or upgrade the specific neighborhoods in which the units are located. In fact, letting out the HUD-held properties in such large blocks will almost certainly cut out the typical minority contractor from bidding on this work. Also, there is apparently some pressure from the community not to resell or rent these units to the lowest income groups.

## POSSIBLE SOLUTIONS

### Increase Publicity for the Program

Increased publicity for the program, such as larger advertisements in more newspapers (including possibly The New York Times, The Wall Street Journal, and trade journals) running for longer periods of time would encourage more developers' bids. We would also suggest more informal efforts to contact prospective single contractors or potential groups of contractors in the Pennsylvania and New Jersey area. HUD might consider structuring the program as a modified "request for proposal" with HUD advertising in general terms and the contractors responding with specific proposals.

### Give More Weight to Contractor Capabilities

Procedures which would either tighten up the pre-qualifying review or give bidding weight to contractor capabilities should be researched so that HUD will never find itself in the position of having to let such a bulk sales contract to a company that is not likely to perform well. Various possible procedures might be contrary to the letter or spirit of existing procurement laws and the legality of the options must be reviewed carefully. The modified "request for proposal" procedures suggested above may put HUD in a better position to consider factors in addition to the sale price of the units.

### Include More Sanctions and Controls in the Contract

Include more sanctions and controls in the contract such as the following:

- . Stagger the actual taking down or closing of the units (e.g., in packages of 30 or 40 houses).
- . Include, in Schedule B, more precise repair specifications and maximum allowable repair costs for each unit.
- . Prepare a rehabilitation schedule specifying which of the houses should be worked on and in what order.
- . Name a specific liquidated damages amount at the end of each obligating paragraph or section in the contract.
- . Provide for the deposit of a certain percentage of the profit allowance in escrow until final compliance on all of the units.
- . Specify that HUD reserves the right to refuse to insure any particular house if the contractor is in default on the terms of the

contract either as to that particular house or any other house which is part of the contract.

#### Include More Incentives in the Contract

Include more incentives in the contract, providing for profit sharing over and above the 30-percent excess profit limit with perhaps two-thirds of any profits over 30 percent going to HUD and one-third going to the contractor.

#### Redraft the Entire Contract

Redraft the entire contract to remove ambiguities and other wording problems. Give more weight to contractor capabilities, include more sanctions and controls, and include more incentives (as described in the previous sections of this paper).

#### Provide Benefits for Low Income and Minority Groups

Provide benefits for low income and minority groups, such as:

- Require that a certain (probably small) percentage of the homes be financed under Section 235 of the National Housing Act or be placed under a lease/option plan as at Dover Estates in Michigan.
- Have a community group (possibly as a party to the contract) agree to provide home ownership counseling or agree to receive one of the houses at cost or as a gift from the contractor to use for some community purpose.
- Formally or informally encourage minority contractors to combine and bid as a group for some of these bulk sales contracts.





APPENDIX B

SALES CONTRACT BETWEEN HUD AND THE KORMAN CORPORATION



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
PROPERTY DISPOSITION PROGRAM

Contract No. \_\_\_\_\_

CONTRACT OF SALE AND PURCHASE (ALL CASH - BULK SALE)

THIS CONTRACT, executed on this \_\_\_\_\_ day of \_\_\_\_\_  
by and between the SECRETARY OF HOUSING AND URBAN DEVELOPMENT, hereinafter  
referred to as the Seller, and \_\_\_\_\_  
hereinafter referred to as the Purchaser.

WITNESSETH:

1. Under the terms and conditions hereinafter set out, the Seller agrees to sell and the Purchaser agrees to purchase certain properties set forth in Schedule "A" attached for all cash, warranted by Seller to be unoccupied and free of liens and encumbrances but with no provisions for warranty as to their condition and with no provisions for mortgage insurance upon resale except as hereinafter specified, and subject to easements, restrictions and reservations of record. Should all cash properties become available for insurance at a later date to qualified home buyers, the conditions of paragraph 8 of this contract shall apply; otherwise paragraph 8 shall be null and void. Execution by the Seller of this Contract shall obligate Seller to issue a conditional commitment to insure the mortgage on each property listed in Schedule "A" attached in an amount not to exceed 97% of the first \$25,000 of fully rehabilitated appraisal value plus closing costs as set forth on FHA Form 2496, "Schedule of Closing Costs for Use in the Philadelphia District," and 90% of such value, if any, exceeding \$25,000 but not exceeding \$35,000, specified for each such property as shown on Schedule "A", upon its resale to a qualified home buyer, provided, that the property shall have been rehabilitated in accordance with the Repair Standards contained in Schedule "B" attached and made part of this Contract, and further provided, that the aforementioned rehabilitation work shall have been inspected and approved by Seller. Seller may inspect the properties as often as necessary to satisfy its underwriting requirements during and after rehabilitation and before resale to the home buyers, and shall make final inspection not later than five working days after receipt of request to do so,

provided all repair work shall have been completed. It is mutually intended that all properties shall be fully rehabilitated and ready for sale not later than 180 days from date of conveyance to Purchaser; provided, however, that the understanding of the parties assumes that the City of Philadelphia shall issue requisite permits permitting the work required hereunder promptly upon request; it is further provided that, should Purchaser find that despite its best efforts it cannot promptly resell the fully rehabilitated houses as they are repaired according to the standards and production timetable set forth herein, Purchaser may request a meeting with the Area Director and/or appropriate officials of Seller for the purpose of discussing resales, market conditions, marketing techniques and related problems, and if after such meeting Seller determines that sales are slow to develop for reasons beyond Purchaser's control and despite Purchaser's best efforts to sell the houses, Seller ~~may~~ <sup>shall</sup> ~~extend~~ <sup>may</sup> Purchaser's completion time for so long as shall be necessary in Seller's opinion to sell the fully rehabilitated houses,

It is further provided that the time for completion shall be extended for the number of days delay caused by force majeure, including but not limited to: strikes, riots and violence, casualty, and governmental interference. Seller agrees to pre-qualify not more than one prospective buyer per property, according to its current guidelines, promptly upon receipt of the necessary financial and other data from Purchaser or Purchaser's agent.

2. The agreed purchase price of the properties listed in Schedule "A" is \$282,000.00 (Two Hundred Eighty Two Thousand Dollars), to be paid as follows: \$28,200 (Twenty-Eight Thousand Two Hundred Dollars) in cash, which the Purchaser has deposited with the Seller as evidence of good faith and to protect the Seller against loss or damage in the premises, receipt of which is acknowledged hereby, and \$253,800 (Two Hundred Fifty Three Thousand Eight Hundred Dollars) additional cash to be paid at closing. In addition, Purchaser assumes the obligation to pay all closing expenses including State or Federal revenue, deed, or documentary stamp taxes, recording fees, and any legal or title expense in connection with such continuation of or examination of title as may be required by the Purchaser. The sale shall be closed not later than 30 days after execution of this contract. Seller shall deliver to Purchaser copies of all existing title information in Seller's hands, which event shall be evidenced by Seller's written certification that delivery has been made as aforesaid, not later than 30 days after execution of this contract. Closing shall occur upon three days notice from Purchaser to Seller indicating it is ready to close, and said notice shall set a mutually agreeable time. Simultaneously with receipt of the purchase price in full as

stated above, Seller shall deliver to Purchaser an individual special warranty deed as described in paragraph 6 herein for each property conveyed. Should Purchaser fail or refuse to perform his part of this contract promptly at the time or in the manner herein specified, the earnest money deposited herewith shall, at the option of Seller, be retained as liquidated damages.

3. All real property taxes and like charges against the property, including any improvement assessment installments (with interest), sewer and water charges, garbage removal charges and ground rents, due and payable on or before the closing date but only in the amount accruing up to the closing date shall be paid by the Seller. The Purchaser shall pay and bear the expense of all improvement assessment installments (including interest) becoming due and payable after the closing date, and shall pay all real property taxes and such like charges accruing after the closing date regardless of when due and payable.

4. No representations are made by the Seller as to the physical condition of the properties to be conveyed. Prior to the closing of the sale the Seller assumes the risk of loss from damage to any property by any cause (including but not limited to fire, flood, earthquake, tornado and vandalism) other than willful acts or neglect of the Purchaser, and in the event of such damage Seller shall delete such damaged property from Schedule "A" and may either reduce the total purchase price set forth in paragraph 2 herein by an amount which bears the same pro rata share to the total purchase price specified in paragraph 2 herein as the price assigned to such individual property by Seller in determining the minimum as-is bulk sale offering price bears to the total as-is bulk sale offering price, or Seller may negotiate with Purchaser for the substitution of another mutually acceptable property in the same geographical area of substantially equivalent as-is value and fully rehabilitated fair market value if the parties reach agreement on such substitution within 14 days from commencement of negotiations on such property. If at any time after execution of this Contract and before the

start of rehabilitation work on a particular property. Purchaser should discover what it considers to be a latent structural defect in such particular property of such magnitude as in Purchaser's opinion to make restoration unfeasible, Purchaser may so notify Seller and Seller shall promptly inspect the property; if after inspection Seller concurs in Purchaser's opinion as to both the existence of the defect and unfeasibility of restoration, Seller shall delete such defective property from Schedule "A" and may either reduce the purchase price by an amount bearing the pro rata share to the total purchase price as described in this paragraph or negotiate with Purchaser for substitution of another substantially equivalent property, as provided herein for damaged properties. Seller's determination as to what shall constitute a latent structural defect of such magnitude as to make restoration unfeasible shall be final and binding on the parties.

5. If after inspection of any individual property listed on Schedule "A" herein Purchaser in its opinion determines that any aspect or aspects of that property satisfy the Repair Standards set forth in Schedule "B" herein so that no, or minimal, repair work is necessary in order to bring such aspect or aspects up to such Repair Standards, Purchaser shall so notify Seller. Thereafter Seller shall promptly inspect such property and if in Seller's opinion any aspect or aspects of such property satisfy the Repair Standards in their existing condition, Seller shall exempt such aspect or aspects from required rehabilitation work; provided, that Purchaser shall not be relieved from its warranty obligations under paragraph 9 of this Contract by any exemptions that may be granted pursuant to this paragraph. Purchaser hereby represents that it had the right to inspect the properties and understands that the Seller makes no representation regarding the habitability of the properties or the structural or mechanical condition of same.

6. The form of conveyance shall be a special warranty deed in the form customarily used in the City of Philadelphia and in which Seller warrants to defend title to the property against the lawful claims of all persons claiming by, from, through or under the grantor therein. Transfer of title and possession shall become effective by delivery of a deed as of the actual time and date of closing.

7. The Purchaser shall comply with Title VIII of the 1968 Civil Rights Act ("Fair Housing" Title of Public Law 90-284) in the rental or sale of all properties owned or managed by him and prominently display Form

... of this contract by the Purchaser or his authorized signifier his agreement to comply with the above-stated law.

8. No Member of or Delegate to Congress or Resident Commissioner, shall be admitted to any share or part of this contract or to any benefit that may arise therefrom, but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

9. Purchaser agrees that, upon resale of any property listed in Schedule "A" to a qualified home buyer with insured financing available, Purchaser will convey the following Warranty to such qualified home buyer:

(Note: The term "Seller" as used in the following Warranty shall mean Purchaser as used in this Contract, and the term "Purchaser" as used in the following Warranty shall mean the qualified home buyer referred to in this paragraph.)

"Seller will promptly correct any structural defects in the dwelling or defects in its roof, heating, plumbing and/or electrical systems (excluding refrigerators, air conditioning units or systems, ventilating fans, laundry washers and dryers, dishwashers and waste disposers) which occur within one (1) year after the sales closing or within such time as is provided in the Repair Standards (Schedule "B") whichever is greater, provided the Purchaser, upon discovery of such defect, promptly notifies Seller in writing. During the warranty period, Seller shall promptly after notice (which need not be written) repair any defect which if allowed to remain uncorrected may result in damage to the dwelling or adversely affect the safety or health of the occupants or make the dwelling uninhabitable.

"This warranty will not apply to new equipment for which the Purchaser has been furnished the manufacturer's warranty; however, Seller shall be responsible to make certain that the manufacturer shall be responsible for payment of installation costs for replacing equipment under a manufacturer's warranty; if manufacturer fails to do so, Seller shall have such burden. Requests for corrections of such deficiencies are to be made directly to the Seller by the Purchaser. This warrant shall not apply to defects or damages caused by casualty, whether or not insured against by Purchaser, nor to defects or damages resulting from the intentional or negligent act of Purchaser or third parties. This warranty shall obligate Seller only for correction of defects and shall not obligate Seller for consequential damages resulting from such defects.

"Under no circumstances shall this warranty subject the U.S. Department of Housing and Urban Development to liability for injury or damage to persons or property by reason of a defect in the dwelling, its equipment or its appurtenances, nor shall the undertakings of this warranty extend to any party other than the Purchaser.

"Seller warrants, limited as aforesaid, the quality of workmanship and materials required by the Repair Standards governing rehabilitation of this dwelling for the periods described in this warranty, commencing on the date of sales closing to Purchaser, and against acts of vandalism, deterioration and other acts not attributable to Purchaser for the period of time between the execution of the sales contract between the Seller and the Purchaser and the sales closing to Purchaser." (End of Warranty.)

10. None of the provisions of the Contract are intended to or shall be merged by reason of any deed transferring title of the properties from the Seller to the Purchaser or any successor in interest, and any such deed shall not be deemed to affect or impair the provisions and covenants of the Contract.

11. The Purchaser hereby agrees that it will incorporate or cause to be incorporated into any contract for construction work or modification thereof, as defined in the regulations of the Secretary of Labor at 41 CFR Chapter 60, which is paid for in whole or in part with funds obtained from the Federal Government or borrowed on the credit of the Federal Government pursuant to a grant, contract, loan, insurance, or guarantee, or undertaken pursuant to any Federal program involving such grant, contract, loan, insurance, or guarantee, the following equal opportunity clause:

"During the performance of this contract, the contractor agrees as follows:

"(1) The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. The contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without



regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to, the following: Employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation and selection for training, including apprenticeship. The contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided setting forth the provision of this non-discrimination clause.

"(2) The contractor will, in all solicitation or advertisements for employees placed by or on behalf of the contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.

"(3) The contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the Contract Compliance Officer of the U.S. Department of Housing and Urban Development advising the said labor union or workers' representatives of the contractor's commitment under this section, and shall post copies of the notice in conspicuous <sup>places</sup> available to employees and applicants for employment.

"(4) The contractor will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

"(5) The contractor will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the Department and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

"(6) In the event of the contractor's non-compliance with the non-discrimination clauses of this contract or with any of the said rules, regulations, or orders, this contract may be cancelled, terminated, or suspended in whole or in part and the contractor may be declared ineligible for further Government contracts or federally assisted construction contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

"(7) The contractor will include the portion of the sentence immediately preceding paragraph (1) and the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The contractor will take such action with respect to any subcontract or purchase order as the Department may direct as a means of enforcing such provisions, including sanctions for noncompliance: Provided, However, that in the event a contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the Department, the contractor may request the United States to enter into such litigation to protect the interest of the United States."

The Purchaser further agrees that it will be bound by the above equal opportunity clause with respect to its own employment practices when it participates in federally assisted construction work: Provided, that if the Purchaser so participating is a State or local government, the above equal opportunity clause is not applicable to any agency, instrumentality or subdivision of such government which does not participate in work on or under the contract.

The Purchaser agrees that it will assist and cooperate actively with the Department and the Secretary of Labor in obtaining the compliance of contractors and subcontractors with the equal opportunity clause and the rules, regulations, and relevant orders of the Secretary of Labor; that it will furnish the Department and the Secretary of Labor such information as they may require for the supervision of such compliance; and that it will otherwise assist the Department in the discharge of its primary responsibility for securing compliance.

The Purchaser further agrees that it will refrain from entering into any contract or contract modification subject to Executive Order 11246 of September 24, 1965, with a contractor debarred from, or who has not demonstrated eligibility for, Government contracts and federally assisted construction contracts pursuant to the Executive order and will carry out such sanctions and penalties for violation of the equal opportunity clause as may be imposed upon contractors and subcontractors by the Department or the Secretary of Labor pursuant to Part II, Subpart D of the Executive order. In addition, the Purchaser agrees that if it fails or refuses to comply with these undertakings, the U.S. Department of Housing and Urban Development may take any or all of the following actions: Cancel, terminate, or suspend in whole or in part this contract; refrain from extending any further assistance to the Purchaser under the program with respect to which the failure or refusal occurred until satisfactory assurance of future compliance has been received from such Purchaser; and refer the case to the Department of Justice for appropriate legal proceedings.

12. Purchaser shall be responsible for compliance with all requirements of 24 CFR Part 35, Subpart A, which relates to prohibition of use of lead-based paint, which regulations are hereby incorporated by reference and made a part of this Contract. In addition, Purchaser shall be responsible for compliance with all requirements of local ordinances concerning prohibition of use of lead-based paint. Seller shall certify that each property, at the time of conveyance to Purchaser, is free of lead-based paint and is in compliance with the terms of the Order of the U. S. District Court, Eastern District of

Pennsylvania issued in the case of City Wide Coalition Against Childhood Lead Paint Poisoning v. Philadelphia Housing Authority, 356 F. Supp. 123 (E. D. Pa. 1973), to remove lead-based paint from the properties.

13. Purchaser shall be responsible for compliance with all requirements of the Philadelphia Plan as set forth in the "Notice of Requirement for Submission of Affirmative Action Plan to Ensure Equal Employment Opportunity," which notice is contained in the Appendix hereto and made a part of this Contract.

14. Purchaser shall be responsible for compliance with all requirements of 24 CFR Part 200, Subpart K, Affirmative Fair Housing Marketing Regulations, in the resale of the rehabilitated properties to qualified home buyers. The aforementioned Regulations are hereby incorporated by reference and made a part of this Contract.

15. Purchaser shall be responsible for compliance with all applicable local building and other codes and licensing requirements, and for obtaining all necessary building permits.

16. Purchaser shall be required to certify all costs based upon the following factors:

a. The actual purchase price of all properties listed on Schedule "A" herein, as set forth in paragraph 2 herein;

b. Actual expenses of purchase and holding all properties listed on Schedule "A" herein from closing date of purchase to closing date of resale, including but not limited to title insurance, actual taxes and assessments paid, recording costs, transfer taxes, and fire and/or casualty insurance premiums paid;

c. Actual costs of interim financing;

d. Actual reasonable costs of required repairs of all properties.

Purchaser's profit and overhead shall be limited to 30% of the sum of items (a), (b), (c) and (d) of this paragraph. Any amount determined

By Seller is earned the maximum profit and overhead allowable by the terms of this paragraph shall be paid over to Seller not later than 30 days after Purchaser's receipt of Seller's Notice of determination that a refund is due. In addition, Purchaser shall be entitled to a credit for actual commission paid on the resale of each property listed in Schedule "A" herein, not to exceed six percent (6%), and to be reimbursed for the cost of actual points paid upon resale of each property.

17. This Contract with its Attachments, Appendix, and materials incorporated by reference contains the final and entire agreement between the parties hereto and they shall not be bound by any terms, conditions, statements, or representations, oral or written, not herein contained.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands and seals the day and year first above written.

\_\_\_\_\_  
(Name of Purchaser)

(SEAL)

BY \_\_\_\_\_

(Signature and Title of Authorized Officer)

ATTEST:

\_\_\_\_\_  
Secretary

UNITED STATES OF AMERICA  
Secretary of Housing and Urban Development

BY \_\_\_\_\_

Area Director

Schedule "A"

Address	Fully Rehabilitated Value (\$)	FHA No.	Condom Tract
2438 77th Ave. 17,000	17,000	MA-116146-203	263
2438 76th Ave. 19,300	19,300	MA-116135-203	263
2421 W. 77th Ave. 18,000	18,000	MA-092277-221	263
2441 77th Ave. 18,000	18,000	MA-133737-203	263
2449 77th Ave. 18,000	18,000	MA-179457-221a2	263
2452 77th Ave. 18,000	18,000	MA-195753-221	263
2314 79th Ave. 20,800	20,800	MA-187293-221	263
7953 Bayard St. 20,300	20,300	MA-208019-221	263
7443 Beverly Rd. 17,500	17,500	MA-134217-203	263
7460 Beverly Rd. 17,500	17,500	MA-135536-203	263
7454 Beverly Rd. 17,500	17,500	MA-210227-221	263
7302 Briar Rd. 16,000	16,000	MA-123235-221	263
7521 Briar Rd. 17,300	17,300	MA-117746-221	263
7450 Briar Rd. 18,200	18,200	MA-152279-221	263
7731 Cedarbrook Ave. 20,000	20,000	MA-075338-221	263
7819 Cedarbrook Ave. 18,800	18,800	MA-161451-221	263
7232 Forrest Ave. 18,800	18,800	MA-198556-203	263
5 Linakila Pike 17,800	17,800	MA-169452-221	263
11 Michener St. 18,300	18,300	MA-226662-203	263
313 Ogontz Ave. 26,300	26,300	MA-087152-203	263
7968 Provident Rd. 17,800	17,800	MA-227124-203	263
1322 E. Sharpnack St. 18,800	18,800	MA-212312-221	263
7426 Somers Rd. 19,500	19,500	MA-216525-221	263
7339 Thouron Ave. 19,000	19,000	MA-201311-203	263
7421 Somers Rd. 19,500	19,500	MA-219033-203	263
2122 E. Washington La. 18,800	18,800	MA-222227-221	263
1541 Unsal St. East 18,800	18,800	MA-167522-221	263
<del>209 E. ...</del>		<del>MA-201532-221</del>	<del>263</del>
800 Nolan St. 19,500	19,500	MA-191345-221	264
808 E. Pastorius St. 19,500	19,500	MA-215807-221	264
1374 Hugoy St. 18,700	18,700	MA-147546-203	264
1640 E. Tulpehocken St. 20,300	20,300	MA-214634-203	264
1156 E. Unsal St. 18,500	18,500	MA-219855-203	264

<u>ADDRESS</u>	<u>Fully Rehabilitated Value (\$)</u>	<u>FPA NO.</u>	<u>CENSUS TRACT</u>
115 W. 66th Ave.	12200	MM1-107209-203	265
149 Cedar Park Ave.	10100	MM1-018530-203	265
116 Cornelius St.	15100	MM1-113430-211	265
155 Cornelius St.	15300	MM1-182565-221	265
559 Forrest Ave.	15700	MM1-225031-203	265
138 Honor St.	15100	MM1-213205-22142	265
738 Linokila Pike	14100	MM1-144200-22152	265
535 Linokila Pike	15100	MM1-224610-203	265
545 Ogontz Ave.	17300	MM1-176574-21142	265
145 Rittenhouse St.	11300	MM1-036705-22152	265
515 Stanton Ave.	14000	MM1-115295-221	265
522 E. Walnut Lane	18100	MM1-110032-221	265
541 E. Wistar St.	18200	MM1-202755-203	265
722 N. Woodstock St.	14300	MM1-125009-203	265
738 Woolston Ave.	13300	MM1-077301-221	265
737 Woolston Ave.	13100	MM1-202513-203	265
126 Wynocta Ave.	12300	MM1-179750-221	265

ADDRESS	Value (\$)	FHA NO.	CENSUS TRACT
258 N. 20th St.	16300	441-123965-203	255
264 N. 21st St.	16800	441-223293-203	256
356 N. 21st St.	17300	441-133932-203	255
435 N. 21st St.	17300	441-185595-221	255
625 73rd Ave.	16500	441-129022-221a2	255
696 73rd Ave.	16300	441-108157-221	255
611 73rd Ave.	17500	441-197389-221	255
711 Ashley St.	16500	441-114325-203	255
957 Ashley St.	16500	441-124056-221	255
983 Ashley St.	16500	441-109293-221	255
944 Dallas Rd.	15800	441-186195-203	255
718 Elston St.	14800	441-155123-203	255
827 Elston St.	15300	441-227381-203	255
847 Elston St.	15300	441-136232-221a2	255
913 Elston St.	14800	441-111061-203	255
986 Elston St.	15300	441-159135-221a2	255
995 Elston St.	15300	441-121830-221	255
971 Georgian Rca.	17000	441-145267-221	255
419 Georgian Rca.	16500	441-200834-221	255
402 Georgian Rca.	16500	441-116727-221	255
607 Ogontz Ave.	17800	441-215809-221	255
937 Penfield St.	15300	441-224615-203	255
Penfield St.	15300	441-195340-221	255
27 Plymouth S.	15500	441-153979-221a2	255
353 Starling St.	17300	441-201825-203	255
351 E. Walnut La.	18800	441-211956-221	255



ADDRESS	Fully Rehabilitated Value '53	FHA NO.	C.T.
6621 N. 16th Street	16300	441-202063-221	267
6715 N. 16th Street	16300	441-194514-221d2	267
6711 N. 17th Street	15300	441-093845-221d2	267
6823 N. 17th Street	14000	441-223594-221	267
6726 N. 18th Street	14300	441-216591-203	267
6803 N. 20th Street	14000	441-096169-203	267
1821 N. 67th Street	17300	441-133977-203	267
1926 68th Avenue	14300	44-240633-221d2	267
<del>6721 N. Bouvier Street</del>		<del>441-216591-203</del>	<del>267</del>
<del>6821 N. Bouvier Street</del>		<del>441-216591-203</del>	<del>267</del>
6512 N. Bouvier Street	14300	441-274297-203	267
6612 N. Bouvier Street	14300	441-155761-203	267
6523 N. Bouvier Street	13300	441-094500-221d2	267
1713 Colonial Street	14300	441-085341-203b	267
6546 N. GRATZ STREET	14300	441-149804-203	267
6721 N. Gratz Street	14000	441-163965-221d2	267
6527 N. Lambert Street	13300	441-180394-203	267
6423 N. Snadley Street	14300	441-179431-221d2	267
6535 Linakiln Pike	15000	441-223017-203	267
6531 N. Lambert Street	13300	441-122630-203	267
6425 Snadley Street	14300	441-039783-221d2	267
6501 N. Snadley Street	15300	441-134762-221d2	267
6323 N. Bouvier Street	13300	441-212173-221	267
6652 Opel Street	15300	441-124280-203	267
6457 N. Snadley Street	14300	441-110609-221	267
6419 N. Snadley Street	14300	441-205780-203	267
7 Stanton Avenue	13300	441-184292-221	267
553 N. Woodstock Street	13300	441-159652-221d2	267
6559 Wyncote Avenue	13300	441-072029-221d2	267

<u>ADDRESS</u>	<u>Fully Rehabilitated Value (\$)</u>	<u>TRACT</u>	<u>CENSUS TRACT</u>
6113 N. 21st Street	12500	MM-120925-203	277
2117 W. 65th Street	12800	MM-211774-221	277
<del>2117 W. 65th Street</del>		<del>MM-211774-221</del>	<del>277</del>
6233 N. Beechwood Street	9300	MM-129821-221	277
6124 N. Beechwood Street	11300	MM-124355-203	277
6214 N. Bouvier Street	15200	MM-002152-203	277
1917 E. Shelton Avenue	11200	MM-191722-221	277
<del>1917 E. Shelton Avenue</del>		<del>MM-191722-221</del>	<del>277</del>
6311 N. Gratz Street	10800	MM-221850-203	277
6233 Lambert Street	10300	MM-222369-203	277
6112 N. Lambert Street	9800	MM-093313-221	277
6117 N. Lambert Street	9800	MM-123762-221	277
6121 N. Lambert Street	9800	MM-201816-203	277
1955 Madary Avenue	11800	MM-186517-221	277
2006 Madary Avenue	11800	MM-093529-221	277
6125 N. Norwood Street	10300	MM-123807-203	277
6211 Ogontz Avenue	12300	MM-178797-221	277
6322 Opal Street	10800	MM-007954-221	277
6224 Woodstock Street	10300	MM-032476-203	277
6324 N. Woodstock Street	9800	MM-212755-203	277

Repair Standards

Painting: Exterior painting as new is not acceptable. Specific exterior elevations with defective painting must have the entire specific elevation re-painted.

Siding: Replace defective siding. Replace defective fascia, soffit and bargeboard.

Outlets &

Downspouts: Replace defective gutters and downspouts. Clear downspouts "boots" to assure run-off into sewer line. Open yard drain.

Roof: (a) Install a new built up roof, 4 ply hot mopped asphalt with new flashing and counter flashing on all parapet walls. Provide 10 year guarantee.

(b) If existing roof is shingle, install a new minimum 240 lb. seal tab asphalt shingle roof, with new flashings. All roofs with a pitch of 3 in 12 or greater (Roll roofing will not be acceptable.) 10 year guarantee.

Porches: Replace all defective or buckled wood members, on stair treads, risers and ceilings. Replace defective or missing railing and/or posts.

Painting: Paint exterior at \_\_\_\_\_. All surfaces will be properly prepared for painting.

Caulking: Caulk all window and door frames.

Walks: Install a new concrete walk at \_\_\_\_\_. Approx. \_\_\_\_\_ l.f. Install concrete steps at \_\_\_\_\_. Number of treads and risers \_\_\_\_\_. Replace missing or broken curb.

Fence: Provide sound sturdy yard fence, same type as those on surrounding properties or galvanized chain link fence.

Clean Up: Remove debris from premises.

INTERIOR:

Wood Trim: Replace all cracked, broken, mis-matched trim, jambs, etc.

Wood

Floors: Replace all defective flooring, holes in floor, etc., with wood flooring of similar size and coloring. Sand fill, and refinish natural all wood floors. Painting of wood floors is not acceptable. Carpeting, when used as finished flooring must comply with HUD-FHA use of Materials Bulletin M10. Replace all rotted and deteriorated floor joists and level all floors.

Stairs: Replace defective treads and risers. Replace broken and/or missing balusters. Provide a handrail for all flights of stairs.

Doors: Replace all defective doors with doors of similar style. Install a lockset where existing lockset is missing or malfunctioning. Adjust all doors for proper operation.

Weather-

stripping: Install metal weatherstripping at all exterior doors and windows. Install metal interlocking thresholds at exterior doors.

Windows: Replace rotted and defective sash and frames. Replace all cracked, rotted, broken, mis-matched and missing trim. Replace all cracked/broken glass. Replace missing and/or defective glazing putty. Remove all sheet metal window sills and replace all rotted wood sills.

Paint: Repaint all exterior walls and properly wash walls and apply at least one coat of ceiling paint.

Attic: All woodwork shall be sanded smooth or stained, iron iron stained, etc. Fill all holes, cracks, voids properly; then paint with lead free enamel paint.

#### Wood

Paneling: Plywood or hardboard paneling not acceptable, drop ceilings not acceptable.

Basement: Replace all defective basement floors with minimum 3" thick concrete floor. Cement parging basement walls (All loose material must be removed prior to parging.) Provide dry basement.

Heating: (1) Install a new forced warm air furnace, with gas or oil fired together with all necessary controls, ductwork, dampers, grilles, diffusers, cold air returns, and safe devices necessary for proper operation.

(2) Install a new gas or oil fired boiler together with all piping, radiation safety devices and accessories necessary for proper operation.

All systems shall be of sufficient capacity to heat all the rooms to a minimum temperature of 70° F when the outside temperature is 0° F. All systems shall be guaranteed for one year.

Plumbing: Install a new domestic hot water heater as follows:

(1) Gas fired - minimum 30 gal. with pressure/temp. relief valve for 3 bedroom house, 40 gal. for four or more bedrooms, glass lined, 5 year guarantee.

(2) Electric - minimum 52 gal. with pressure/temp. relief valve, glass lined, 5 year guarantee.

Furnish and install an entire new plumbing system. The main water line shall be replaced to the outside curb shut-off valve. The waste pipe shall be replaced to the property front wall. The waste pipe under the sidewalk and street shall be cleaned out and guaranteed for a period of one year from date of settlement. Furnish and install all domestic hot and cold water piping and all fixtures. Minimum plumbing facilities shall consist of 3-piece bathroom with shower, kitchen sink, laundry tray or provision for installation of automatic washer.

Electric: Install a 100A Service. Install sufficient new duplex outlets so that each habitable room has a minimum of two, each one to be located on a different wall. Install one duplex outlet in each bathroom. Provide each habitable room with either a wall switch controlled ceiling fixture or duplex outlet. Provide sufficient new circuits for the connection load. The entire electrical installation shall be inspected by an approved electrical inspection agency.

Kitchen: Install a new floor. Floor shall be vinyl asbestos tile or vinyl sheet goods properly installed over 1/2 inch plywood or hardboard underlayment. Install a 4" vinyl or rubber cove base. Install new kitchen cabinets and countertops sufficient to provide a minimum of 30 l.f. of shelf (combined base and wall cabinets). Install a new gas or electric cooking range, minimum 30". Install a new kitchen sink. Kitchen cabinets and appliances must be properly arranged for most practical use.

Bath: Install a new 3 piece bathroom - tub/shower, lavatory and water closet complete with the following accessories:

1. Paper holder
2. Towel bar
3. Soap dish/grab bar in tub area
4. Recessed medicine cabinet/mirror

Install tub area wainscoting to 6' above the floor in the tub area. Wainscoting to be minimum marble or equal panels. Install new floor of vinyl asbestos tile or vinyl sheet goods properly installed over 1/2" plywood or hardboard underlayment with 4" vinyl or rubber cove base.

Water: Where the existing installation is equal to or better than the required improvements the party may submit a written request for waiver.

Lead Paint  
Source:

Properties located in the City of Philadelphia only. VC-50A - a certificate issued by the appropriate department of the City of Philadelphia shall be obtained and submitted to HUD stating: "The property is in compliance with the Philadelphia Code and Regulations of the Department of Public Health because, applicable paint surfaces do not exceed toxicity standards of the Department of Public Health specifications for the removal of Lead Paint."

APPENDIX

(For inclusion in the Invitation or Other Solicitation for Bids for a Federally-involved Construction Contract in the Philadelphia Five-County area when the Estimated Total Cost of the Construction Project Exceeds \$500,000.)

NOTICE OF REQUIREMENT  
SUBMISSION OF AFFIRMATIVE ACTION PLAN  
TO ENSURE EQUAL EMPLOYMENT OPPORTUNITY

NOTICE

TO BE ELIGIBLE FOR AWARD OF THE CONTRACT, EACH BIDDER  
MUST FULLY COMPLY WITH THE REQUIREMENTS, TERMS AND  
CONDITIONS OF THIS APPENDIX

The following are hereby submitted by the undersigned bidder as its goals for minority manpower utilization ("minority" being Negro, Spanish surnamed Americans, Orientals and American Indians and includes both men and women) to be achieved on all work of the bidder within the Philadelphia, Pennsylvania area during the terms of his performance of this contract in the trades specified below in conformity with the requirements, terms and conditions of this Appendix hereinafter set forth:

Total Number of Manhours to be worked by Minority Persons on All Bidder's Projects within the Philadelphia area including on this Contract Expressed in Terms of a Percentage of the Total Number of Manhours to be Worked . . .

Trade

Iron workers  
Plumbers & Pipefitters  
Steamfitters  
Sheetmetal workers  
Electrical workers  
Elevator construction workers

REQUIREMENTS, TERMS AND CONDITIONS.

1. No contracts or subcontracts shall be awarded for Federal or Federally-assisted construction in the Philadelphia area on projects whose estimated cost exceeds \$500,000 unless the bidder completes and submits, prior to bid opening, this document designated as Appendix, or a substantially similar document, which shall include specific goals of minority manpower utilization for each trade designated below which will be used by the contractor on all his work (both Federal and non-Federal) within the Philadelphia area during the term of his performance of the contract; such goals to be established by the contractor at least within the ranges established by this Appendix in Section 2 thereof.

Minority manpower means, for the purposes of this Appendix, Negroes, Spanish surnamed Americans, Orientals

and American Indians and includes both men and women.

The trades utilizing the following classifications of employees are covered by this Appendix:

Iron workers	Electrical workers
Plumbers & Pipefitters	Elevator construction workers
Sheetmetal workers	
Steamfitters	

1. A bidder who fails or refuses to complete or submit such goals shall not be deemed a responsive bidder and may not be awarded the contract or subcontract, but such goals need be submitted only for those trades which the contractor contemplates to be used in the performance of the Federally-involved contract. In no case shall there be any negotiations over the provisions of the specific goals submitted by the bidder after the opening of bids and prior to the award of the contract.

2. The following ranges, constituting acceptable minimums within which a prospective contractor or subcontractor must establish his goals are hereby established as the standards for minority manpower utilization for each of the designated trades in the Philadelphia area for the calendar year 1974:

<u>Trade</u>	<u>Range of Minority Group Employment</u>
Iron workers	225 - 265
Plumbers & Pipefitters	205 - 245
Steamfitters	205 - 245
Sheetmetal workers	195 - 235
Electrical workers	195 - 235
Elevator construction workers	195 - 235

The contractor's or subcontractor's goals established within the above ranges shall express the contractor's or



subcontractor's commitment to the percentage of minority personnel who will be working in each specified craft on each of his projects (whether Federally-involved or otherwise) within the Philadelphia area during the term of the covered contract.

The manhours for minority workers must be substantially uniform throughout the entire length of the contract for each of the designated trades, to the effect that the percentage of minority workers in the designated trades must be working throughout the length of work on each project in each trade. The contractor or subcontractor shall be deemed to have met his commitment to specific goals for minority manpower utilization:

(a) If the minority manpower utilization rate of the contractor or subcontractor itself meets the goals of the total of all of the contractor's or subcontractor's facilities within the Philadelphia area: Provided, however, that if the contractor has denied equal employment opportunity: he shall not be in compliance with this Appendix, or

(b) If the contractor or subcontractor can establish that it is a member of a contractor's association or other employer organization or association which has as one of its purposes the expanded utilization of minority manpower and the total utilization rate of minority craftsman by all member contractors and subcontractors of such an association or organization on all projects in which

they are involved within the Philadelphia area meets the contractor's or subcontractor's commitments in this Appendix: Provided, however, That if the contractor has denied equal employment opportunity, he shall not be in compliance with this Appendix, or

(c) If the contractor or subcontractor can establish that it has a collective bargaining agreement with a labor organization, that it utilizes such organization as its source for over 80 percent of its manpower needs and (i) that the percentage total of minority membership of such organization and the total percentage of minorities referred for employment on all projects within the Philadelphia area meets the contractor's or subcontractor's commitments or (ii) that such labor organization has made good faith efforts as described in 5 below in the referral of minorities for employment and the admission of minorities to membership: Provided, however, That if the contractor has denied equal employment opportunity, he shall not be in compliance with this Appendix.

3. Whenever a contractor or subcontractor uses trades covered by this Appendix which were not contemplated at the time of his bid and he therefore does not submit goals for such trades, he shall be deemed to be committed to the minority group employment goal of the minimum percentage range for that trade for the appropriate year.

In the event that under a contract subject to this Appendix any work by a trade covered by this Appendix is performed after December 31, 1974, the determined ranges

of minority group employment for the year ending December 31, 1974, shall be applicable to such work.

4. The contractor's or subcontractor's commitment to specific goals is to meet affirmative action obligations and is not intended and shall not be used to discriminate against any qualified applicant or employee. Whenever it comes to the bidder's or contractor's attention that the goals are being used in a discriminatory manner, he shall immediately report that fact to the Office of Federal Contract Compliance of the U.S. Department of Labor in order that appropriate proceedings may be instituted.

5. The contractor's or subcontractor's (collectively hereinafter referred to as "contractor") commitment to specific goals for minority manpower utilization as required by this Appendix shall constitute a commitment that it or the labor organization described in 2(c) above, will make every good faith effort to meet such goals. If the contractor has failed to meet his goals, a determination of "good faith" will be based upon his efforts or those of such labor union to broaden its recruitment base which efforts shall include but not be limited to the following as applicable:

(a) Notification to the community organizations that the contractor or union has employment opportunities available and maintenance of records regarding the organizations' response.

(b) Maintenance of a file of the names and addresses of each minority worker referred by the union or to the contractor and what action was taken with respect to each such referred worker. If such worker was not sent to the union hiring hall for referral or if such worker was not referred by the union or not employed by the contractor, the file should document this and the reasons therefor.

(c) The contractor shall promptly notify the OFCC Associate Assistant Regional Director when the union or unions with whom the contractor has a collective bargaining agreement has not referred to the contractor a minority worker sent by the contractor or the contractor has other information that the union referral process has impeded him in his efforts to meet his goal.

(d) Participation in training programs in the area, especially those funded by the Department of Labor.

(e) Dissemination of the contractor's or unions EEO policy within the respective organizations as applicable, by including it in any policy manual; by publicizing it in company or union newspapers, annual report, etc.; by posting of the policy; and by specific review of the policy with minority employees or members.

(f) Dissemination of its EEO policy externally by informing and discussing it with all recruitment sources; by advertising in news media; specifically including minority news media; and by notifying and discussing it with all contractors and subcontractors.

(g) Specific and constant personnel (both written and oral) recruitment efforts directed at all minority organizations, schools with minority students, minority recruitment organizations and minority training organizations, within the contractor's or union's recruitment area.

(h) Specific efforts to encourage present minority employees or members to recruit their friends and relatives.

(i) Validation of all man specifications, selection requirements, tests, etc.

(j) Making every effort to provide after school, summer and vacation employment to minority youths.

(k) Where reasonable, the development of on-the-job training opportunities and participation and assistance in any association or group training programs relevant to the contractor's or union's needs.

(l) Continuing inventory and evaluation of all minority personnel or members for promotional opportunities and encouragement of minority employees or members to seek such opportunities.

(m) Assuring that seniority practices, job classifications, etc., do not have a discriminatory effect.

(n) Assuring that all facilities and activities are non-segregated.

(o) Continual monitoring of all personnel activities to insure that its EEO policy is being carried out.

(p) The contractor shall solicit bids for subcontracts from available minority subcontractors with the trades covered by this Appendix, to the maximum extent

practicable including circulation of minority contractor associations.

6. Each agency shall review contractors' and subcontractors' employment practices during the performance of the contract. If the contractor or subcontractor meets its goals or if the contractor or subcontractor can demonstrate that it has made every good faith effort to meet those goals, and is not otherwise violating any existing equal employment opportunity laws or regulations the contractor shall be presumed to be in compliance with Executive Order 11246, the implementing regulations and its obligations under this Appendix and no formal sanctions or proceedings leading toward sanctions shall be instituted unless the agency otherwise determined that the contractor or subcontractor is not providing equal employment opportunities. Where the agency finds that the contractor or subcontractor has failed to comply with the requirements of Executive Order 11246, the implementing regulations and its obligations under this Appendix, the agency shall take such action and impose such sanctions as may be appropriate under the Executive Order and the regulations. When the agency proceeds with such formal action it has the burden of proving that the contractor has not met the requirements of this Appendix, but the contractor's failure to meet his goals shall shift to him the requirement to come forward with evidence to show that either he or his labor union described in 2(c) above, has made every "good faith" effort

(as described above in 5) to meet such goals. Such non-compliance by the contractor or subcontractor shall be taken into consideration by Federal agencies in determining whether such contractor or subcontractor can comply with the requirements of Executive Order 11246 and is therefore a "responsible prospective contractor" within the meaning of the Federal procurement regulations.

7. Except as provided herein, it shall be no excuse that the union with which the contractor has a collective bargaining agreement providing for exclusive referral failed to refer minority employees. Discrimination in referral for employment, even if pursuant to provisions of a collective bargaining agreement, is prohibited by the National Labor Relations Act, as amended, and Title VII of the Civil Rights Act of 1964. It is the long-standing uniform policy of OFCC that contractors and subcontractors have a responsibility to provide equal employment opportunity if they want to participate in Federally-involved contracts. To the extent they have delegated the responsibility for some of their employment practices to a labor organization which does not meet the criteria prescribed in 5 above and they are, thus, prevented from meeting the obligations pursuant to Executive Order 11246 (as amended), such contractors cannot be considered to be in compliance with Executive

(Order 11246 (as amended), or the implementing rules, regulations, and orders.

8. All prime contractors and subcontractors shall include in all bid invitations or other proposal communications, written or otherwise, with respect to their prospective subcontractors, the goals, as applicable, which are required under this Appendix. Whenever a prime contractor or subcontractor subcontracts a portion of the work in any trade designated herein, he shall include in such subcontract his commitment made under this Appendix, and reference to the provisions of paragraph 3, of this Appendix, as applicable, which shall be adopted by his subcontractor, who shall be bound thereby and by this Appendix to the full extent as if he were the prime contractor. The prime contractor shall not be accountable for the failure of his subcontractor to fulfill his requirements. However, the prime contractor or subcontractor shall give notice to the Associate Assistant Regional Director of the Office of Federal Contract Compliance of the Department of Labor and the contracting agency of any refusal or failure of any subcontractor to fulfill his obligations under this Appendix. Failure of compliance by any subcontractor will be treated in the same manner as such failure by the prime contractor.



19. Contractors and subcontractors must keep such records and file such reports relating to the provisions of this Appendix as shall be required by the contracting or administering agency.

10. Nothing in this Appendix shall be interpreted to diminish the responsibilities of the contracting and administering agencies nor the obligations of contractors or subcontractors pursuant to Executive Order 11246 for those trades and those contracts not covered by this Appendix.

11. The procedures set forth in this Appendix shall not apply to any contract when the head of the contracting or administering agency determines that such contract is essential to the national security and that its award without following such procedure is necessary to the national security. Upon making such a determination, the agency head will notify, in writing, the Director of the Office of Federal Contract Compliance within 30 days.

12. Nothing in this Appendix shall be interpreted to diminish the present contract compliance review and complaint programs.

13. Requests for exemptions from this Appendix must be made in writing, with justification, to the Director, Office of Federal Contract Compliance, U.S. Department of

