



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

September 8, 2016

MEMORANDUM NO:
2016-CF-1802

Memorandum

TO: Dane M. Narode
Associate General Counsel, Office of Program Enforcement, CACC

FROM: *//signed//*
Christeen Thomas
Director, Joint Civil Fraud Division, GAW

SUBJECT: Final Civil Action: Pilgrim Village Settled Allegations of Making Unauthorized Distributions and Improper Disbursements of Multifamily Project Funds

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), assisted the U.S. Attorney's Office for the Western District of New York in the civil investigation of Pilgrim Village Associates, L.P.; North-Ellicott Management, Inc.; and Trammell Property Management (Pilgrim Village).

The investigation began due to HUD's requesting that the U.S. Attorney's Office bring a civil action against the parties regarding the alleged unauthorized and improper use of project funds belonging to Pilgrim Village Apartments, a multifamily HUD-insured property. OIG assisted in the investigation at HUD's request.

BACKGROUND

Pilgrim Village Associates, L.P., was the owner of Pilgrim Village Apartments, a 90-unit multifamily housing development located in Buffalo, NY. The project received HUD Section 8 project-based assistance¹ for 89 of these units. North-Ellicott Management, Inc., was the managing general partner of Pilgrim Village Associates. Trammell Property Management was the management agent.

¹ Project-based Section 8 assistance is rental subsidies provided by HUD to low-, and very low-income families residing at a multifamily project.

HUD originally insured Pilgrim Village Apartments in 1980 under section 221(d)(4) of the National Housing Act. In December 2002, the project's mortgage was restructured through HUD's Mark-to-Market program under the Multifamily Assisted Housing Reform and Affordability Act of 1997. HUD's Mark-to-Market program preserves long-term, low-income housing affordability by restructuring HUD-insured or HUD-held mortgages for eligible multifamily housing projects. In exchange for receiving benefits under the HUD program, the owner of Pilgrim Village Apartments entered into three regulatory agreements that placed restrictions on its use and distribution of project assets and income.

RESULTS OF INVESTIGATION

On May 28, 2014, the U.S. Attorney's Office for the Western District of New York filed a complaint on behalf of HUD, seeking double damages under 12 U.S.C. (United States Code) 1715z-4a for the alleged unauthorized use of project assets and income (project funds). The Government alleged that between 2004 and 2011, Pilgrim Village disbursed at least \$1.5 million in project funds in violation of the regulatory agreements. The agreements required the owner to use project funds only for payments on the HUD mortgages or to pay for reasonable and necessary operating expenses and necessary repairs to the property. Payments made from project funds for items other than those defined by the regulatory agreements could be paid only from surplus cash.²

On October 21, 2015, the United States (on behalf of HUD) and Pilgrim Village agreed to settle the complaint to avoid the time, cost, and uncertainty of future litigation, and Pilgrim Village denied the allegations in the civil complaint. Under the settlement agreement, Pilgrim Village agreed to pay \$650,979 to the Government in full satisfaction of the allegations. Pilgrim Village paid \$300,000 upon execution of the settlement and paid the remainder of the settlement in December 2015.

Additionally, as part of the settlement agreement, the owner of Trammell Property Management, his immediate family members, and any company controlled by or affiliated with the owner of Trammell Property Management were barred from acting as the project's management agent, during any period in which the project is subject to a HUD Section 8 contract, use agreement, or any other business agreement with HUD.

² Surplus cash is defined, in part, as any cash remaining after the payment of all sums due under the first mortgage, payments due to the reserve fund for replacements, payment of all other project-related obligations, and segregation of tenant deposits held in trust.

RECOMMENDATION

We recommend that HUD's Office of General Counsel, Office of Program Enforcement,

- 1A. Acknowledge that the attached settlement agreement for \$650,979 represents an amount due HUD.

As of the date of this memorandum, the settlement amount due HUD was paid in full. Therefore, no further action is required by the Office of General Counsel. At issuance of this memorandum, HUD OIG will enter a management decision into HUD's Audit Resolution and Corrective Action Tracking System, along with the supporting payment information to show that the final action was completed.