



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

September 30, 2016

MEMORANDUM NO:
2016-CF-1813

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: Owner and Management Agents Settled Allegations of Failing To Comply With the Regulatory Agreements for Multifamily Projects Willow Run I and Willow Run II

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 District of Minnesota in a civil investigation of Willow Run Partners L.P. and Willow Run II Partners L.P. Willow Run Partners L.P. was the owner of Willow Run I Apartments, and Willow Run II Partners L.P. was the owner of Willow Run II Apartments. Our investigation began as a result of a referral from HUD's Departmental Enforcement Center (DEC). DEC referred the matter to HUD OIG based on its review of the projects' financial statements and potential compliance deficiencies. Willow Run I and Willow Run II are located in Willmar, MN.

BACKGROUND

Under the National Housing Act, 12 U.S.C. (United States Code) 1707 – 1715z-22a, the Secretary of HUD is authorized to insure lenders against loss on mortgage defaults. With respect to individual properties constructed to house five or more families, the purpose of this authority is “to facilitate particularly the production of rental accommodations, at reasonable rents, of design and size suitable for family living.”¹

¹ See 12 U.S.C. 1713(b)(2).

Willow Run I was insured under section 236 of the National Housing Act. On October 11, 1973, the owner entered into a regulatory agreement with HUD. Under the terms of that agreement, HUD insured the mortgage, and the owner, through its general partners, executed an order to fund the construction of a rental residential real property known as Willow Run Apartments. HUD also agreed to subsidize the interest payments due under the terms and conditions of the insured mortgage. In return, the owner agreed that it would not, without prior consent, make or receive and retain any distribution of assets or any income of any kind for the project, except from surplus cash with certain conditions.

Willow Run II was insured under section 221(d)(3) of the National Housing Act. On September 3, 2003, the owner entered into a regulatory agreement with HUD relating to a rental residential real property known as Willow Run II Apartments. In return for HUD's agreement to insure the mortgage, the owner agreed that it would not, without prior consent, make or receive and retain any distribution of assets or any income of any kind for the project, except from surplus cash with certain conditions.

RESULTS OF INVESTIGATION

Based upon our review and further investigation, the United States contended that the owner and management agents of Willow Run I and Willow Run II spent certain sums from January 1, 2005, through December 31, 2010, in violation of the regulatory agreements.

On August 10, 2016, the owner and management agents of Willow Run I and Willow Run II entered into a settlement agreement with the Government to pay \$510,000 to avoid the delay, uncertainty, inconvenience, and expense of lengthy litigation. The settlement was neither an admission of liability by the owner and management agents nor a concession by the United States that its claims were not well founded.

RECOMMENDATION

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

- 1A. Acknowledge that the attached settlement agreement for \$510,000 represents an amount due HUD.

As of August 10, 2016, the settlement agreement of \$510,000 was reached, and it represents an amount due HUD. Proceeds to be realized by the owner and management agents from the pending sale of the Willow Run I property are to be used to pay the settlement amount. Final payment to HUD is expected by December 31, 2016. In accordance with HUD Handbook 2000.06, REV-4, the final action target date will be set at January 30, 2017 (30 days from the final date on which payment is expected). At issuance of this memorandum, HUD OIG will enter a management decision into HUD's Audit Resolution and Corrective Action Tracking System, along with any supporting payment information received to date.