

# HAMILTON

October 17, 1996

*By Telefacsimile and US Mail*

Susan Gaffney  
Inspector General  
U.S. Department of Housing & Urban Development  
451 7<sup>th</sup> Street, SW  
Washington, D.C. 20410-4500

Re: US News & World Report Inquiries

Dear Susan:

I am writing to make you aware of inquiries we received from reporters with US News & World Report concerning the Mortgage Loan Sales Program. Through the course of a day-long interview, these reporters suggested, quite clearly, that your office now believes that allegations that the loan sales were plagued by bid rigging or bid steering have some merit. Based on our work with your office, as well as your public statements about this program, we find this hard to believe. You should also be aware that these reporters appear to have received documents and other confidential information concerning the on-going Office of Inspector General investigation. In light of this, we believe it is important to let you know what we told the reporters.

We told these reporters that the allegations of bid rigging, bid steering or other improprieties on the loan sales are not true. We further explained that these allegations are not believable because:

- OIG was intimately involved in the design of the sales program,
- OIG reviewed, commented on and approved the loan sales Design Book,
- OIG received regular briefings from Hamilton on a frequent basis,
- OIG participated in extensive training sessions conducted by Hamilton, and
- OIG extensively audited the entire program.

We also explained that not once has any Hamilton representative heard any concerns from the OIG staff about its work. To the contrary, Hamilton has received considerable positive feedback from many people in your office, including those auditing the loan sales program. We told the reporters that some of the most extensive interaction occurred with your audit team from Denver. Indeed, we explained that your confidence

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in Hamilton was so high that your auditors often used Hamilton as the central repository of work product, briefing materials, design books and other program documents. The last interaction between your team and Hamilton was in September. There again we received positive feedback on the sales program and were told that the two audits (Credit Reform and Sales Program) would be released in October.

In addition, we reported that you have repeatedly spoken publicly about the success of this program. Most recently, in your July 30, 1996 testimony before the Subcommittee on Human Resources and Intergovernmental Relations where you said "several successful mortgage sales by HUD offer some hope that FHA could complete portfolio [re]engineering if it was patterned after the sales program." And, only four months earlier, on March 27, 1996, before the Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations where you said "[a]ctual progress has been made in addressing some of HUD's worst case program problems, such as tearing down obsolete public housing developments, ... and selling mortgage notes to alleviate inadequate HUD servicing."

We recognize that questions about such a successful government program will always arise. Hamilton did not expect, however, that it would have to spend a significant portion of its resources—more than \$300,000 to date—responding to an investigation that is apparently fueled by OIG's "about face." We ask for an immediate meeting to discuss these unfounded allegations. Please contact me to schedule an appropriate time.

Very truly yours,



C. Austin Fitts

cc: Steven Rosenthal, Esq.  
Judith Hetheron, Esq.