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## HUD firm dumped for dubious campaign gifts

By George Archibald  
THE WASHINGTON TIMES

**T**he U.S. Department of Housing and Urban Development will not renew a major contract of accounting firm Ernst & Young in an apparent move to help Secretary Andrew M. Cuomo distance himself from controversial political donations.

"The last thing they wanted was another contract slipped to Ernst & Young when Congress is focused on the political fund-raising issue," said a source close to the secretary's office who asked not to be named.

"It would have been a political disaster for Cuomo, who's angling for the No. 2 spot with Al Gore [on the Democratic ticket] in 2000 and wants no embarrassments on his watch."

Mr. Cuomo has told HUD employees in staff meetings that he does not want to be embarrassed as the agency's chief, officials said.

HUD's decision not to renew Ernst & Young's \$3.5 million yearly contract to help implement Mr. Cuomo's top-priority national rent-reduction program, mandated by Congress, was made following inquiries by The Washington Times.

Howard B. Glaser, HUD's acting general counsel, on Oct. 14 ordered the Federal Housing Administration to suspend renewal of the contract, which expires tomorrow. FHA had invited the firm and two other bidders to compete for continued work on the planned rent-reduction effort at 850,000 federally subsidized apartments.

Mr. Glaser and other top Cuomo advisers scrambled to undo the FHA contract, which HUD sources described as "a rogue operation" initiated by FHA Commissioner Nicolas P. Retsinas without knowledge of the secretary's office.

Mr. Glaser declined to comment.

Ernst & Young has been embroiled in controversy since HUD's inspector general ruled this month that

another Ernst & Young contract, a \$20 million financial advisory deal awarded in 1993, was expanded illegally to include work on a demonstration project due to begin next year.

In an unusual move last October, one month after Ernst & Young donated \$132,000 to the Clinton-Gore re-election campaign, HUD's deputy secretary ordered the financial advisory contract renewed for three years at once. The firm also donated to the Dole campaign.

But a senior HUD official, who asked not to be named, said the rent-reduction contract would not be renewed because additional work by the firm is not needed.

"We're going to design a totally different model, a totally different approach," the official said. "We'll take the model they've designed so far and say thank you very much."

One HUD official said he feared the FHA bid process was tainted by involvement of Hamilton Securities Advisory Services, a contractor later fired because of costly errors in another multibillion-dollar HUD mortgage program. The agency suspended the FHA bid solicitation.

Hamilton's errors had been kept quiet by Mr. Retsinas, who learned of them last December, the department disclosed in just-released documents.

Mr. Cuomo wants Mr. Retsinas to leave HUD, officials said. The National Mortgage News reported Monday that Mr. Retsinas is one of two top contenders to become executive vice president of the Mortgage Bankers Association. Mr. Retsinas has not responded to repeated inquiries by The Times.

Mr. Retsinas was questioned on Capitol Hill Monday about Hamilton's ouster as a \$869,417-per-month financial adviser to HUD. The closed-door meeting with staffs of the House and Senate banking committees, which oversee HUD, was requested by House Majority Leader Dick Armey, Texas Republican, who said he wanted to "get to the bottom" of bid-rigging charges associated with Hamilton.

Also Monday, President Clinton signed a congressional appropriation bill requiring HUD to lower rent subsidies the department pays on 850,000 apartments occupied by low-income tenants across the country.

Last year, HUD improperly expanded Ernst & Young's financial advisor contract with the Government National Mortgage Association, or Ginny Mae, to start a demonstration project for "portfolio re-engineering," a bureaucratic term for the project to help landlords offset losses from reduced rental income by writing off part of their mortgages. Under the Ginny Mae contract, Ernst & Young is helping the agency market packages of mortgages for purchase by investors. That work continues.

HUD is preparing to pay off some mortgage write-offs incurred by lenders and expects to offset the cost with savings of an estimated \$1.6 billion in reduced rent subsidies over the next five years, officials said.

"I believe the American people want to provide

affordable housing, but they want to do it in an efficient, effective way and don't want to be ripped off," Mr. Cuomo said.

Under the Section 8 rental program, HUD pays 70 percent of the rent for low-income tenants, who pay the remaining 30 percent themselves. As an incentive to developers to build low-income housing, the program has provided for regular rent increases. The HUD subsidies have pushed up the rents well above market rates.

In 25 cities, HUD-subsidized rents are 17 percent to 34 percent above market rates for non-subsidized apartments.

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