

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
SOUTHEASTERN DIVISION

FRANCES HINES, et al.,)	
)	
Plaintiffs,)	
)	
v.)	No. 1:01CV00070 CDP
)	
CHARLESTON HOUSING AUTHORITY,)	
et al.,)	
)	
Defendants.)	
)	

**PLAINTIFFS' TRIAL BRIEF IN SUPPORT OF AMENDED MOTION
FOR PRELIMINARY INJUNCTIVE RELIEF**

Plaintiffs have filed this action in order to save their homes and preserve the 50-unit Charleston Apartments complex as affordable rental housing in their community of Charleston, Missouri. The apartment complex is owned and operated by the Charleston Housing Authority ("CHA") under the United States Department of Agriculture's Section 515 Rural Rental Housing program and the Section 8 substantial rehabilitation program of the United States Department of Housing and Urban Development ("HUD"). As a result of concerted congressional effort over more than a decade to prevent the displacement of low-income tenants and preserve the stock of affordable housing, Charleston Apartments and other such complexes are subject to requirements intended to protect their residents and promote their preservation as affordable housing. In the underlying action, Plaintiffs contend that the CHA and HUD have failed to comply with various preservation, fair housing, and other legal requirements.

Plaintiffs seek preliminary injunctive relief to require the Housing Authority to comply with its duty not to displace current residents and to lease vacant units at Charleston Apartments to other families needing low-income rental housing while the merits of the underlying action are being determined.¹ This preliminary relief will restore the status quo ante - the status of the apartment complex before the Housing Authority Defendants embarked on their unlawful effort to vacate and demolish Charleston Apartments. By its own admission, the CHA ceased to offer vacant units for rent at Charleston Apartments beginning in December 1999, a year before it tried to submit a mortgage prepayment request and more than a year before it attempted to opt out of its Section 8 contract. That refusal to lease and use Charleston Apartments as rental housing for low-income families violated and continues to violate CHA's statutory, regulatory, and contractual duties under the Rural Rental Housing and Section 8 programs and substantially interferes with accomplishment of the anti-displacement and preservation program established by Congress. It also means that households in need must go without access to affordable housing for their families.

I. STATEMENT OF FACTS

Charleston Apartments is a 50-unit federally financed and subsidized apartment complex in Charleston, Missouri. It was built in the early 1970's as Section 23 Leased Housing. On or about April 27, 1981, the development was converted to a Farmers Homes Administration-mortgaged ("FmHA") project when FmHA made a 50-year loan to the Charleston Housing Authority in the amount of \$740,000 (the "Loan") pursuant to

¹The standards for preliminary relief are set forth in the Memorandum in Support of Plaintiffs' Motion for Temporary Restraining Order and Preliminary Injunction filed

the Section 515 Rural Rental Housing Program.² In connection with the Section 515 Loan, CHA executed a Loan Resolution, promissory note, and Deed of Trust (collectively, the "Loan Agreement") on the property to secure the loan. Reflecting the 50-year term of the mortgage, the promissory note called for 588 installments of \$5624 per month. The CHA also entered into a 20-year Section 8 Housing Assistance Payment (HAP) contract effective April 27, 1981 to ensure that the units at Charleston Apartments would be affordable to low-income families.

At some point prior to July 12, 1999, CHA began to discuss prepaying the loan on Charleston Apartments with USDA. On that date, USDA informed CHA that if the mortgage were prepaid in full, CHA would still have to use the property as low-income housing until at least April 27, 2001 and could not displace existing tenants even at that time. Starting in December 1999, the CHA did not rent units at Charleston Apartments when they became available for occupancy. On February 14, 2000, the CHA Board of Commissioners adopted Resolution 604 to effectuate their intention to demolish Charleston Apartments. The Resolution called for making application to USDA to prepay the 50-year mortgage on the complex 30 years in advance of its maturity and for not renewing the HAP contract. When Resolution 604 was adopted, there were 47 families residing at Charleston Apartments. The CHA induced existing residents of Charleston Apartments to move out of the development by telling them of its intention to vacate and demolish the development and then giving them a preference for admission to

earlier in this action. Rather than repeat that analysis, Plaintiffs respectfully refer the Court to that earlier submission.

² The Rural Housing Service, a division of the United States Department of Agriculture ("USDA"), is the successor agency to FmHA. In order to avoid confusion, Plaintiffs simply refer to USDA.

its public housing units. By refusing to rent vacant units and encouraging existing residents to move, occupancy at the 50-unit development had been reduced to 9 households by June 8, 2001. At that same time, there were over 80 families on the CHA waiting list for assisted housing.

II. THE SECTION 515 RURAL RENTAL HOUSING PROGRAM REQUIRES USING VACANT UNITS AT CHARLESTON APARTMENTS AS RENTAL HOUSING FOR ELIGIBLE FAMILIES

The Charleston Housing Authority received a loan from USDA under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485, to modernize Charleston Apartments. The Section 515 Rural Rental Housing Program is one of several programs established by Congress to increase the supply of affordable housing. "Congress enacted Section 515 of the Rural Rental Housing Program in an effort to resolve the housing shortage for the elderly and others on low incomes in rural areas." Lifgren v. Yeutter, 767 F. Supp. 1473, 1477 (D. Minn. 1991). Under Section 515, USDA issues long-term loans at market rates to developers and owners of rural rental housing for the elderly, disabled, and other low-income households. "In exchange, borrowers agreed to provide affordable housing over the duration of their government-assisted mortgages." Parkridge Investors Limited Partnership v. Farmers Home Administration, 13 F.3d 1192, 1195 (8th Cir. 1994).

By refusing to lease vacant units at Charleston Apartment since December 1999 and inducing existing residents to move, the Housing Authority Defendants have not provided affordable housing over the duration of their mortgage and have violated the Loan Agreement, Section 515 and its implementing regulations, and the Emergency Low Income Housing Preservation Act as amended and its implementing regulations.

A. The Loan Agreement Requires CHA to Lease and Operate Charleston Apartments as Rental Housing for Eligible Families

Among the recorded instruments for Charleston Apartments is the Loan Resolution executed by the CHA and FmHA on April 27, 1981 in connection with the Section 515 loan. The Loan Resolution imposes regulatory covenants on CHA's use of the Charleston Apartments:

6. Regulatory Covenants. So long as the loan obligations remain unsatisfied, the Corporation shall comply with all applicable FmHA regulations and shall . . .

d. Unless the Government gives prior consent:

(1) Not use the housing for any purpose other than as rental housing and related facilities for eligible occupants.

Loan Resolution ¶ 6. That covenant requires the CHA to use Charleston Apartments as rental housing for eligible families until the loan on the property has been paid in full and the Government gives prior consent.³ In this case, the Section 515 loan has not been satisfied and USDA has not consented to CHA's decision to discontinue operation of Charleston Apartments as affordable rental housing. On June 5, 2001, USDA informed the Housing Authority Defendants that they were "in non-compliance with [the] Loan Agreement" by virtue of "units . . . being allowed to sit empty and maintenance . . . not being performed."

³ The Loan Resolution also provides that the Section 515 loan "shall be used solely for the specific eligible purposes for which it is approved by the government, in order to provide rental housing and related facilities for eligible occupants." Furthermore, the CHA promised in the Loan Resolution to comply with all its agreements and obligations in or under the note, security instrument, and any related agreement executed in connection with the loan and to do other things as may be required by the Government in connection with the operation of the housing or with its other affairs that may affect the housing, the loan obligation, or the security. Loan Resolution at ¶ 6g and i. The Housing Authority Defendants' decision to leave units sitting empty and not to comply with USDA's lease-up directive of June 5, 2001 also violates these provisions of the Loan Resolution.

The CHA's refusal to lease-up available units and use Charleston Apartments as affordable rental housing also violates the Deed of Trust on the property. That instrument includes a 20-year use restriction:

The borrower and any successors in trust agree to use the housing for the purpose of housing people eligible for occupancy as provided in Section 515 of Title V of the Housing Act of 1949 and FmHA regulations then extant during this 20 year period beginning April 27, 2001. No person occupying the housing shall be required to vacate prior to the close of such 20 year period because of early repayment.

Deed of Trust ¶ 27. By refraining from renting vacant units since December 1999, the CHA breached its obligation to use the property as rental housing for those families eligible for occupancy. It similarly breached its duty under the Deed of Trust by encouraging existing residents to move out of their homes at Charleston Apartments. The Deed of Trust provides that "a tenant may seek enforcement of [the use restriction] as well as the Government." Id.

The Deed of Trust further obligates CHA to maintain Charleston Apartments "in good repair" and not to "abandon the property, or cause or permit waste." Deed of Trust ¶ 9. By vacating the premises and doing little more than shutting off the water and mowing the grass, the Housing Authority has for all intents and purposes abandoned the development, thereby fostering deterioration and waste of the housing units. Furthermore, while the CHA Housing Authority asserts that the apartments are presently or with minor repairs would be habitable, it is not keeping the property "in good repair" as required by the Deed of Trust.⁴

⁴ Pursuant to USDA requirements, the CHA also has a reserve fund for Charleston Apartments that can be used to make the repairs necessary for the vacant units to be

B. Section 515 and its Implementing Regulations Require CHA to Lease and Operate Charleston Apartments as Rental Housing for Eligible Families

Section 515 and its implementing regulations also require CHA to operate Charleston Apartments as affordable rental housing over the duration of its mortgage. Section 515 specifies that the purpose of the program is "to provide rental or cooperative housing and related facilities for . . . persons and families of low income in rural areas." 42 U.S.C. § 1485(a). The statutory scheme contemplates that units in the Section 515 project will be made available for occupancy on a continuous basis. Section 1485(p)(3) provides that "[u]nits in projects financed under this section which become available for occupancy after November 30, 1983, shall not be available for occupancy by persons and families other than very low income persons and families if the authority to provide assistance for such persons is available." 42 U.S.C. § 1485(p)(3). Here, there is a project-based Section 8 HAP contract for Charleston Apartments. Therefore, CHA has the authority to provide assistance to very low-income families, and it must make the vacant units in the complex available for rental by such families.

The USDA regulations similarly obligate CHA to rent up vacant units in the complex. Section 515 projects must have and comply with a Management Plan approved by USDA. 7 C.F.R. § 1930.108; Part 1930, Subpart C, Exs. B ("Management Handbook") & B-1. The Management Plan must include "plans and procedures for marketing units, achieving and maintaining full occupancy" and "[d]escribe the methods that will be used to achieve and maintain the highest possible level of occupancy." *Id.* at Ex. B-1, ¶3. According to the Management Handbook, the borrower must advertise the

rented to eligible families. According to CHA records as of December 31, 2000, there was \$149,557.00 in reserve funds for the development.

availability of units even if there is an adequate waiting list, post permanent signage indicating where rental applications may be made, advise prospective applicants of their right to file an application, and maintain a waiting list of eligible applicants. Id. at Ex. B, ¶ VI C, E. The Management Plan also includes extensive requirements for maintenance of the project. Id. at Ex. B-1 at ¶ 8; Ex. B at ¶ X.

The CHA and USDA executed a Management Plan for Charleston Apartments on April 17, 1995.⁵ In it, CHA promised that "[c]ontinual and periodic advertising will be used in an effort to maintain the highest levels of occupancy that are reasonably attainable," waiting lists will be kept, and prospective tenants will be selected from the waiting list when vacancies occur. Since December 1999, CHA admittedly did not comply with the requirements of its Management Plan and has violated this Management Plan and corresponding obligations under the FmHA regulations. It has failed to offer vacant units to waiting list families, advertise available units, accept applications, or place eligible applicants in available units. On June 5, 2001, FmHA informed the Housing Authority Defendants that by leaving units vacant and not performing maintenance, they were not fulfilling the marketing plan contained in the Management Plan.

C. Leaving Units at Charleston Apartment Sitting Empty and without Maintenance Frustrates the Purpose of the Emergency Low Income Housing Preservation Act

In 1987, Congress enacted special emergency legislation to preserve Section 515 projects as affordable housing and prevent displacement of elderly, disabled, and low-

⁵ Despite the USDA requirement that borrowers have a management plan and update it every three years, CHA did not update its 1995 plan in 1998 or thereafter because of its intention to demolish Charleston Apartments. 7 C.F.R. Part 1930, Subpart C, Ex. B-1.

income families from those developments. CHA must not be allowed to defeat the very purpose of Congress' anti-displacement and preservation initiative by driving Charleston Apartments into the ground and thereby discouraging nonprofit agencies from purchasing the complex to operate it as low-income housing.

Although the idea behind the Rural Rental Housing program was to supply affordable housing to the elderly, disabled, and other low-income families, the permanent affordability of that housing was not absolutely secure. Prior to 1987, owners of Section 515 housing financed prior to December 21, 1979 could pay off the outstanding balance of the loan at any time prior to the maturity date of the mortgage and cause low-income families to be displaced from their homes. Lifgren, 767 F. Supp. at 1477. Owners of Section 515 housing financed after that date could prepay at any time, but they had an obligation to continue to rent the housing to low- and very low-income tenants at affordable rents for a term of 20 years.⁶

Congress was concerned that a large portion of the federally assisted housing stock, including some 150,000 units under the Section 515 program, was vulnerable to prepayment and removal from the supply of low-income housing. See Parkridge, 13 F.3d at 1195. In 1987, it enacted the Emergency Low Income Housing Preservation Act (ELIHPA) in order "to preserve and retain to the maximum extent practicable as housing affordable to low income families or persons those privately owned dwelling units that were produced for such purpose with Federal assistance . . . [and] to minimize the

Its executive director admitted that CHA did not inform or obtain approval from USDA of its unilateral decision to forego renewal of the management plan.

⁶ The obligation to continue to rent the units at affordable rents effectively precluded prepayment because owners typically lost their subsidies as a result of prepayment.

involuntary displacement of tenants currently residing in such housing." Pub. L. No. 100-242, § 202, 101 Stat. 1815, 1877-78 (Feb. 5, 1988).

Codified at 42 U.S.C. § 1472(c), the prepayment requirements for Section 515 projects establish steps that USDA and owners seeking to prepay their loans must take to try to preserve the property as affordable housing. Generally, those steps are that (1) USDA must offer financial incentives to owners to continue operating their property as affordable housing and, if they reject the incentives, (2) owners must offer the property for sale for a period of 6 months to nonprofit or public agencies that would continue to operate the project as affordable housing. See 42 U.S.C. § 1472(c)(4) & (5). In the underlying action, Plaintiffs contend that the CHA has rejected or failed to consider an incentive offer and has not offered the project for sale as required by statute.

The USDA regulations implementing the ELIHPA requirements for Section 515 projects contemplate that owners will continue to lease-up and maintain their properties during the prepayment process. For example, the regulations require a special lease addendum to be used with "tenants moving into the project while the prepayment request is pending." 7 C.F.R. § 1965.206(b)(5). Owners must submit the language they propose to use as an addendum to new tenant leases for approval by USDA. Id. The regulations also expect that existing tenants will remain in the complex during the prepayment process, providing that the USDA Servicing Office will keep tenants apprised of the status of the prepayment request and actions being taken. 7 C.F.R. § 1965.206(b)(6).

The USDA regulations expect that vacant units will be made available for occupancy and the project will continue to operate as rental housing in order to facilitate the sale of the project to a non-profit organization and its preservation as low-income

housing. Nonprofit or public agencies will be less inclined to purchase a Section 515 project if the development has no rental income stream and high deferred maintenance costs.

The CHA is thwarting the anti-displacement and preservation objectives of ELIHPA by abandoning the complex and failing to comply with its duties under the Section 515 program to maintain the highest possible level of occupancy, keep the complex in good repair, and offer it for sale. This Court should not countenance such conduct.

III. THE SECTION 8 PROGRAM REQUIRES ALL FEASIBLE ACTIONS TO MAINTAIN FULL OCCUPANCY OF CHARLESTON APARTMENTS

In 1981, CHA also entered into HUD's Section 8 substantial rehabilitation program for Charleston Apartments. Because loans under the Section 515 program were issued at market rate, Congress permitted a number of subsidy programs to be used in conjunction with Section 515 loans so that low-income families could afford the rents charged by owners with market-rate loans. One of those programs was the Section 8 program. Lifgren, 767 F. Supp. at 1477.

The Section 8 substantial rehabilitation program rules similarly require participating owners to make good faith efforts to lease available units to eligible families. Applicable regulations provide that:

During the term of the Contract, an owner shall make available for occupancy by eligible families the total number of units for which assistance is committed under the Contract. For purposes of this section, making units available for occupancy by eligible families means that the owner: (1) Is conducting marketing in accordance with Sec. 880.601(a); (2) has leased or is making good faith efforts to lease the units to eligible and otherwise acceptable families, including taking all feasible actions to fill vacancies by renting to such families; and (3) has not rejected any such

applicant family except for reasons acceptable to the contract administrator.

24 C.F.R. § 880.504(a). See 24 CFR § 881.104, 24 CFR § 881.503 (making § 880.504 applicable to the Section 8 substantial rehabilitation program), 24 CFR § 880.504(d), 59 Federal Register 13652, Mar. 23, 1994. By failing to lease vacant units at Charleston Apartments since December 1999, CHA has violated these requirements to take all feasible actions to fill vacancies at Charleston Apartments. It violated the full occupancy mandate for more than a year before the scheduled time to opt out of the Section 8 HAP contract on April 27, 2001.

Defendants will no doubt argue that the HAP contract expired on April 27, 2001 and therefore the Section 8 rules are no longer applicable to Charleston Apartments. However, owners choosing to opt out of their HAP contracts must provide statutorily required notice to HUD and tenants at least one year in advance of termination.⁷ Section 1437f(c)(8)(A) sets out the precise terms of that notice:

The notice shall also include a statement that, if the Congress makes funds available, the owner and the Secretary may agree to a renewal of the contract, thus avoiding termination, and that in the event of termination the Department of Housing and Urban Development will provide tenant-based assistance to all eligible residents, enabling them to choose the place they wish to rent, which is likely to include the dwelling unit in which they currently

⁷ The notice requirements are part of Congress' effort to address the displacement of tenants and loss of affordable housing as a result of the expiration of Section 8 HAP contracts. In ELIHPA, Congress also found that more than 465,000 units under the Section 8 program could be lost through the expiration of rental assistance contracts. Pub. L. No. 100-242, § 202, 101 Stat. 1815, 1877-78 (Feb. 5, 1988). Congress has authorized various financial incentives to encourage owners to remain in the Section 8 project-based program and, as with mortgage prepayments, has required HUD and owners to take certain steps to minimize displacement and attempt to preserve the property as affordable housing. One of those steps is the requirement for a one-year notice to tenants and HUD before an owner may opt-out of the Section 8 HAP contract. See 42 U.S.C. § 1437f(c)(8)(A).

reside.

42 U.S.C. § 1437f(c)(8)(A). In this case, CHA provided to both HUD and the tenants a purported one-year notice that modified the statutory language to read "which is not likely to include the dwelling unit in which you currently reside." According to the CHA, HUD approved the use of that language.

HUD may not waive statutory notice requirements, including those required in advance of Section 8 opt-outs. 215 Alliance v. Cuomo, 61 F. Supp.2d 879, 887 (D. Minn. 1999). The CHA certainly is not free to change statutory language prescribed by Congress. A key purpose of the mandated notice is to inform tenants that they have a statutory right to "elect to remain in the same project in which the family was residing" using the enhanced vouchers that must be issued in connection with the terminating HAP contract. 42 U.S.C. § 1437f(t)(1)(B). In this case, because a Section 515 prepayment transaction is involved, tenants are also likely to remain at Charleston Apartments because nonprofit and public agencies must be offered an opportunity to purchase the project under the ELIHPA preservation process. By failing to provide the proper statutory notice, the Defendants have misled tenants about their rights and the possibility of remaining in their home.

When the notice given to HUD and to tenants pursuant to § 1437f(c)(8)(A) is defective, the clock for the one-year notice must be turned back, and it does not begin to run again until proper notice is given. Since the statutory notice must precede termination of the HAP contract by at least one year, the HAP contract on Charleston Apartments continues by operation of law and has not terminated.⁸ See 215 Alliance, 61 F. Supp.2d at

⁸ HUD's Section 8 Renewal Guide provides that "[i]n order for an Owner to opt-out of the project-based Section 8 program, they must satisfy all notification requirements." The term "opt-outs" is defined as a "conversion action where an Owner chooses to opt-out of

883. The complex therefore remains subject to the full occupancy requirements of § 880.504.

**IV. CHA HAS FAILED TO FURTHER FAIR HOUSING AFFIRMATIVELY
IN REFUSING TO LEASE VACANT UNITS AT CHARLESTON
APARTMENTS AFTER JANUARY 1, 2000**

Like HUD, the Housing Authority Defendants are subject to special affirmative fair housing duties. In 1998, Congress in the Quality Housing and Work Responsibility Act (QHWRA) required every public housing authority to prepare and to submit for HUD approval an “annual public housing agency plan” detailing the housing needs in the public housing authority’s jurisdiction and the authority’s administration of its programs. 42 U.S.C. § 1437c-1(b). QHWRA further requires each public housing authority to certify that it “will carry out the public housing agency plan in conformity with title VI of the Civil Rights Act of 1964, the Fair Housing Act, ... and will affirmatively further fair housing.” *Id.* at § 1437c-1(d)(15).

The courts have yet to define the scope of public housing authorities’ duty under QHWRA to further fair housing affirmatively. However, it seems highly likely that the decades of case law interpreting HUD’s affirmative fair housing duty under 42 U.S.C. § 3608(e)(5) will inform the same obligation imposed on local housing authorities.⁹ The duty to further fair housing affirmatively has been universally construed to mean more than a duty simply to refrain from engaging in illegal discrimination. See e.g., NAACP

certain programs by not renewing an expiring Section 8 or rent supplement program project-based contract.” See www.hud.gov/fha/mfh/exp/guide/s8guide.html.

⁹ Indeed, some courts have held that housing authorities as well as HUD are subject to § 3608(e)(5) insofar as they administer HUD programs. See Otero v. New York City Housing Authority (“Otero”), 484 F.2d 1122, 1133 (2d. Cir. 1973). See also U.S. v. Charlottesville Redevelopment and Housing Authority (“Charlottesville”), 718 F.Supp. 461, 464–467 (W.D.Va. 1989).

v. Secretary of Dept. of Hous. And Urban Dev., 817 F.2d 149, 155 (1st Cir. 1987). At a minimum, the obligation to further fair housing affirmatively requires an agency to examine the fair housing effects of its decisions with clear and open eyes. It must have in place procedures for evaluating the fair housing implications of its actions and use those procedures to inform the decisions that it makes. An agency "must utilize some institutionalized method whereby . . . it has before it the relevant racial and socioeconomic information necessary for compliance with its duties under . . . [the Fair Housing Act.]" Shannon v. U.S. Dept. of Hous. And Urban Dev., 436 F.2d 809, 820 (3d Cir. 1970).

In this case, the evidence shows that the CHA did not have an institutionalized process for evaluating the relevant data and did not engage in a considered analysis of the racial and socioeconomic effects of Resolution 04 and its decision to prepay the Section 515 loan, opt out of the Section 8 contract, and vacate and demolish Charleston Apartments. Except for a single elliptical reference to the fact that "[a]ll except one (1) white family living in Charleston Apartments are minority race, African American," the record of its decision to remove Charleston Apartments from the federal affordable housing programs and to demolish the development is devoid of any assessment of the fair housing consequences of that action. Because the CHA did not undertake that analysis, Plaintiffs are likely to succeed on the merits of their claim that CHA failed to further fair housing affirmatively in violation of § 1437c-1(d)(15).

CONCLUSION

For the foregoing reasons and those set forth in the Memorandum in Support of Plaintiffs' Motion for Temporary Restraining Order and Preliminary Injunction, Plaintiffs

request the Court to grant their amended Motion for Preliminary Injunction requiring the Housing Authority Defendants to lease available units at Charleston Apartments and otherwise operate the development as affordable rental housing in compliance with the Section 515 Rural Rental Housing and Section 8 substantial rehabilitation programs while the merits of the underlying action are determined.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned certifies that on the ___ day of _____, 2001 a copy of the foregoing document was served by facsimile and by first class mail, postage prepaid, addressed to the following counsel of record:

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