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**AUDIT RELATED MEMORANDUM
98-CH-211-1811**

September 15, 1998

MEMORANDUM FOR: Howard Goldman, Director, Minneapolis Multifamily Hub

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: SB Multifamily Fund 10 Limited Partnership
Multifamily Equity Skimming
Chaska, Minnesota

We completed a limited review of the books and records of SB Multifamily Fund 10 Limited Partnership. The review was performed at the request of the United States Attorney's Office. The United States Attorney believed there were indications that Project funds may have been inappropriately used.

SB Multifamily Fund 10 Limited Partnership owned and operated Hazeltine Shores, a multifamily project located in Chaska, Minnesota. The project's mortgage was co-insured under Section 221(d)(4) pursuant to Section 244 of the National Housing Act. The General Partner of SB Multifamily Fund 10 Limited Partnership was Sherman-Boosalis Corporation. The Partnership filed for Section 11 bankruptcy on June 15, 1992. On July 27, 1994, HUD paid off the mortgagee's claim on the Project's defaulted mortgage.

Our review objectives were to determine whether the use of Project funds was reasonable and in compliance with the Regulatory Agreement and applicable HUD requirements.

We concluded that Project funds were improperly used to make loans to related entities and to repay owner advances. With the concurrence of the Acting Director, Multi-Family Housing program, on August 3, 1998, the Assistant U.S. Attorney completed a settlement with SB Multifamily Fund 10 Limited Partnership. To achieve a fair and equitable settlement amount, the Assistant U.S. Attorney gave consideration to amounts that the Project Owner had previously paid to the co-insuring mortgage company pursuant to a lawsuit filed for violations of the Regulatory Agreement. Under the August 3, 1998 settlement agreement, the Project Owner paid \$42,000 to HUD.

Should your staff have any questions, please have them contact me at (312) 353-7832.

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