

After 5 Months, the Crisis Mood at U.D.C. Gives Way to a Steady Salvage Operation

By LINDA GREENHOUSE

The Urban Development Corporation today will receive a \$140-million loan from an obscure state insurance fund, half the money the once-insolvent agency needs to finish its building program and one of the crucial pieces in the complex rescue effort that followed the corporation's default five months ago.

There is no longer an atmosphere of crisis at the corporation's still elegant midtown headquarters. The fact that such a major transaction, a short-term loan from the State Property and Liability Insurance Security Fund, could take place with no sense of urgency and little public notice underscores that.

Instead, the atmosphere is now one of the slow, grinding, often tedious work that will be required over the next months to finish what was started and to discover what went wrong with one of the country's most ambitious ex-

periments in harnessing private capital to serve public needs.

That work is proceeding on four levels. First, Richard Ravitch, the U.D.C.'s chairman, who is largely credited with its survival, is still trying to find a source of long-term financing to replace the short-term loans from the state and the major commercial banks.

Construction Continued

The tentative offer a large group of saving banks made in March to lend the agency \$275-million over 15 years has so far not materialized, although Mr. Ravitch says an agreement is now "very close."

Second, the day-to-day operation of the agency, with the responsibility for completing the 11,000 of the U.D.C.'s 33,000 housing units that remain unfinished, as well as three "new communities," has been taken over by a new management group. Construction has continued

without interruption. A new board of directors meets weekly, compared with less than once a month in the agency's first seven years.

The acting chief executive officer, succeeding Edward J. Logue, who had run the U.D.C. since its creation in 1968, is John G. Burnett, a former law clerk to Justice William O. Douglas who first joined the agency as general counsel in 1969. The staff has been reduced by more than a third since March, to about 335 people.

Third, under the terms of the rescue legislation adopted in Albany this spring, the management of completed projects is gradually being turned over to the State Division of Housing and Community Renewal, which already runs the state's own public housing.

In effect, then, the U.D.C. retains only one of the three roles envisioned for it at its creation, that of a kind of building contractor extraordinaire.

It has given up the two other parts of its original mission, the entrepreneurial function of raising capital and starting new projects, and the ongoing supervision of the work it completes.

As the final part of the crisis aftermath, the Moreland Act Commission that Governor Carey appointed in February to determine the cause of the U.D.C.'s collapse and to recommend changes for the future is preparing to hold a series of public hearings beginning in October.

Tangled History

With a budget of \$1.2-million and a staff of more than 20 lawyers, accountants and investigators, the commission, under its chairman, Orville H. Schell, and chief counsel, Sheldon Elson, has worked for four months to sort out the U.D.C.'s tangled history.

The commission's work will perhaps provide answers to questions raised by several bizarre events of the past

year, including the fact that both the U.D.C. itself and a special task force appointed by former Gov. Malcolm Wilson issued reports in late December, 1974, pointing out problems but failing to mention that the U.D.C. was suffering a net cash outflow of such dimensions that it would run out of money within the first month of Governor Carey's term.

And there are a number of pressing questions that only the experience of the next several months will be able to answer.

For example, will the U.D.C., which received nearly \$200-million in direct state payments this year and will get another \$80-million next spring, ever be self-supporting? Will its completed projects ever generate enough revenue, through tenants' rents and Federal rent subsidies, to cover the cost of both maintenance and regular mortgage payments?

Legislators were warned last spring, by Mr. Ravitch

and the Governor, that the answers to these questions could well be "no" and that the U.D.C. might need state subsidies of \$40-million to \$80-million a year for the next 40 years.

In an attempt to make income cover expenses, the U.D.C. since June has raised rents between 8 and 10 per cent in 31 of its projects, with increases pending in another 19. Rents vary greatly depending on location, from about \$125 a month for a one-bedroom apartment in a small upstate project to \$225 a month for similar quarters in New York City.

Of 48 projects that have been ready for occupancy for at least a year, 41 are fully rented, which the agency defines as at least 94 per cent occupancy. According to the U.D.C.'s own figures, all the projects are meeting at least their maintenance and operation expenses and 29 are current on their mortgage payments. Thirteen of the projects are behind in

mortgage payments and six are on the borderline.

"A modest, manageable proportion" of the agency's projects, Mr. Burnett said, will probably have ongoing problems due to location or other factors. But on the basis of the performance of most of the completed projects, he said, the original estimates of large continuing subsidies may turn out to be too pessimistic.

Sell Commercial Projects

U.D.C. officials were saying this spring that the cost to complete construction work that was begun or contracted for would be about \$370-million. This figure has now been brought down to 280-million with the tentative decision to sell some of the agency's commercial projects this fall.

That figure is covered by the \$140-million state loan and the \$140-million of long term financing must be in place by next February.

Originally it was thought

that the Project Finance Agency, a kind of precursor of the Municipal Assistance Corporation that was set up in February to assume mortgages on U.D.C. projects, could provide this financing by long-term bonds. But this is scarcely a possibility in the current municipal bond market.

The U.D.C.'s own bonds continue to trade at about half their original value, the level to which they plunged last February when the agency defaulted on \$104.5-million in notes. The shareholders were later repaid.

Of the agency's major ongoing projects, Roosevelt Island, the "new community" in the East River, poses the largest question mark. More than 2,000 units are completed or under construction, with 400 apartments on the market at an average rent of \$115 a room and 83 leases signed. But there is no financing now available for the rest of the 5,000 units that were originally planned.

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Banks Lend \$180 Million To Help Rescue the U.D.C.

By JOSEPH P. FRIED

The yearlong attempt to rescue the stricken State Urban Development Corporation took a major step forward yesterday when 76 savings banks provided a \$180 million loan for the agency's use.

If, as expected, the State Legislature appropriates an additional \$80 million this year, a complex rescue package envisioned last spring will be complete and the U.D.C. will be "assured of the resources" needed to finish its \$1.5 billion construction program, according to Richard Ravitch, the agency's chairman.

However, it is highly uncertain whether the agency will ever again begin any new construction, even the additional work needed to complete certain over-all plans, Mr. Ravitch and other officials added.

Among the construction jobs planned but not actually begun by the agency are 3,000 apartments that were to have been part of the U.D.C.'s "new town" on Roosevelt Island in the East River. The construction of some of the 2,100 apartments planned has been started in the island project, and all 2,100 apartments will be completed under the financial rescue package, according to Robert Dormer, another U.D.C. official.

Tramway to Open

Mr. Dormer noted that 200 families were already living in the Roosevelt Island new town, where occupancy began last April. He said that the renting pace was expected to pick up after the opening — possibly next month — of an aerial tramway that will provide direct access to Manhattan.

The financial-rescue plan that was "substantially furthered" yesterday, as Mr. Ravitch put it, stemmed from the Urban Development Corporation's financial collapse a year ago.

Once the most powerful state development agency in the country, the U.D.C. was unable to market its tax-exempt bonds and notes after the private financial community lost confidence in the agency's soundness. Officials who headed the agency at the time insisted that their programs were sound and that they were being unjustifiably abandoned by the banks and investment houses.

A Challenge for Carey

In any case, the agency defaulted a year ago on \$130 million in notes and loans, and the rescue of the U.D.C. so that it could at least complete the construction in progress was the Carey administration's first major challenge.

The \$180 million loan from the savings banks will, among other things, permit the repayment of \$140 million in short-term loans that were extended last spring by 11 commercial banks. The earlier loans were part of an over-all rescue package that also involved \$280 million in state appropriations — including the \$80 million still to be granted by the state this year — and a \$140 million loan from a state insurance fund.

Until the savings banks' loan was closed yesterday, the rescue effort remained uncertain because it lacked the long-term bank commitment that many felt was needed. The latest loan can be repaid over a 15-to-20-year period. It is in the form of purchases by the banks of tax-exempt bonds paying 9½ percent annual interest, issued by the Project Finance Agency, which was created to channel funds to the U.D.C. The rescue plan will permit the completion — among other things of several thousand of the 34,000 apartments undertaken by the U.D.C. since its establishment in 1968.

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