EXECUTIVE SUMMARY

INTERSTATE LAND DEVELOPMENT COMPANY, INC.
ST. CHARLES COMMUNITIES

A. Background and Summary of Progress

In the Project Agreement dated December 15, 1970, HUD committed to reserve $24 million of guarantee authority for a period of seven years. Such funds are to be used for financing the acquisition and development of land for St. Charles Communities under Title IV of The Housing and Urban Development Act of 1968. The Developer subsequently issued $18.5 million of Debentures and now proposes to issue a Subsquent Series of Debentures in the amount of $5.5 million. The proposed financing differs from the usual underwriting agreement in that First National City Bank (the Placement Agent) only has a "best efforts" commitment to solicit offers to purchase Debentures. Among other conditions, the Project Agreement specifies that prior to Closing Date no Default shall have occurred and be continuing and that the Developer shall have received $1.375 million in cash from Interstate General Development, Inc. (its U. S. Parent Corporation).

St. Charles Communities comprises 7,408 acres, located twenty-five miles southeast of Washington, D.C. in Charles County, Maryland. It is planned to be developed over twenty years for 79,000 residents (24,730 dwelling units). Land within the project has been allocated as follows: Residential - 4,351 acres (59%); Industrial - 849 acres (11%); Commercial - 214 acres (3%); Recreation and Open Space - 1,551 acres (21%); Schools and Community Facilities - 108 acres (1%); Major Roads - 335 acres (5%).

Ever since the Project was approved by HUD (December, 1970) the Developer has experienced difficulty in dealing with Charles County officials. For example, they have recently expressed concern about the pace of industrial and commercial development. Despite the receipt or expectation of a portion of the approximately $14.8 million in federal grant funds ($11,958,147-Basic: $2,789,222-Supp.) approved to date (Exhibit A), the County delayed zoning approval for the project eighteen months, until July, 1972. The PUD ordinance which was ultimately granted, severly restricts residential density, mix and pace of development and imposes unrealistic conditions on the Developer which greatly increase its financial risk. (Exhibit B).

The Developer has to date sold land to four residential builders for 695 single family houses at an average per lot price of $9,670 and 360 townhouses at an average per lot price of $3,309, for a total contract sales value of $7,946,150. The average per lot sales price considerably exceeds November, 1970 lot sales price projections of $6,300 and $1,325 respectively. However, due to a significant increase in land development costs over initial projections and unfavorable contract terms for the Developer, it is difficult at this time to quantify the resultant net cash flow impact of the lot sales program. In addition, the Developer has sold sixteen acres to three industrial firms for $117,637 (approximately $7,350 per acre) and five acres for five service station sites at $120,000 per acre (15% down, interest only for three years). The industrial land sales price approximates initial projections, although the pace lags considerably behind the 40 acres projected to be sold by June, 1973.

B. Current Financial Status

Due in part to the circumstances described above, the Developer is presently in default under Section 506 of the Indenture of Mortgage and Deed of Trust, which requires that it maintain Liquid Current Assets of not less than $1,850,000 or 10% of the aggregate principal amount of Outstanding Debentures, whichever is greater. Subject to certain conditions, the New Communities Administration (NCA) has agreed to recommend that the Secretary waive the above default as well as related financial defaults under Sections 5.17 and 5.24 of the Indenture. The conditions are as follows: 1) establishment and maintenance of an unconditional line of credit for a three year period in the amount of $2.4 million; 2) conversion of St. Charles Utilities, Inc. to a Restricted Subsidiary on stated terms; 3) execution of the Management Agreement between the Developer and Interstate General Corporation in the form approved; 4) receipt of acceptable audited financial records and information specified in Section 5.08 of the Indenture.

The Developer has indicated that it would be unable to establish such a line of credit and proposes to cure the existing liquid current assets default by borrowing necessary funds on the reliance of NCA's willingness to subsequently guarantee $5.5 million of debt obligations. This contrasts with its previous position that the liquid current assets default would be cured by the borrowing of an additional $5.5 million and that the default under Sections 5.17 and 5.24 would be cured by conversion of St. Charles Utilities to a Restricted Subsidiary. In the event all defaults have been cured on or before Closing Date and the Developer has met the additional requirements of Section 4.02 of the Project Agreement, the Secretary is obligated to execute the guarantee.

The Developer has met its short term cash requirements by selling Bannister Neighborhood-303 acres (the first such to be developed within the project) to Interstate General Development Corporation, Inc. (its U. S. Parent Corporation). NCA approved the sales price - $2,901,425 and terms: $561,425 in deposits under existing land sales contracts, $1.5 million cash at settlement and a note for $840,000. Interstate General Development Corporation, Inc. subsequently obtained a development loan in the amount of $5.5 million from the First National City Bank, using the land and lot sales contracts in Bannister as collateral.

C. Financial Projections

In determining its response to the developer's request for a waiver of the existing liquid current assets default, NCA reviewed the June, 1973 Financial Projections of Interstate Land Development Company, Inc. and compared them with similar previous submissions. Such comparison indicates that since November, 1970: 1) revenue from land sales contracts is projected to increase $91.6 million over the Development Period 2) Operating Costs (not including those incurred from Nov. 1970 Oct., 1972) are projected to increase $41.1 million over the balance of the Development Period; and 3) Net Income is projected to increase $11.1 million over the Development Period (Exhibit C).

A detailed analysis of the developer's Projected Land Sales Contracts was subsequently conducted by NCA (Exhibit D). This involved an examination of: 1)the terms and conditions of all land sales contracts and options which the developer has executed to date with home builders and commercial or industria firms (Exhibit A); 2) the provisions of the PUD zoning ordinanc granted to the Developer and 3) other factors such as the avail ability and cost of construction and mortgage financing, econom and market conditions and Developer capability, all of which would have an impact on land sales revenue.

While the results of such analysis are not conclusive, the establish a legitimate basis for questioning the reliability of the developer's projected land sales contracts - particularly over the short term. Accordingly, NCA is concerned that within a short period of time after the issuance of a Subsequent Serie of Debentures, the Developer may be in default again under the Liquid Current Assets provision in the Indenture.

In reviewing the June, 1973 Financial Projections, an initial attempt was made to understand the basis for the significant increase in projected costs of land improvement within the project. Preliminary results indicate that the increase is due to the inclusion of full water and sewer facility costs for St. Charles and a 33% increase in direct labor and materials costs. In order to meet FHA sub-division standards, additional grading may be required, increasing development costs still further. Efforts are being made to determine the extent and cost. of work to be done.

The June, 1973 Financial Projections are of further concern to NCA to the extent they are based on a substantially different allocation of land within the Project for specific uses than is contained in the approved Development Plan. Substantial amendments to the Development Plan require the approval of the Secretary and should be based on sound development and marketing criteria. In the case of the proposed changes regarding the St. Charles plan, no rationale has been provided and market experience to date suggests that none exists. Furthermore, in order to support increased projections for residential land sales revenue, the Developer has reduced the amount of low and moderate income housing to be provided within the Project by more than 50%. NCA has not agreed to such amendments to the approved Development Plan and has to date postponed satisfactory resolution of the various development issues noted herein.

Under Section 4.04 of the Project Agreement, the Secretary has the authority to request and obtain from the Developer such additional opinions, reports, policies or other documents as he may reasonably request prior to any Subsequent Closing Date. Accordingly, the Board of the CDC may elect to request the submission of certain additional information before proceeding with the Closing, even though the Developer may have cured all existing Defaults. Such determination would have the effect of delaying the Closing for some time and in all probability result in the Developer being in payment default under the terms of the Indenture in the near future. Under the circumstances, it can reasonably be expected that if the Secretary were to request additional information under Section 4.04, the Developer would institute legal action against the Department.

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