

# ***CDBG WEBCAST***

***HUD, OFFICE OF BLOCK GRANT ASSISTANCE***





# **MODULE 7: *Section 108***

# WELCOME

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- ❑ Training Presented by HUD, Office of Community Planning and Development, Office of Block Grant Assistance (OBGA)
  - ◆ Richard Kennedy, Director, OBGA
  - ◆ Paul Webster, Director of Financial Management Division
  - ◆ Hugh Allen, Deputy Director of Financial Management Division

# CDBG TRAINING SERIES



- ❑ Eight modules in series:
  - ◆ Module 1: Welcome, CDBG Statutory/Regulatory Context, National Objectives
  - ◆ Module 2: State CDBG Program
  - ◆ Module 3: Administration/Planning, Financial Management, Including Program Income
  - ◆ Module 4: Housing and Other Real Property Activities
  - ◆ Module 5: Public Facilities, Interim Assistance, Public Services and Other Activities
  - ◆ Module 6: Economic Development, Including Public Benefit
  - ◆ **Module 7: Section 108**
  - ◆ Module 8: IDIS, Performance Measurement, Reporting
- ❑ Training presented by OBGA staff
- ❑ Available on HUD's website at:  
<http://www.hud.gov/offices/cpd/communitydevelopment/programs/index.cfm>

# MODULE 7 TOPICS AND TRAINERS

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## □ Topics:

- ◆ Eligible activities
- ◆ Transaction types
- ◆ Section 108 underwriting
- ◆ HUD review of applications

## □ Trainers:

- ◆ Dick Kennedy
- ◆ Paul Webster
- ◆ Hugh Allen

# WHAT IS SECTION 108?



- ❑ Method of expanding CDBG funds by using *future* CDBG grant as *collateral* to borrow funds
- ❑ Section 108 process basics:
  - (1) Community applies to HUD
  - (2) Based on community's pledge, HUD issues notes
  - (3) \$\$\$ from sale of notes used for Section 108 eligible project
  - (4) Notes are repaid

# SECTION 108 HISTORY

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- ❑ 1974 law provided opportunity to continue urban renewal
- ❑ 1979 Demonstration Program
- ❑ 1986 Consolidated Omnibus Budget Reconciliation Act
- ❑ 1987 eligibility changes
- ❑ 1990 National Affordable Housing Act
- ❑ 1992 Credit Reform Act

# ADVANTAGES OF SECTION 108

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- ❑ Leverages grants
- ❑ Not a general obligation
- ❑ Receive funds now (no pay as you go)
- ❑ Spread costs over multi-year period
- ❑ Long-term, fixed-rate financing at favorable rates



# PROJECT EXAMPLE: BRYAN/COLLEGE STATION COMMUNITY HEALTH CENTER



# PROJECT EXAMPLE: FORT WORTH MINYARD FOOD STORES



# PROJECT EXAMPLE: PHILADELPHIA HOMEOWNERSHIP ZONE



# ELIGIBLE ACTIVITIES

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- ❑ Real property acquisition
- ❑ Rehabilitation of publicly owned real property
- ❑ Relocation
- ❑ Clearance/demolition
- ❑ Site preparation
- ❑ Housing rehabilitation
- ❑ Economic development
- ❑ Public facilities/improvements
- ❑ Issuance costs
- ❑ Capitalized interest
- ❑ Reserves

# APPLICABLE RULES

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- ❑ Section 108 must comply with all key CDBG rules
  - ◆ National objective
  - ◆ 70% LMI targeting
  - ◆ Other federal requirements
    - Environmental review
    - Davis Bacon
    - URA
    - OMB circulars
    - Fair housing/equal opportunity
    - Lead Based Paint
    - HUD Reform Act

# NATIONAL OBJECTIVES



- Any national objective is possible, depending on Section 108 project

**LOW/MOD BENEFIT**

- ◆ Area Benefit
- ◆ Limited Clientele
- ◆ Housing
- ◆ Jobs

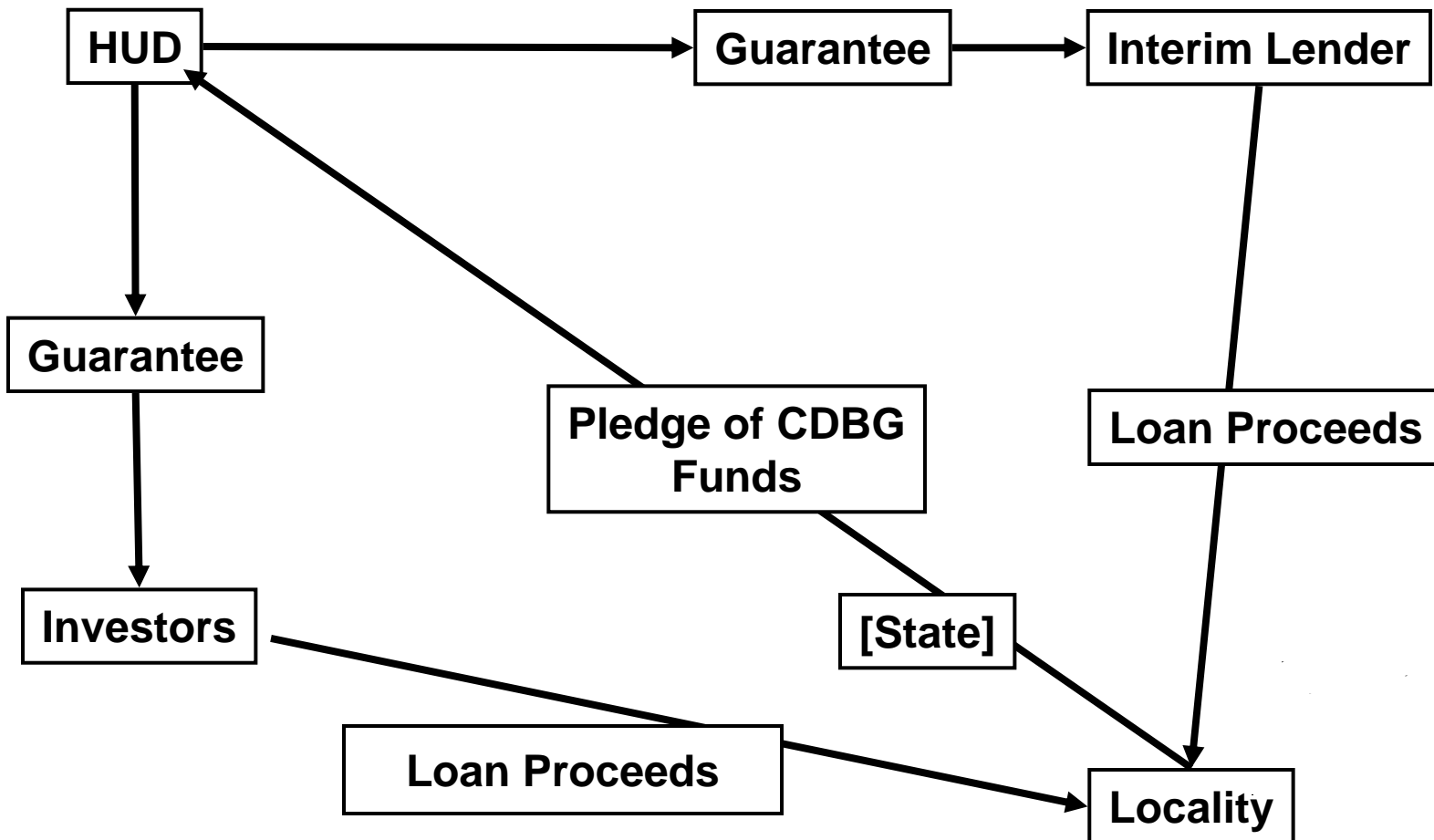
**SLUM/BLIGHT**

- ◆ Area
- ◆ Spot
- ◆ Urban Renewal

**URGENT NEED**



# SECTION 108 FINANCING



# LEVELS OF TRANSACTION

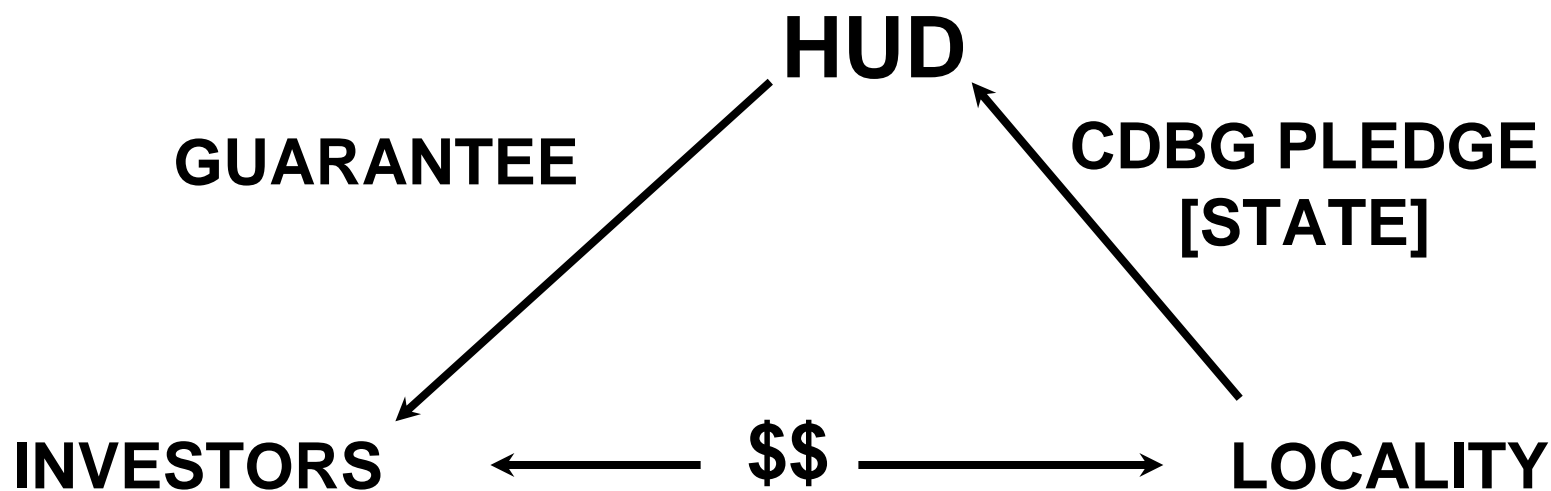
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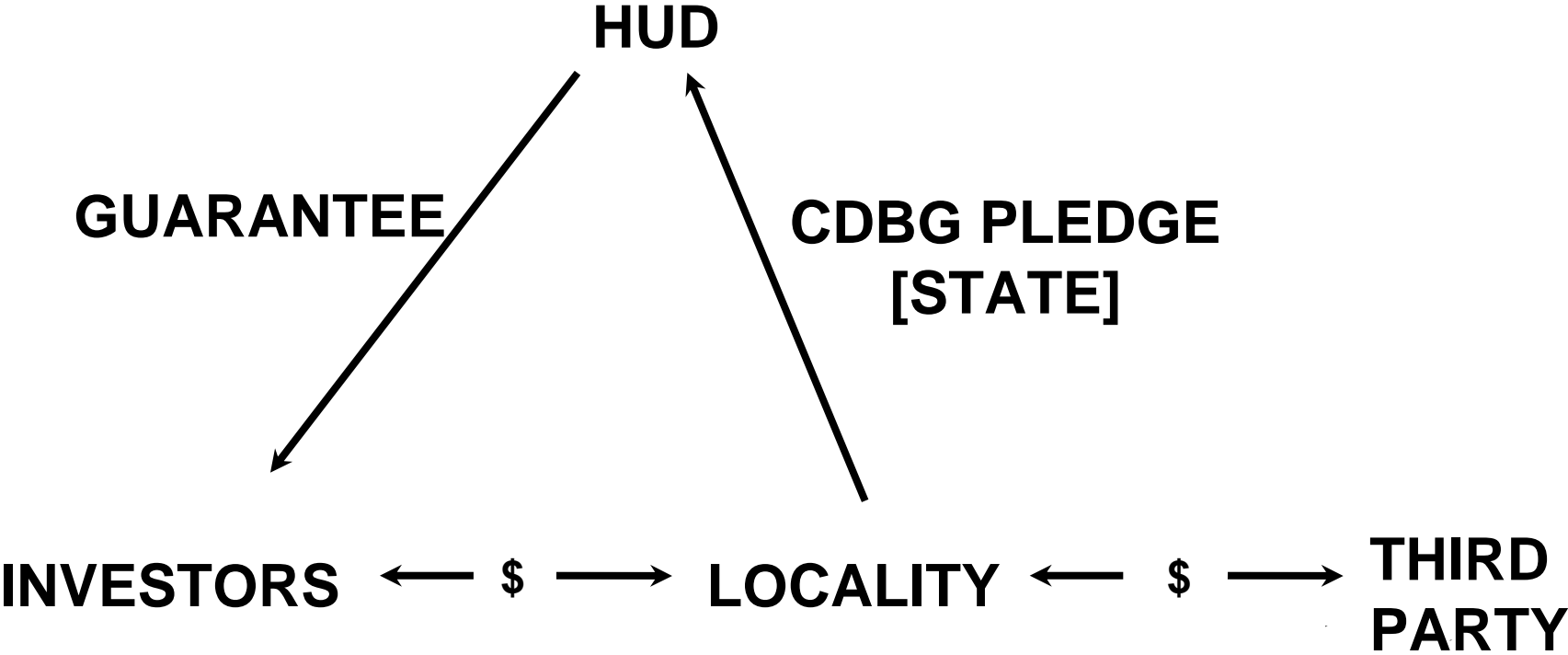
- ❑ # 1 Communities borrow from investors via notes
- ❑ # 2 Communities undertake activities or re-lend



# LEVEL #1 TRANSACTION



# LEVEL #2 TRANSACTION



# SECTION 108 FINANCING SPECIFICS

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- ❑ Amount
  - ◆ Up to five times annual entitlement
- ❑ Term
- ❑ Rates
  - ◆ Permanent financing
  - ◆ Interim financing
- ❑ Fees

# TYPES OF FINANCING

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- ❑ Interim – variable rate
- ❑ Permanent – fixed rate

# INTERIM LOANS

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- ❑ Public offering usually once a year
- ❑ Interim loan available until public offering
- ❑ Fiscal Agent arranges interim loan
  - Interest rate: 90 day LIBOR + 20 basis points
  - HUD guarantees obligation

# PERMANENT LOANS

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- ❑ Public offering provides long-term, fixed-rate financing
- ❑ “Public offering” conducted annually by Sec. 108 underwriting team
- ❑ Interest rates
- ❑ Fees
- ❑ Loans serviced by trustee

# SECTION 108 UNDERWRITING

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- ❑ Credit Reform Act
- ❑ HUD estimates “subsidy rate” for Section 108
- ❑ HUD establishes loss reserve
- ❑ Additional security

# SOURCES OF REPAYMENT OF SECTION 108 LOANS

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- ❑ CDBG funds
- ❑ Program income
- ❑ “Additional security” (negotiated on a case by case basis)



# FORMS OF ADDITIONAL SECURITY

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Examples include:

- ◆ Assets created from use of Sec. 108 funds
- ◆ Real Property
- ◆ Portfolio income
- ◆ Other
  - Parking revenue
  - Non tax revenue

# PROJECT BASED SECURITY

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Examples include:

- ❑ Mortgage on real property (in name of Secretary of HUD)
- ❑ Tax increments
- ❑ Assignment of third party (e.g., business) loans

# KEY SECTION 108 STEPS



Screen potential applicant or project



Apply to HUD



Receive approval from  
HUD and close loan



Disburse and service the loan

# STEP 1: SCREEN THE PROJECT

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- ❑ Grantees screen projects prior to HUD application
- ❑ Look at:
  - ◆ Eligibility
  - ◆ How will the Section 108 loan be repaid

# STEP 2: APPLY TO HUD

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- ❑ Presubmission requirements
- ❑ Submission requirements
- ❑ Field and HUD Headquarters office review

# PRESUBMISSION REQUIREMENTS

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- ❑ Citizen participation
- ❑ Conduct needs hearing
- ❑ Publish proposed statement and projected uses
- ❑ Amend CD plan or incorporate Section 108 in final plan
- ❑ Conduct second public hearing

# APPLICATION SUBMISSION

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- Application to HUD should include:
  - ◆ Project description
    - Eligibility category
    - National objective
  - ◆ Repayment schedule
  - ◆ Certifications

# HUD REVIEW

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- ❑ Review by HUD Field Office
- ❑ Review by HUD Headquarters



# STEP 3: RECEIVE APPROVAL AND CLOSE

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- ❑ HUD approves & notifies
- ❑ Close Section 108 loan
- ❑ Procedures differ for level #1 and level #2 transactions

# STEP 4: DISBURSE AND SERVICE THE LOAN

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- ❑ Trustee/Fiscal agent services level #1
- ❑ Community must establish system for level #2
- ❑ Custodial Accounts
  - ◆ Loan Guarantee Account
  - ◆ Loan Repayment Account

# LOAN PORTFOLIO SYSTEM

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- ❑ Collections
- ❑ Monitoring & accounting
- ❑ Collateral preservation
- ❑ Anticipate & deal with problems
- ❑ Foreclosure