

CDBG's Section 108 Loan Guarantees

for Multifamily Rehab

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The Section 108 Loan Guarantee Program allows local governments to transform a small portion of their Community Development Block Grant (CDBG) funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects, including housing rehabilitation or reconstruction projects, capable of renewing entire neighborhoods.

The funds can be used by a designated public entity to undertake eligible projects or, alternatively, can be loaned to a third party developer to undertake the projects. This flexibility makes it one of the most potent and important public investment tools that HUD offers to local governments.

Eligible entities may borrow up to five times their annual CDBG allotment, less any outstanding 108 loans. While the federal government guarantees these loans, the borrowing entity must pledge their future CDBG funds as collateral for the loans. Proper project selection and underwriting can minimize a community's risk.

The Florida Housing Coalition Technical Assistance Team has expertise in providing training and technical assistance in all aspects of program design, application and underwriting for the successful implementation of the program. The team can work with local governments considering the Section 108 program or the State of Florida.

The flexibility of the funds allows for economic development or housing rehabilitation loan pools that permit a variety of activities and projects to be accomplished with just one Section 108 loan.

How the Section 108 Program Works

The borrowers for Section 108 loan guarantees are local or state governments. If approved, private lenders are incentivized by this security to lend funds to the borrower.

Depending on the type of project, the borrower has two basic options for using the loan funds:

- Directly expend the funds on the project, or
- Loan the funds to a third party developer are known as a 'third party loan.'

The borrower will be required to pledge its current and future CDBG allocations as security for the loan. In addition, the borrower is required to pledge additional security to the loan.



Advantages of Using the 108 Program:

- The ability to borrow large sums of money helps recipients undertake large-scale, capital-intensive projects and provides a mechanism for recipients to extend the impact of their CDBG Program.
- These potential advantages are substantial enough that many communities are willing to assume the risks of Section 108 borrowing. Further, by using the risk management techniques, recipients can greatly reduce the uncertainty of Section 108 borrowing.
- When properly administered, the Section 108 Program provides recipients with a valuable tool to accomplish economic development goals that otherwise might be unmet or deferred.

The potential advantages allow borrowers to:

- Access funds at AAA rate.
- Take on large projects.
- Access long-term funds at a fixed rate.
- Accelerate CDBG activities.
- Spread costs over time.
- Not a general obligation; no effect on community's debt limit.
- Avoid private benefit restrictions.

Types of Activities Undertaken with the 108 Program:

Borrowers can finance several types of activities through the Section 108 Program, including the financing of economic development as well as funding housing and infrastructure projects. The Section 108 Program can serve to finance projects to assist communities in recovering from disasters and to increase resilience against future catastrophe events.

Borrowers must meet other requirements for these types of activities to be eligible under the program. These requirements are discussed below.

Eligible activities include:

- Economic development activities eligible under the CDBG Program;
- Construction or rehabilitation of public facilities and infrastructure; and
- Housing activities, as eligible under the CDBG Program.

Section 108 Program funds can also be used to finance the delivery of activities, including:

- Payment of interest on the guaranteed loan and issuance costs of public offerings;
- Debt service reserves;
- Finance fees, such as the credit subsidy fee; and
- Costs of administering a Section 108 loan. **HNN**



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Gladys Cook is a Technical Advisor for the Florida Housing Coalition and has over 20 years of experience assisting nonprofit housing and community development organizations and local governments in the design, finance, development, and management of single and multifamily and permanent supportive housing. She provides training and technical assistance for programs funded by the Florida Housing Finance Corporation including the Predevelopment Program, SHIP, HOME and SAIL. Cook also provides expertise in housing incentive strategies including community land trusts, land banking, and inclusionary zoning.