

CDBG Section 108 Program Overview



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Overview

- Section 108 is the loan guarantee provision of the Community Development Block Grant (CDBG) program
- Section 108 provides communities with a source of financing for wide range of uses: economic development, housing rehabilitation, public facilities, and large-scale physical development projects.





Purpose

- Section 108 allows local governments to transform a small portion of their CDBG funds into federally guaranteed loans.
- An entitlement public entity may apply for up to five times the CDBG amount
- A 108 loan would allow the City to continue its current program of annual CDBG allocations, while leveraging the guarantee of future entitlement funds to generate greater impact.





Potential Uses

- Activities eligible for Section 108 financing include:
 - business assistance activities eligible under CDBG;
 - acquisition of property for economic development activities;
 - rehabilitation of publicly owned real property eligible under CDBG;
 - housing rehabilitation and, in limited circumstances, housing construction
 - construction, reconstruction, or installation of public facilities





Eligible Criteria

- As with any CDBG program, all projects and activities must either:
 - principally benefit low- and moderate-income persons;
 - aid in the elimination or prevention of slums and blight or;
 - meet urgent needs of the community (i.e. natural disaster recovery projects)





Advantages of Section 108

- LEVERAGE: \$1 of CDBG creates \$5 of Section 108 borrowing capacity
- RECEIVE FUNDS NOW not pay-as-you-go
- SPREAD COSTS over multi-year period
- LONG-TERM, FIXED-RATE FINANCING at AAA rates
- NOT A GENERAL OBLIGATION for debt purposes



Who Could Apply

- Communities that receive CDBG funds directly apply to HUD to establish a Section 108 loan program:
 - Stand alone site specific project or
 - To establish a revolving loan fund program to support a variety of eligible projects
- Underwriting is critical; per City and HUD standards
- With proper underwriting, Section 108 will not tap into the CDBG's annual allocation.





Forms of Security

- Principal security – CDBG funds
- Additional securitization includes:
 - Deed of Trust (subject to HUD approval)
 - Assets created from use of funds (project-based security)
 - Other assets (e.g., Equipment) or
 - Additional Security



Repayment

- In return for HUD's guarantee, borrowers promise repayment from:
 - Project revenue
 - Other dedicated revenue streams (PILOTs, EATS, etc)
 - Additional loan security as specified by HUD (e.g., lien on real property)



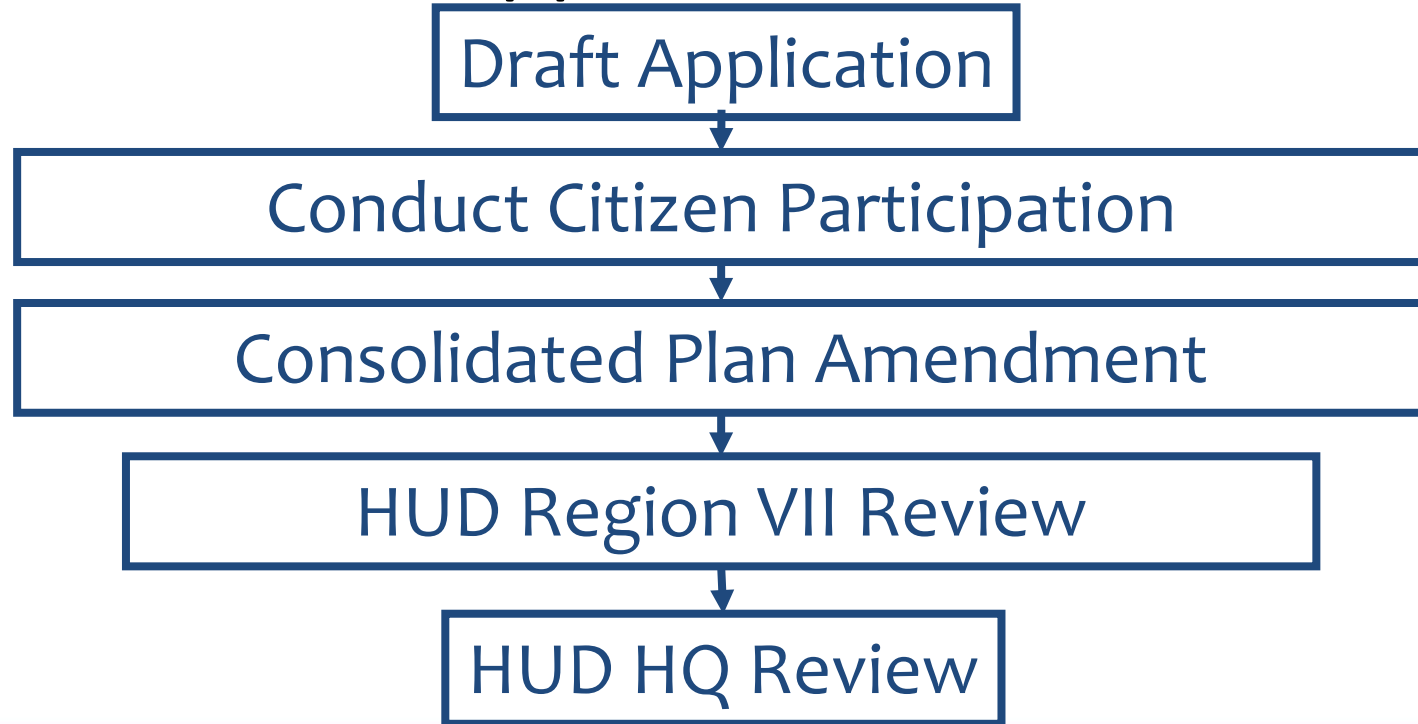


Proposal

- Staff seeks approval to develop a pilot Section 108 revolving loan program to support eligible activities within Independence for All Strategic Plan
 - The fund would be capped at 5 times our annual CDBG allocation



HUD Application Process



Setting up Revolving Loan

Screen potential project



Underwrite project



Apply to HUD for loan guarantee



Receive approval from HUD & close loan



Disburse & service loan



Conclusion

- Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and other projects.
- \$1 of CDBG creates \$5 of Section 108 borrowing capacity.
- Leverages CDBG without directly using it.
- Staff seeks approval to develop a pilot Section 108 revolving loan program to support eligible activities within Independence for All Strategic Plan



Questions



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