



**Urban Land Institute**

**Terwilliger Center for Housing**

Exploring HUD's Section 108

Loan Guarantee of the CDBG Program

U.S. Department of Housing and Urban Development





# HUD'S SECTION 108 LOAN GUARANTEE PROGRAM

Flexible, Low-Cost Community and Economic Development Financing through the Community Development Block Grant (CDBG) Program



Since 1978,  
HUD has issued  
**2,000 approvals**



**\$10 Billion**  
in total approvals



**for over 630 communities**



Types of projects include economic development, infrastructure, public facilities, and affordable housing

Hazleton, PA was the  
**1st approval**



Springfield, MA was the  
**2,000th approval**



More than  
**120,000 Jobs**  
created

More than  
**250 public works and infrastructure projects**  
and **240 housing projects** supported



Those who leveraged other funding sources (private, federal, state, and local) with Section 108 funds, on average,  
**secured \$4.62 of additional funds for every \$1.00 of Section 108 funding.**

# Today's Presenters

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Community Planning and Development Specialist



<https://www.hudexchange.info/programs/section-108/>

# Today's Topics

- Section 108 Loan Guarantee Loan Program
- Program and Financial Requirements
- Program Processes
- Approaches to Section 108 Financing and Projects
- Section 108 Projects Examples

# HUD's Section 108 Loan Guarantee Program



- Provides loan guarantees, not grants
- Employs the programmatic framework of the CDBG Program
- Offers recipients a non-competitive means of accessing relatively lower interest rates
- Dedicated staff willing to provide 1-on-1 Technical Assistance for CDBG Grantees

# Deployment & Eligible Uses



## Pre-Development



Acquisition



Demolition



Site Prep & Remediation



Relocation



## Development



Real Estate Development



Machinery & Equipment



Working Capital



Infrastructure

# Types of Section 108 Projects



Economic  
Development

Central Business  
District Support

Retail/Office  
and  
Manufacturing

Small Business  
Financing

Business  
Retention

Housing



Loan Funds for  
Developers

Adaptive Reuse

Supporting New  
Housing  
Construction

Rehab of private  
housing stock  
and public  
housing



Public  
Facilities

Community  
Centers

Park Upgrades

Hospitals

Gov't Bldgs  
serving  
Residents

Infrastructure



Water &  
Sanitation

Streets, Curbs  
and Gutter  
Improvements

Broadband Line  
Extensions

Devastated  
Landscapes

# Section 108 Loan Guarantee Program



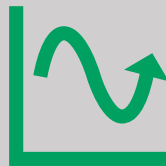
Uses CDBG Framework



Provides loan guarantees,  
not grants



1 on 1 Technical  
Assistance



Flexible Terms and  
Rates



# Community Development Block Grants



- Annual grants to states, cities, and counties
- Develop viable communities
  - Providing decent housing
  - Suitable living environment
  - Expand economic opportunities
- Principally for low- and moderate-income persons



# CDBG and Section 108 National Objectives



**Benefit to Low- and Moderate-Income Persons**



**Elimination of Slum & Blight**

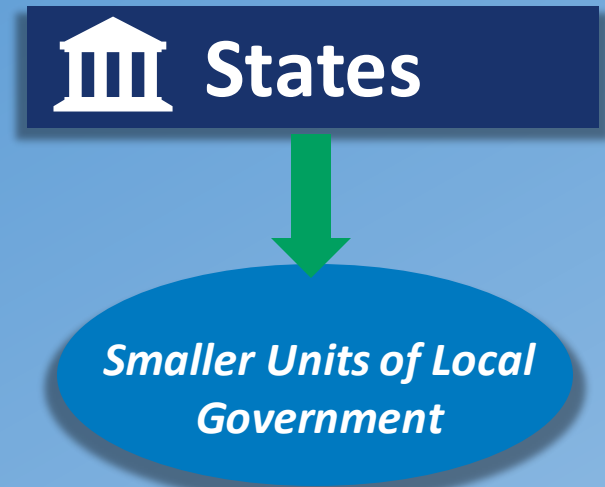


**Urgent Need**

# Who is Eligible for Section 108



- *CDBG Entitlements*
  - *Cities (50K+)*
  - *Urban Counties (200K+)*
- *States and small cities*
- *Subrecipient entities (e.g. economic development or public housing authorities, non-profits)*
- Other partners may receive Section 108 funds directly from HUD if they are a **designated public agency (DPA)** of the CDBG Entitlement grantee



# Section 108 Borrowing Capacity



**Annual CDBG Allocation**

**\$3,000,000**

**Max available borrowing capacity**

**x 5 = \$15,000,000**

**Outstanding 108 commitments**

**- \$800,000**

**Outstanding 108 loan balance**

**- \$2,000,000**

**Available borrowing capacity**

**= \$12,200,000**

*Check your calculation on our website:*

<https://www.hudexchange.info/resource/5197/current-availability-of-section-108-financing-cdbg-entitlement-and-state-grantees/>

# Section 108 Requirements



Program Requirements



Financial Requirements

# PROGRAM REQUIREMENTS

## Eligible Activities

24 CFR 570.703

## National Objective

24 CFR 570.208

## Public Benefit Standards

24 CFR 570.209

## Crosscutting Requirements

Environmental Review, Davis Bacon,  
Uniform Administrative Requirements,  
Relocation (URA), Fair Housing & Lead-  
Based Paint, BABA

# FINANCIAL REQUIREMENTS

## Repayment

- CDBG
- Third party loan proceeds
- Parking revenue
- Tax Increment Financing revenue
- Other

## Collateral

### Primary Source:

- Pledge of current and future CDBG

### Sources of Additional Collateral:

- Property lien
- Full faith and credit
- Reserves
- Other

# PROCESS FOR LOAN GUARANTEE



Application



Financing



Project



Management / Servicing



# Financing Strategy



STANDALONE



COMBINED



GAP

# Combining Section 108 with Other Federal Financing



➤ New Market Tax Credits



➤ EDA Public Works & Economic Adjustment Assistance



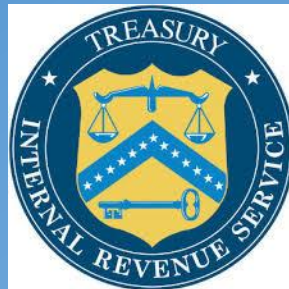
➤ Historic Tax Credits



➤ 7(a) Loans  
➤ 504 Loans



➤ BUILD Grants  
➤ TIFIA

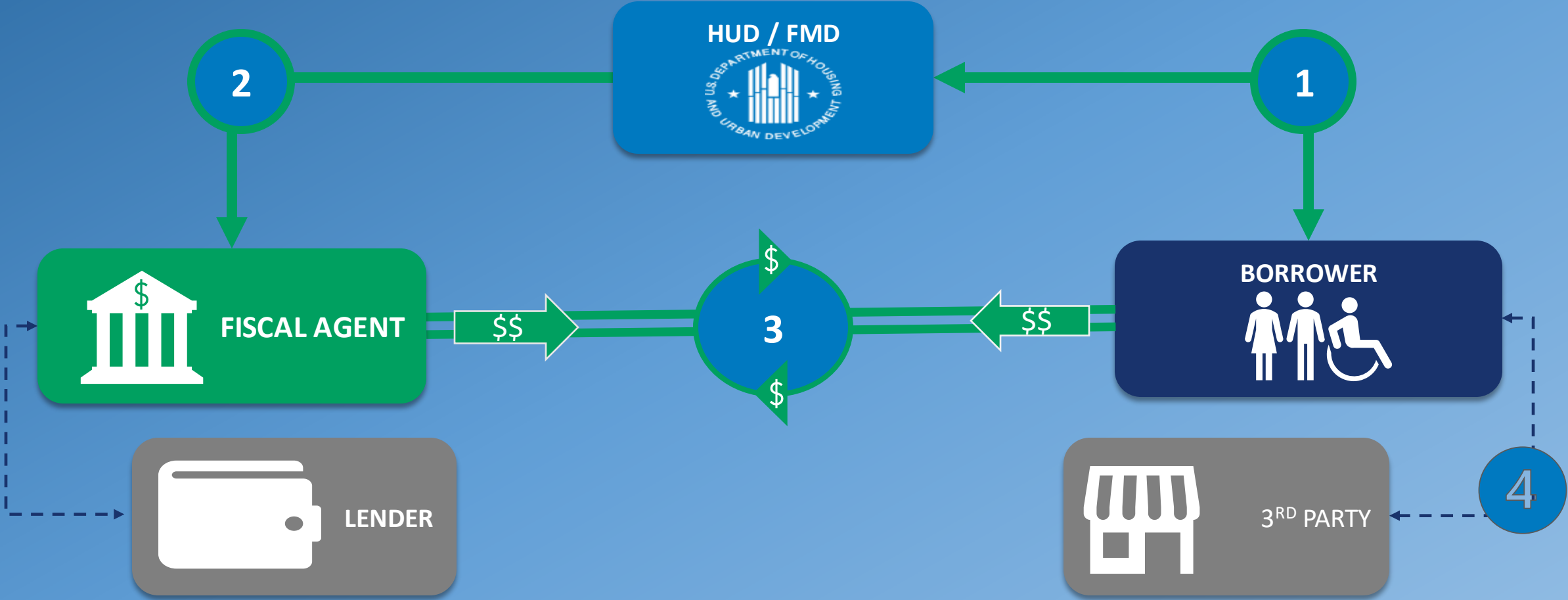


➤ Low-Income Housing Tax Credits  
➤ Opportunity Zones



➤ Revolving Loan Funds  
➤ Brownfields Remediation Financing  
➤ WIFIA

# Financing Process



# Project Specific

- Application is for a specific project/projects
- Requires a higher level of project detail & specificity



# Loan Fund

- Application describes type of projects to be funded along with the community's underwriting process
- Individual projects must have a Field Office eligibility determination for funds to be drawn



# Section 108 Loan Guarantee

## **EXAMPLES / CASE STUDIES**

# Affordable Housing Rehab Loan Fund Example

## Washington, DC

**TOTAL 108 FINANCING: \$38.8M**

**CDBG: \$15.4M**

**Goal:** Provides third-party loans for the preservation of affordable housing

### **Types of Multifamily Preservation Projects:**

- Acquisition and substantial rehabilitation of naturally occurring affordable housing or existing affordable rental properties that will be recapitalized utilizing LIHTCs
- Acquisition and rehabilitation of Limited Equity Cooperatives that typically have difficulty securing competitive financing terms from the private market



Source: A view of DC by Ted Eytan licensed under Creative Commons.

# Affordable Housing Rehab Loan Fund Example

Washington, DC

## 3. FINANCIAL STRUCTURE

### Sources and Uses.

#### Sources:

Section 108 Guaranteed Loan \$ 38,800,000

**Total Sources:** \$ 38,800,000

#### Uses:

Section 108 Financing Fee \$ 834,200

Affordable Housing Rehabilitation Loans \$ 37,965,800

**Total Uses:** \$ 38,800,000





# Example of Partnership Approach led by Community Based Development Organization



## Modular Housing Manufacturing Facility

**Boulder, CO**

**\$4M**

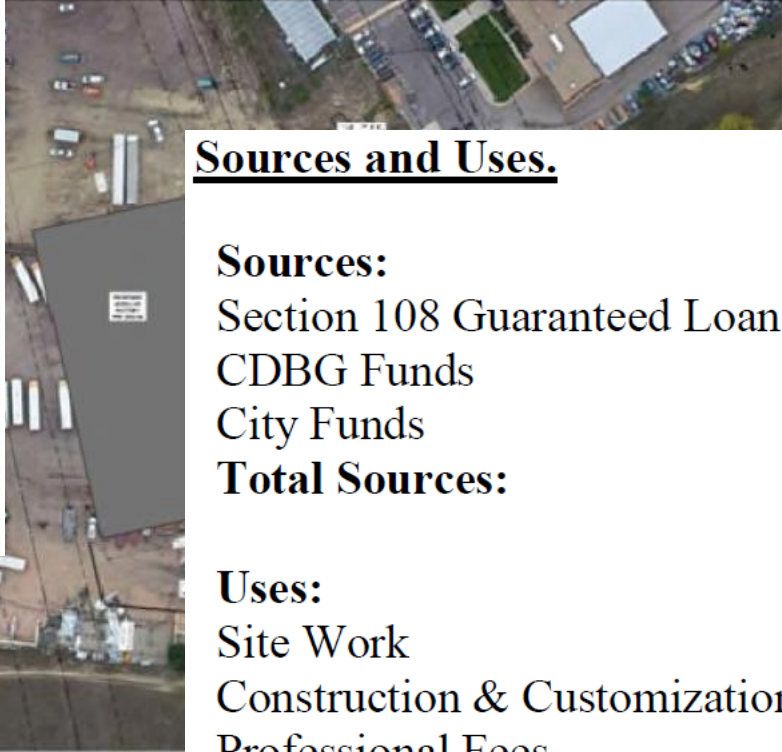
**Goal:** increase the City's and Region's production capacity of affordable homes

### **Project**

- CBDO is *Flatirons Habitat for Humanity* involved in a Special Economic Development Activity
- Construct a Modular Housing Manufacturing Facility
- Provide workforce training for students in the Boulder Valley School District
- [Press Release](#) for more info



# Example of Partnership Approach led by Community Based Development Organization



## Modular Housing Manufacturing Facility

### Sources and Uses.

#### **Sources:**

Section 108 Guaranteed Loan	\$ 4,000,000
CDBG Funds	86,000
City Funds	<u>90,280</u>
<b>Total Sources:</b>	<b>\$ 4,176,280</b>

#### **Uses:**

Site Work	\$ 1,475,371
Construction & Customization of Building	1,945,200
Professional Fees	73,700
Soft Costs	19,580
Section 108 Fee	86,000
Contingency	<u>576,429</u>
<b>Total Uses:</b>	<b>\$ 4,176,280</b>

# Supporting New Construction Example



## Hartley Ridge Affordable Housing High Point, NC (\$694K)

- In Phase 1, the Borrower requested Section 108 funds for site acquisition and/or improvements
- In Phase 2, after the eligible activities were complete, the Borrower conveyed the improved project site to the developer.

# Supporting New Construction Example

## Hartley Ridge Affordable Housing High Point, NC (\$694K)

### 3. FINANCIAL STRUCTURE

#### Sources and Uses.

#### Phase 1 – Site Acquisition and Site Improvements

##### Sources:

Section 108 Guaranteed Loan	\$694,000
<b>Total Sources:</b>	<b>\$694,000</b>

##### Uses:

Acquisition	\$649,000
Site Improvements	\$ 45,000
<b>Total Uses:</b>	<b>\$ 694,000</b>

#### Phase 2 – Development of New Affordable Housing

##### Sources:

Bank Loan	\$ 1,228,117
Rental Production Program Loan <sup>1</sup>	\$ 800,000
Note issued to Borrower for Buildable Site	\$ 694,000
<u>Federal LIHTC</u>	<u>\$ 6,713,656</u>
<b>Total Sources:</b>	<b>\$ 9,435,773</b>

##### Uses:

Construction	\$ 6,140,614
Acquisition	\$ 694,000
Land Improvements	\$ 348,900
Soft Costs	\$ 899,547
Development Fees	\$ 1,092,000
Rent and Operating Reserves	\$ 260,712
<b>Total Uses:</b>	<b>\$9,435,773</b>



# Mixed-Use Development Example



## Northside Commons Spartanburg, SC (\$3M)

- New construction, mixed-use project
- Collaboration between public, private, civic, educational and philanthropic institutions.
- \$3,000,000 Section 108 was used to finance a portion medical clinic and office space.

# Mixed-Use Development Example



## Northside Commons Spartanburg, SC (\$3M)

### 3. FINANCIAL STRUCTURE

#### Sources and Uses of Funds – Total Project (Buildings 1, 2 and 3)

Total Project (Building 1, 2, and 3)	
<b>Sources</b>	
NMTC Equity	\$ 3,700,000
Bank Loan	3,400,000
Section 108 Funds	3,000,000
Wofford College Loan	800,000
NDG Loan	250,000
<b>Total</b>	<b>\$ 11,150,000</b>
<b>Uses</b>	
Acquisition	250,000
Construction Costs	7,580,922
Softs Costs	3,248,128
Section 108 Fee	70,950
<b>Total</b>	<b>\$ 11,150,000</b>

# Solar Canopy and EV Charging Station | Energy Example



## Merced, California

**Total 108 Approved: \$2M**

### **Childs Court Apartments and Public Facility**

- The 108 funds will construct a community center, which is a component activity of a new affordable housing development project.
- The project's parking will be covered by solar PV system canopies and electric vehicle charging stations.
- The project will exceed residential energy codes by at least 10 to 20%
- It will be constructed in accordance with California's Green Energy Code and be certified at the gold level in the Green Point Rated multifamily sustainable building system.
- The City will use its CDBG entitlement funds as a primary source of 108 loan repayment.

# Solar Canopy and EV Charging Station | Energy Example



## Merced, California

### 3. FINANCIAL STRUCTURE

#### Sources and Uses.

##### Sources:

Section 108

2,000,000

##### Total Sources:

**\$2,000,000**

##### Uses:

Community Center, Public Space

1,957,000

Section 108 Loan Fee

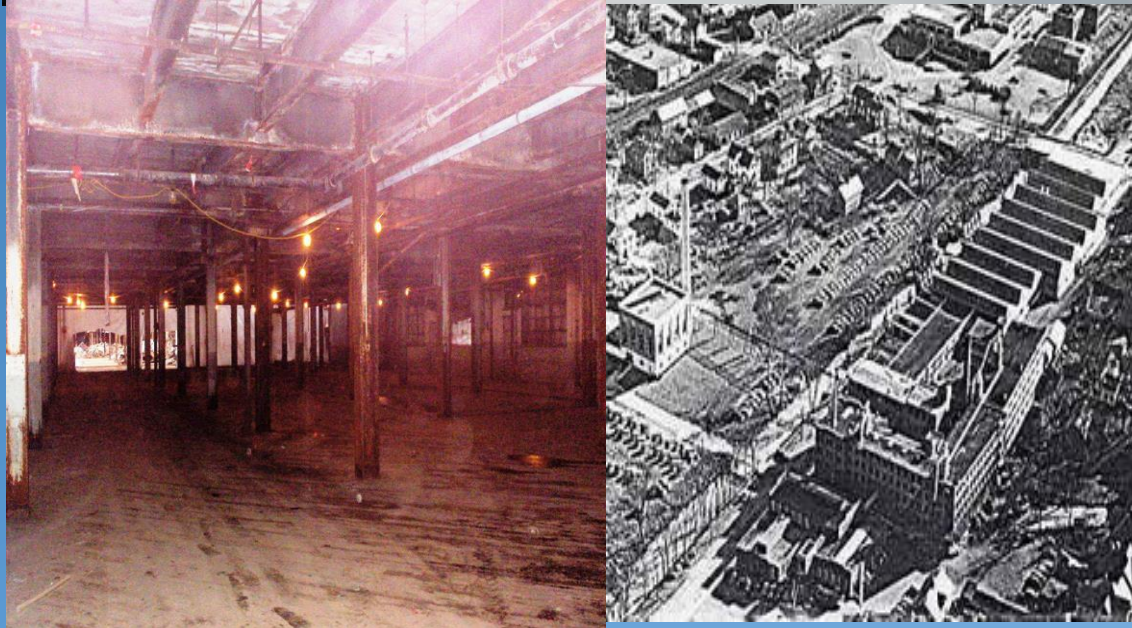
43,000

##### Total Uses:

**\$2,000,000**



# Demolition + Remediation + Flood Control Example



Meriden, Connecticut  
\$1,500,00

## Demolition and Flood Control

- Section 108 funded the demolition of abandoned structures on
- The City created flood control infrastructure to prevent future
- For Additional Security, the City pledged its full faith and credit.

# Demolition + Remediation + Flood Control Example



Meriden, Connecticut  
\$1,500,00

### 3. FINANCIAL STRUCTURE

#### Sources and Uses.

##### Sources:

Section 108 guaranteed loan	\$1,500,000
CT Department of Environmental Protection (DEP)	1,000,000
City of Meriden funds	80,000
<u>US EPA federal grants</u>	<u>2,300,000</u>
<b>Total Sources:</b>	<b>4,880,000</b>

##### Uses:

Public facilities/improvements*	\$1,700,000
<u>Environmental Assessment and cleanup</u>	<u>3,180,000</u>
<b>Total Uses:</b>	<b>4,880,000</b>

# General Resources



Available on [HUD.gov](https://www.hud.gov) and  
[HUDexchange.info](https://www.hudexchange.info)

- Borrowing capacity [*updated annually*] [Link](#)
- Application Tool [Link](#)
- Single certifications document [Link](#)
- Section 108 Application & Finance Process Infographic [Link](#)
- Project profiles for all applications approved in recent fiscal years [Link](#)

[Join our mailing list to get email updates!](#)

# For More Information

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***Section 108 Program:***

***<https://www.hudexchange.info/programs/section-108>***