

SECTION 108 LOAN GUARANTEE PROGRAM



Policy Description

Described in Title 24 – Housing and Urban Development, Part 570 – Community Development Block Grants – in the Code of Federal Regulations, 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 economic development, housing rehabilitation, public facilities, and large-scale physical development projects. This makes it one of the most potent and important public investment tools that HUD offers to local governments. It allows them to transform a small portion of their CDBG funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects that can renew entire neighborhoods. Such public investment is often needed to inspire private economic activity, providing the initial resources or simply the confidence that private firms and individuals may need to invest in distressed areas. Section 108 loans are not risk-free, however, local governments borrowing funds guaranteed by Section 108 must pledge their current and future CDBG allocations to cover the loan amount as security for the loan.

Loan commitments are often paired with Economic Development Initiative (EDI) or Brownfield Economic Development Initiative (BEDI) grants, which can be used to pay predevelopment costs of a Section 108-funded project. They can also be used as a loan loss reserve (in lieu of CDBG funds), to write-down interest rates, or to establish a debt service reserve.

This Incentive is for City use only.

Eligibility Criteria:

- Eligible applicants include the following public entities:
 - (1) Metropolitan cities and urban counties (i.e. CDBG entitlement recipients);
 - (2) Nonentitlement communities that are assisted in the submission of applications by States that administer the CDBG program; and
 - (3) Nonentitlement communities eligible to receive CDBG funds under the HUD-Administered Small Cities CDBG program (Hawaii). The public entity may be the borrower or it may designate a public agency as the borrower.

- Activities eligible for Section 108 financing include:
 - (1) Economic development activities eligible under CDBG;
 - (2) Acquisition of real property;
 - (3) Rehabilitation of publicly owned real property;
 - (4) Housing rehabilitation eligible under CDBG;
 - (5) Construction, reconstruction, or installation of public facilities (including street, sidewalk, and other site improvements);
 - (6) Related relocation, clearance, and site improvements;
 - (7) Payment of interest on the guaranteed loan and issuance costs of public offerings;
 - (8) Debt service reserves;
 - (9) Public works and site improvements in colonias; and
 - (10) In limited circumstances, housing construction as part of community economic development, Housing Development Grant, or Nehemiah Housing Opportunity Grant programs.
- For purposes of determining eligibility, the CDBG rules and requirements apply. As with the 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.

How to Apply:

If the City is interested in applying for a Section 108 Guaranteed Loan, contact your [local HUD office](#) in advance for help in preparing an application. The program has no forms, but the following is the process required (as described in [24 CFR 570.704](#), "Application Requirements:")

- Pre-submission and Citizen Participation Requirements:
 - 1. Development of a proposed application.
 - 2. Compliance with CDBG citizen participation public hearings.
 - 3. Publication of the proposed application.

4. Preparation of the final application.
 5. Inclusion of the final application in the Consolidated Plan.
- Application Submission Requirements:
 1. Description of compliance with CDBG National Objectives and Eligible Activities.
 2. Schedule for repayment.
 3. Certifications.

After consulting with the local HUD office and the preparation of the final application, the local office will conduct a "due diligence and compliance review", where a Community Planning and Development representative will check to ensure compliance with the above process, as well as verify national objectives, eligible activities, and certifications. Once this review is complete, the office will forward the application to the Section 108 staff in HUD headquarters along with a recommendation of approval or disapproval.

Upon arrival in HUD's main office, the application will be assigned to a staff underwriter, who will examine the application in detail. It is at this stage that the requested loan terms and additional security offered will be examined. It is customary for the staff reviewer to be in contact with the local HUD office representative as well as the Applicant in order to resolve questions or issues which may arise during the review.

Upon completion of the review, a Project Review Panel (consisting of headquarters staff and the local HUD office representative) will examine the application, suggest ways to resolve issues, request additional information, or recommend the application be approved. Once an application has received an approval recommendation, it is forwarded to the Secretary of HUD for final approval and release.

The length of time the application approval process takes depends on the individual application. For questions on a specific application, contact your local HUD office or the staff underwriter in HUD headquarters who is reviewing the application.

Additional Resources:

Community Development

www.cctexas.com/communitydevelopment/

Economic Development

www.cctexas.com/economicdevelopment