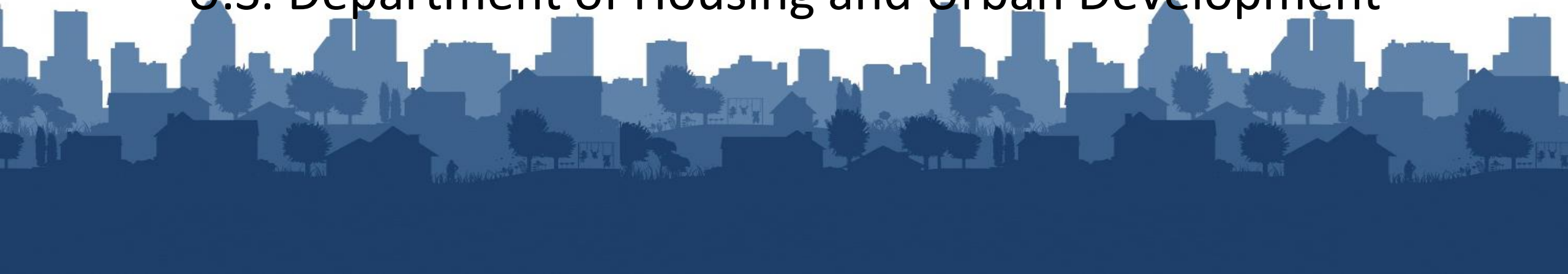




## NCDA Winter Conference

Exploring Section 108 for  
Infrastructure, Mixed-Use, and Loan Funds  
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**



Approaching  
**\$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 Topics

CDBG Section 108 Overview

Using 108 for Infrastructure Projects

Using 108 for Mixed-Use Projects

Using 108 for Loan Funds

HUD's Regulatory Agenda: Economic Development

Resources



**CDBG Section 108 Overview**

# Community Development Block Grants (CDBG)

The CDBG Program provides **annual grants on a formula basis** to states, cities, and counties to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons.

- \$3.45 billion in FY 2021
- Approximately 1200 grantees nationwide
  - 30% states
  - 70% cities (over 50K) and counties (over 200k)
  - Separate funding for Tribes, Territories, and after Presidentially Declared Disasters





# 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 lower interest rates
  - Variable Rate Financing: 3-month Treasury Bill Auction Rate + 35 bps = 0.24% + 0.35% = **0.59%** on 2/2/2022
- Dedicated staff willing to provide **1-on-1 Technical Assistance for CDBG Grantees**



# CDBG and Section 108 National Objectives



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



**Elimination of Slum & Blight**



**Urgent Need**

# Types of Section 108 projects



## Economic Development

Central Business District Support

Retail/Office and Manufacturing

Small Business Financing

Business Retention

## Housing



Loan Funds for Third Party 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

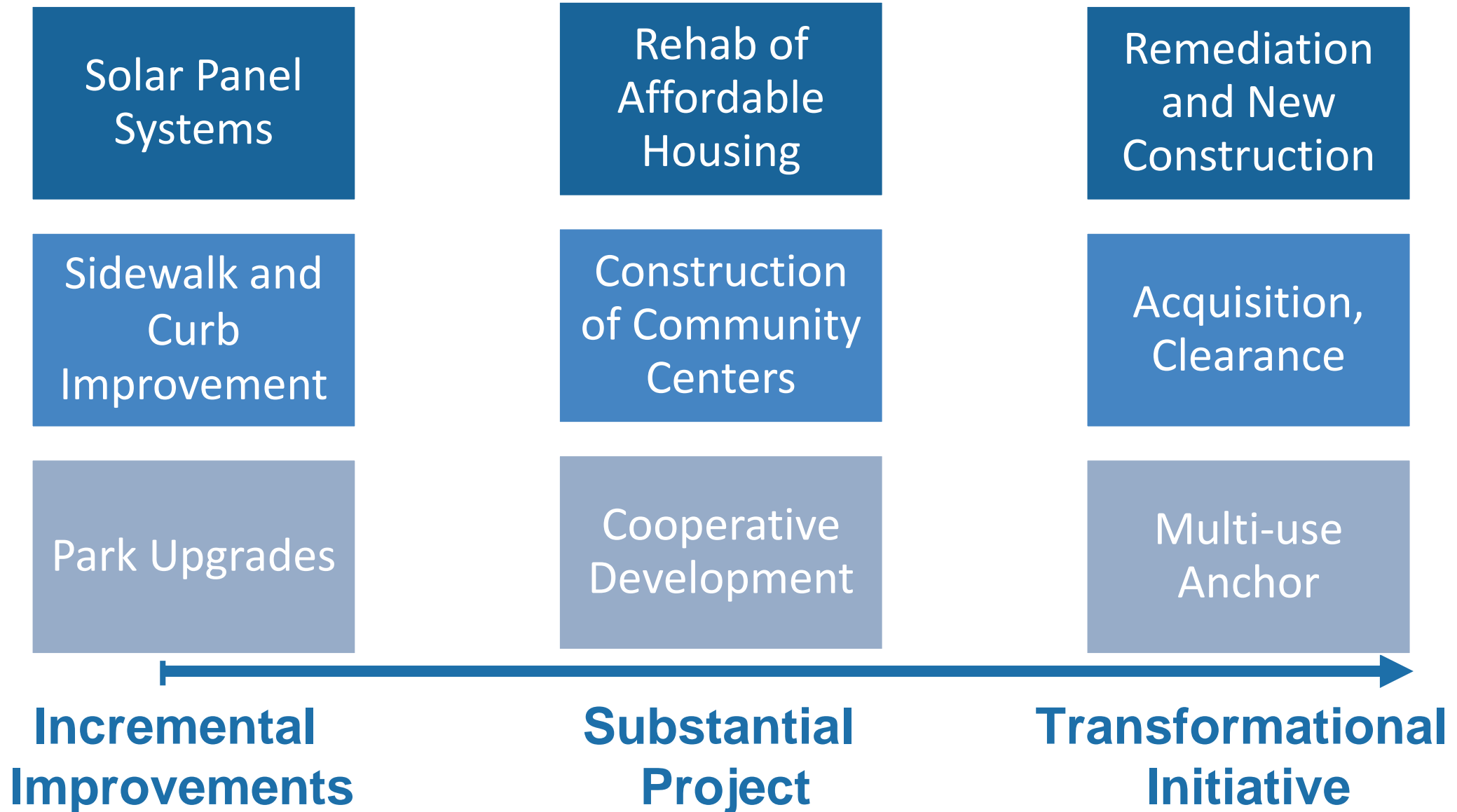
Streets, Curbs and Gutter Improvements

Broadband Line Extensions

Devastated Landscapes

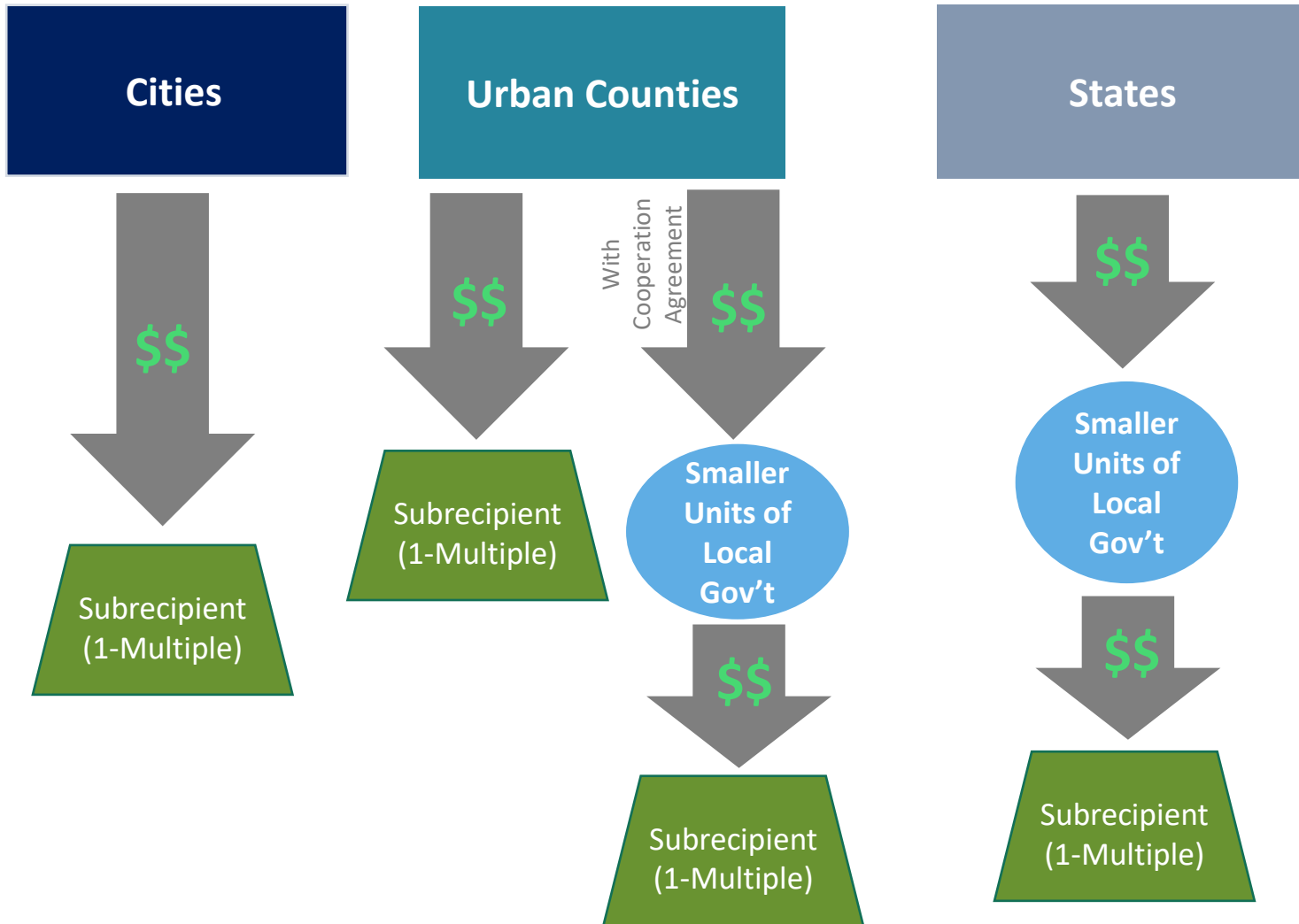


# Scale of Section 108 Projects



# Who has access to CDBG & Section 108 funds?

Entitlement  
Communities



## Examples of Subrecipients

- ✓ *economic development agencies*
- ✓ *public housing authorities*
- ✓ *community development corporations*
- ✓ *non-profits*
- ✓ *units of general local government if designated by Urban Counties or States*

Note: Subrecipient entities and other partners **may** receive Section 108 funds directly if they are public agencies

\* Non-entitlement communities in Hawaii and Insular Areas receive CDBG funds as well

# Section 108 Borrowing Capacity

Annual CDBG Allocation		\$3,000,000
Max available borrowing capacity	x 5	= <u>\$15,000,000</u>
Outstanding 108 commitments	-	\$800,000
Outstanding 108 loan balance	-	<u>\$2,000,000</u>
<b>Available borrowing capacity</b>		<b>= \$12,200,000</b>

*Or you can just look on our website here:*

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

# Advantages of using Section 108

Plug gaps or layer other project financing sources (or even standalone)

Meet multiple community goals with one source of financing

Flexibility on terms, structure, collateral and repayment sources

1-on-1 TA

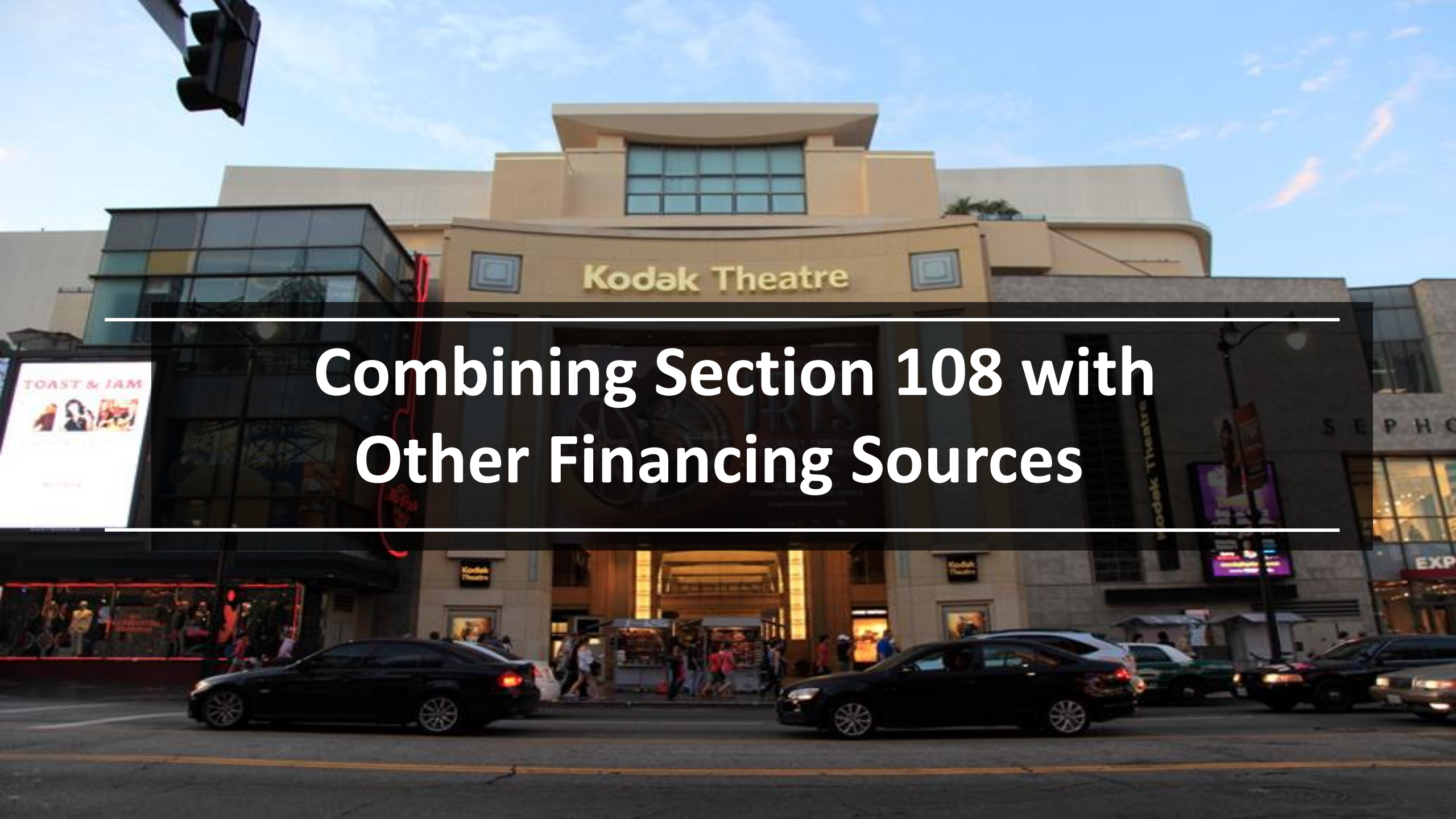
Non-competitive with immediate availability of funds

Rolling applications

Does not count towards local debt ceilings

Wide range of uses

Extremely low interest rate (~0.4%)



Kodak Theatre

---

# Combining Section 108 with Other Financing Sources

---

TOAST & JAM

SEPHORA

EXP

# How does **Section 108** fit into the financing for a project?



**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

# Limitations on Tax-Exempt Financing

HUD is subject to government-wide rules (OMB Circular A-129)

- Prohibits direct and indirect subsidy of tax-exempt bonds
- Affects repayment streams and collateral

Our office can assist with structuring projects to avoid conflicts (e.g., identifying strategies around timing or potential exceptions)





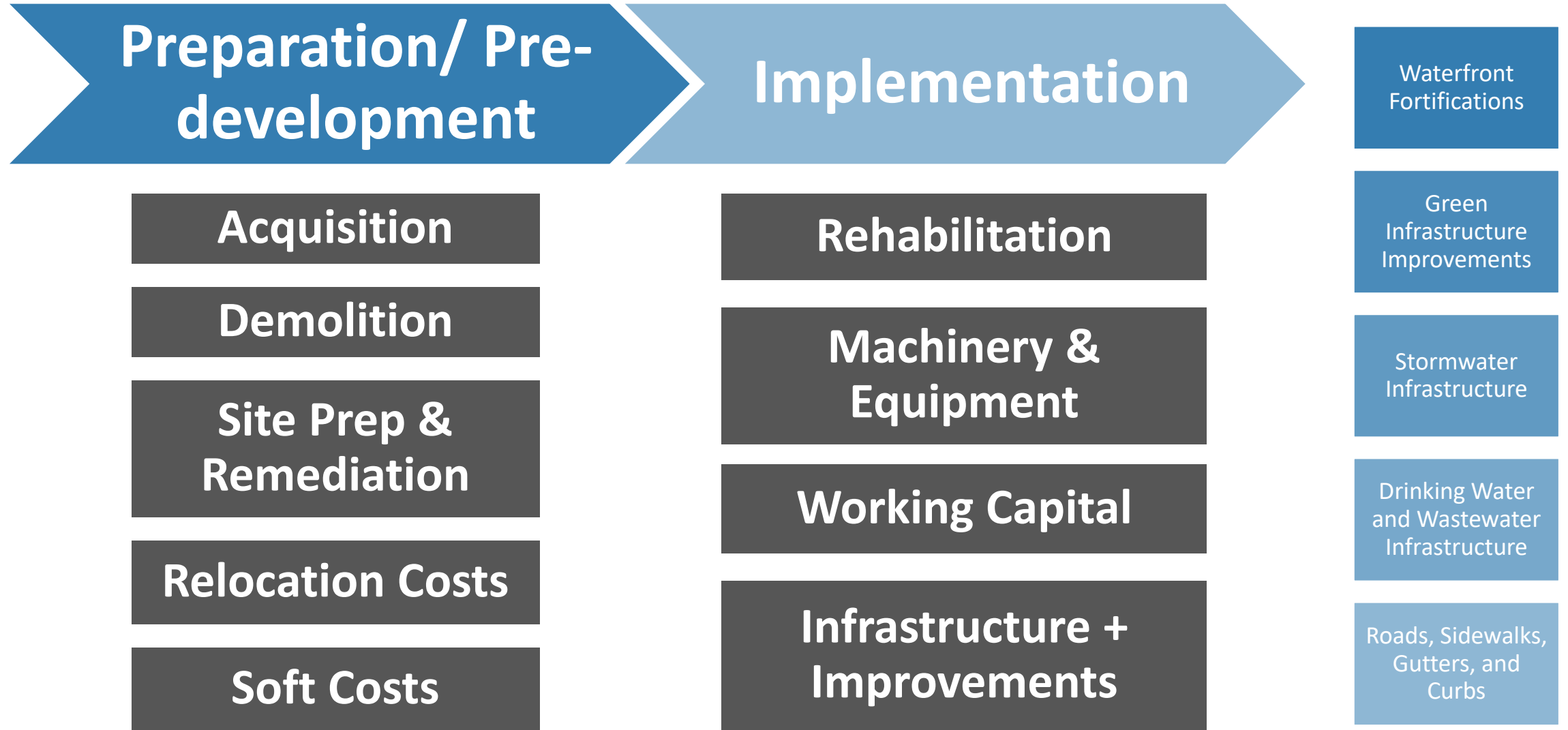
Kodak Theatre

---

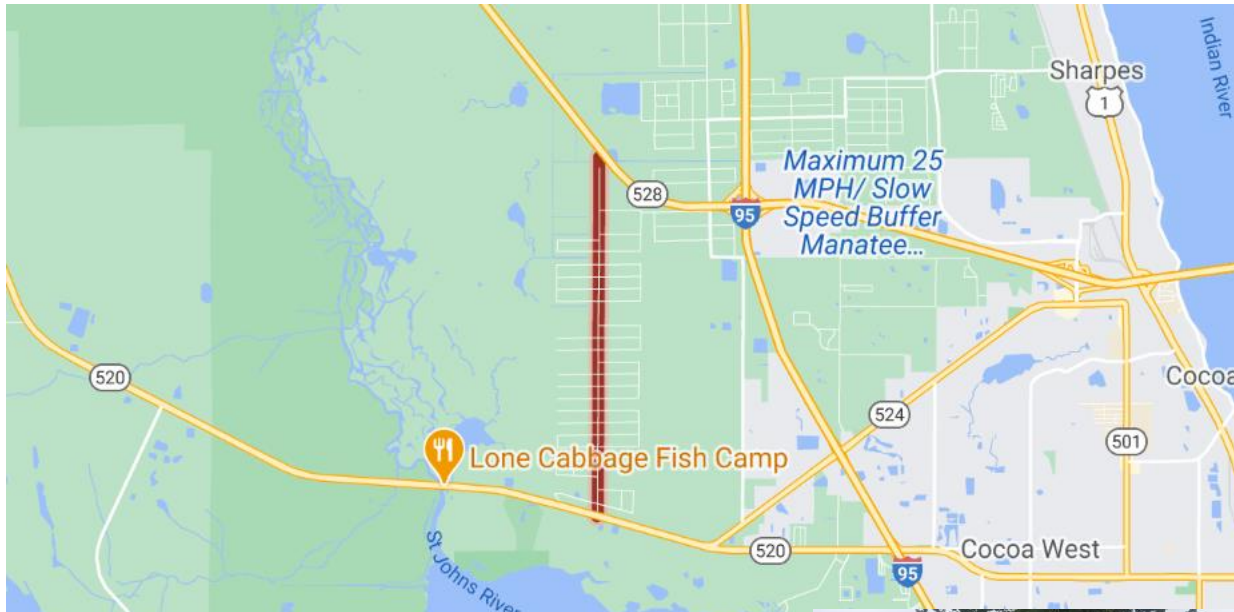
# Use of the Section 108 Loan Guarantee for Infrastructure Projects

---

# Stages for Section 108 Deployment



# Infrastructure/Water Supply Line Example



## Brevard County, Florida

**TOTAL 108 FINANCING: \$1,648,000**

### Potable Water Line

- The Borrower built a new 20,000-foot, 12-inch potable water line to connect the West Canaveral Grove area to the municipal water system.
- Before approximately 180 homes in this primarily residential area are served by individual water wells and septic systems have some water contamination that raise issues of public health.
- A CDBG 2010 feasibility study for the proposed project found that six of the homes in the service area had levels of lead or arsenic that exceeded safe water standards.
- The County is repaying the Section 108 loan over a 20-year term with the repayment source of CDBG funds.
- For Additional Security, the County pledged funds from its general fund.



# Demolition and Flood Control Example



## Meriden, Connecticut

**TOTAL 108 FINANCING: \$1,500,000**

### Demolition and Flood Control

- The City is using a Section 108 guaranteed loan to fund the demolition of abandoned structures on a seven-acre Factory H Brownfield site as a precursor to the installation of flood control infrastructure and creation of an open/green space public facility.
- The City is creating flood control infrastructure to prevent future flooding in low- and moderate-income neighborhoods surrounding Factory H. The plan is designed to improve the immediate area from one that can currently only contain water from a 25-year storm to one that can contain water from a 100-year storm.
- The City will repay the Section 108 loan over a 15-year term using its annual CDBG allocation as the source of its repayment.
- For Additional Security, the City is pledging its full faith and credit.

# Street Improvement Example

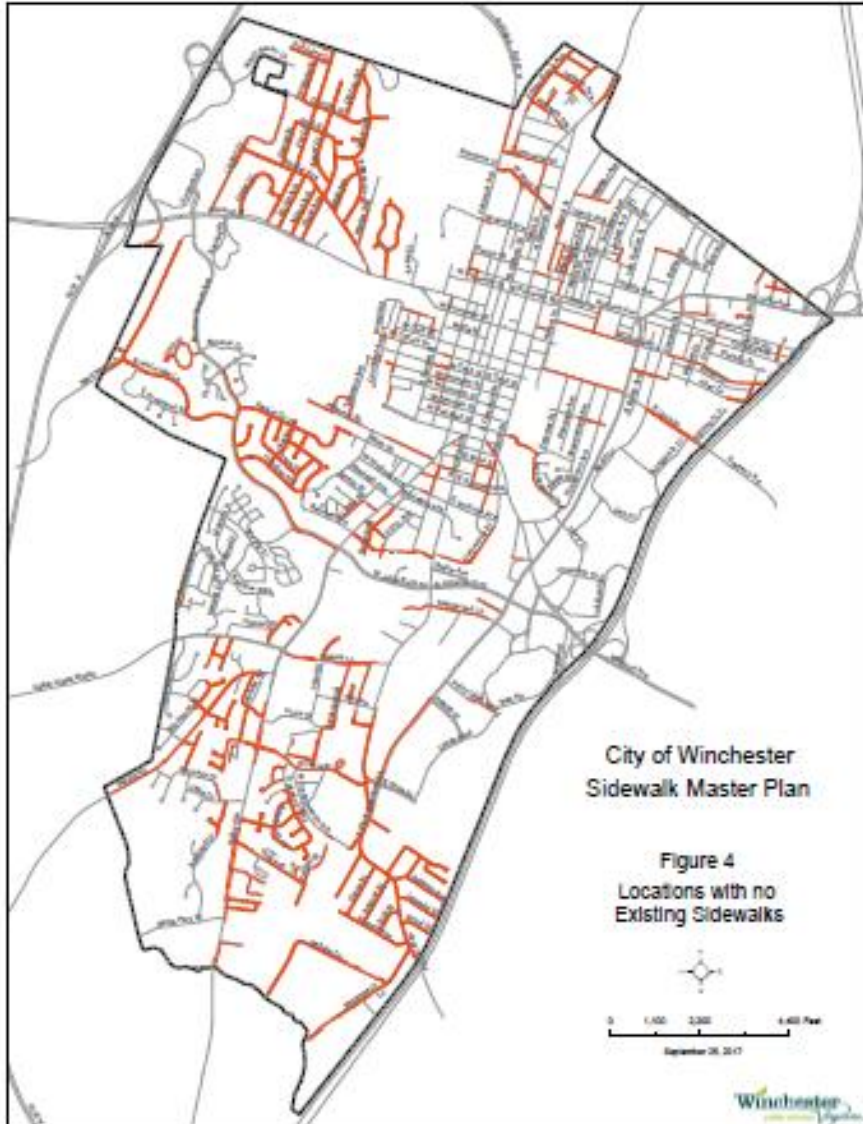


## Street Improvement Project

**Denison, TX     \$1.55M**

- An estimated 13 lane miles and 25 streets will be improved through this project.
- The census block groups to be served by the activities range from 55% to 88 % LMI.

# Local Sidewalk Improvement Project Example



## Sidewalk Improvements Project

### Winchester (VA) \$1.55M

- Fund improvements to 11,000 linear feet of hazardous sidewalks in LMI communities within Winchester's North End neighborhood
- Increase safety for the neighborhood population traversing the sidewalks, but the improvements will also help the City accomplish its Comprehensive Plan primary goal of increasing mobility in the community
- This activity will take place in an area that has a population where at least 51 percent of the residents are LMI.

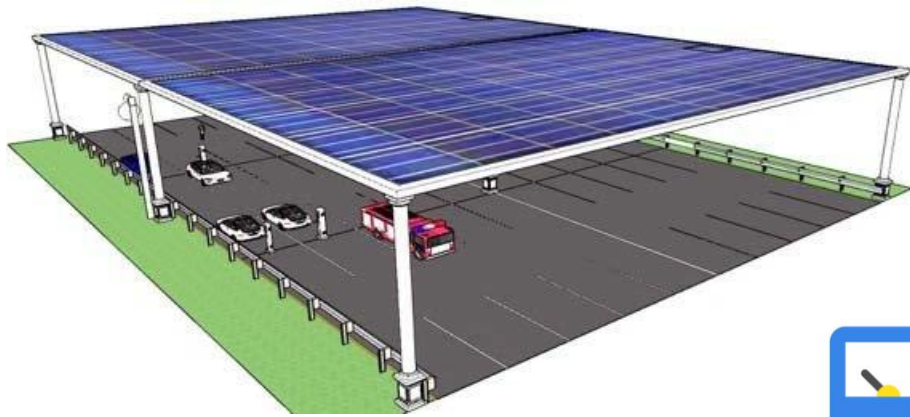
# Solar Canopy and EV Charging Station | Energy Example

## Merced, California

### TOTAL 108 FINANCING: \$2M

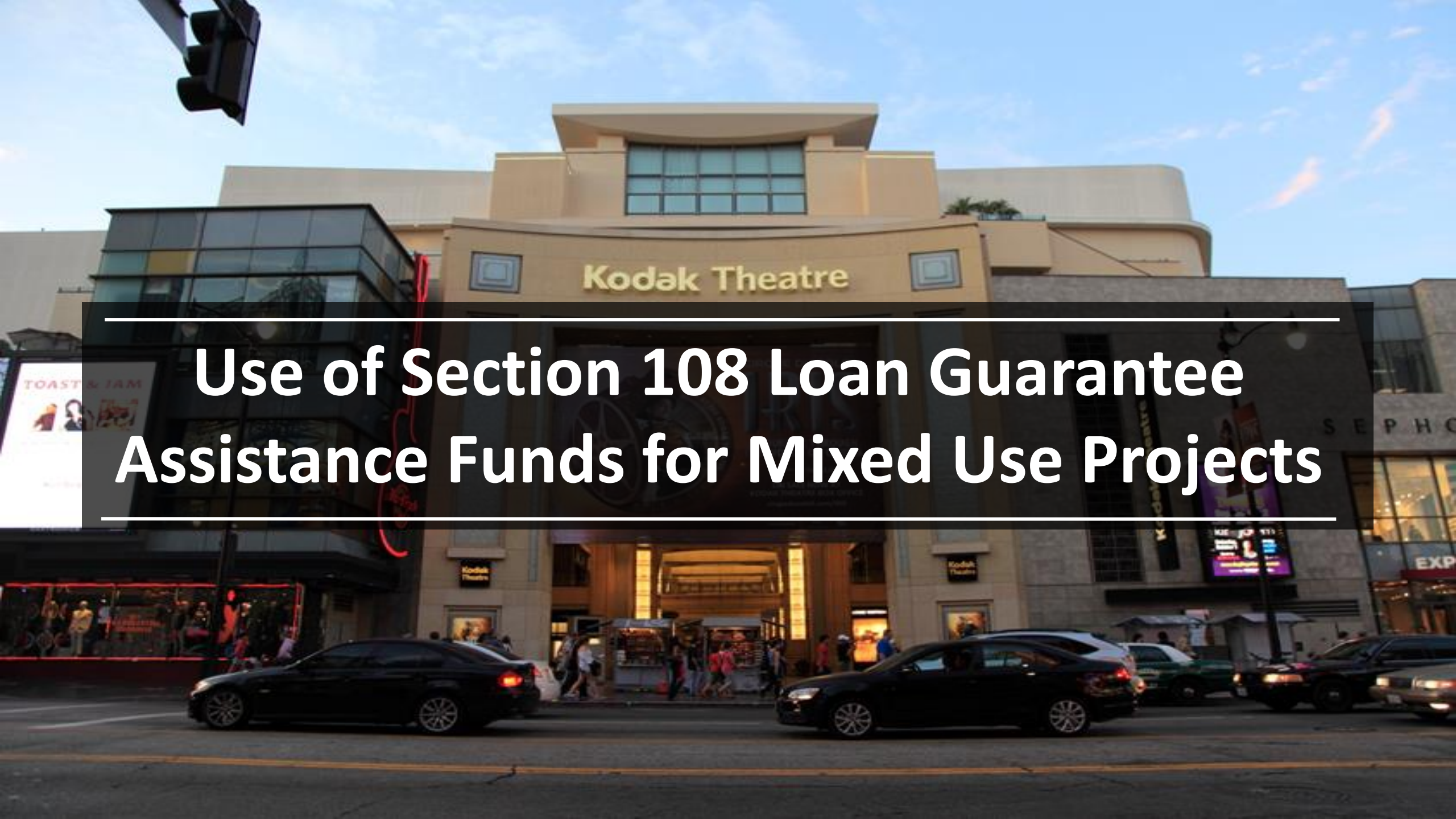
#### Childs Court Apartments and Public Facility

- 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.



Source: Merced's Childs & B Funding, Housing Resources 4.5.21

Illustrative Graphics: Dr. John Byrne. University of Delaware; VectorStock



---

# Use of Section 108 Loan Guarantee Assistance Funds for Mixed Use Projects

---



# Why Mixed-Use Development?



**Urbanization & Changing Lifestyles**



**Demand for Rental Units**



**Emergence of Co-working Spaces**



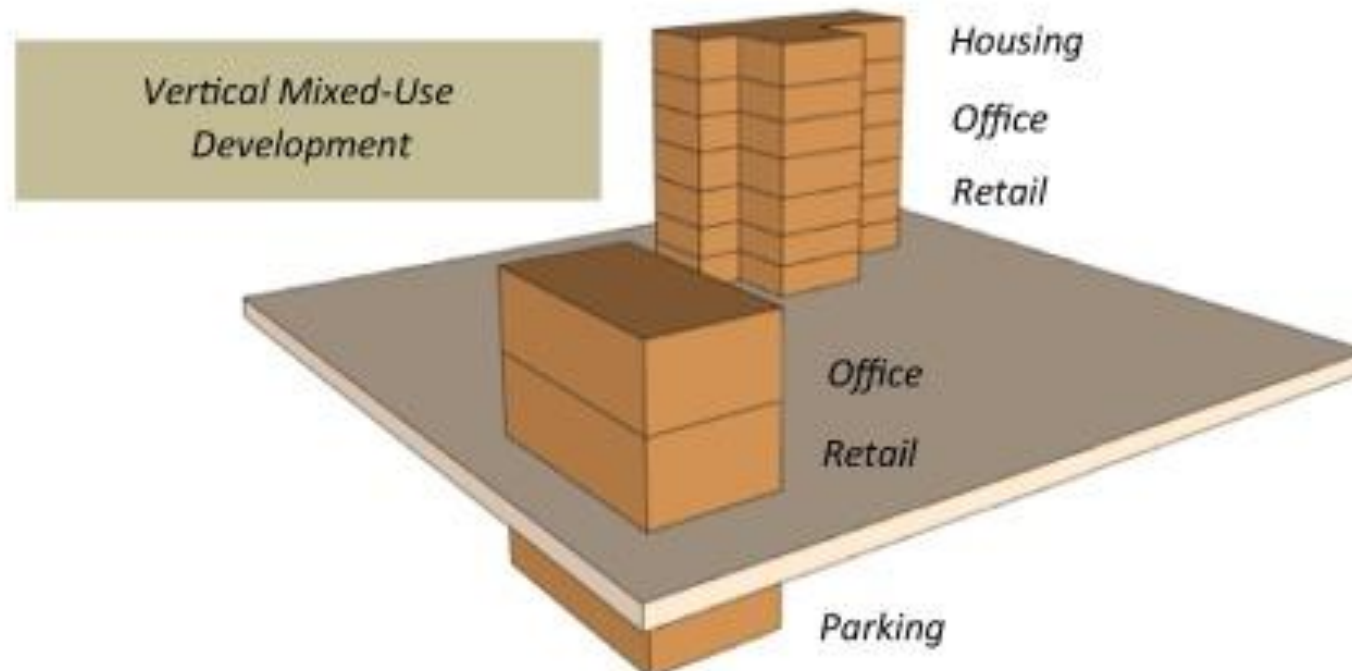
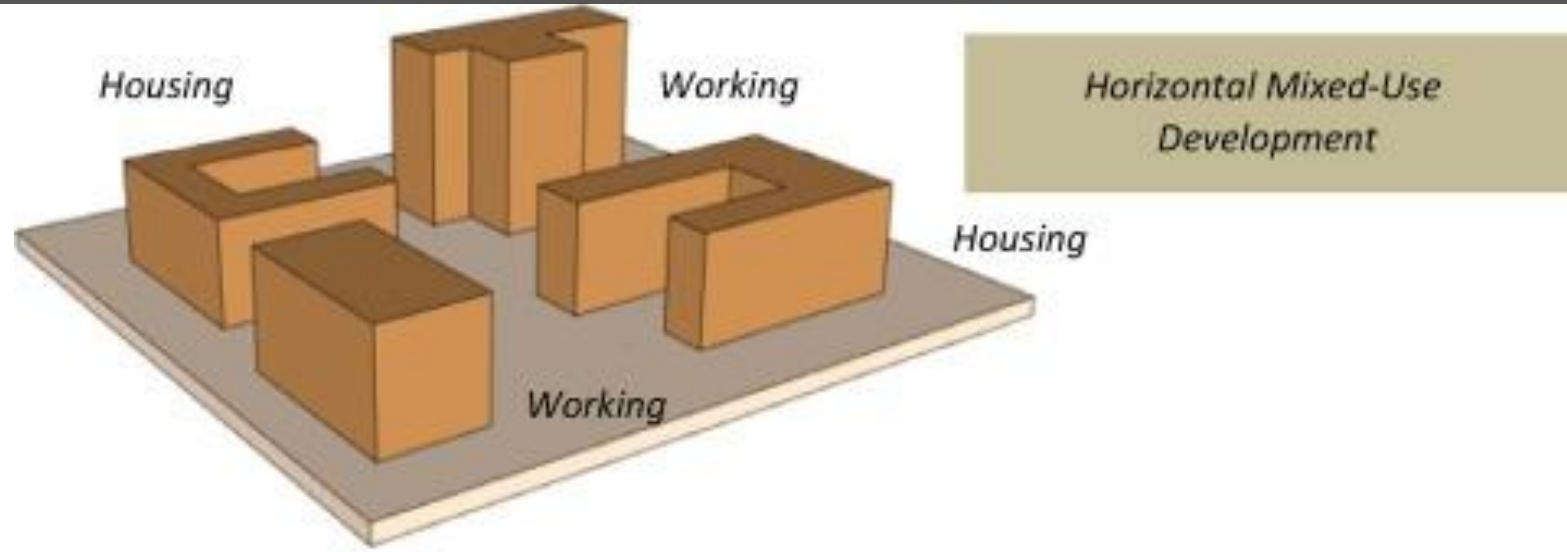
**Tax Revenue Potential**



**Focus on Sustainability**

Environmental  
Financial

# Mixed-Use Development



# Why is 108 a good resource for mixed-use development?

- Opportunities to gain access to the mixed-use asset class through REITs and other traded vehicles are more limited.
- While some publicly owned developer/owner/operators do mixed-use, most continue to be single-use focused, which Wall Street still prefers
- Historically, there was a lack of a secondary market for mixed use properties because Fannie Mae/Freddie Mac/other HUD programs set limits on % of square footage/income that could come from non-housing uses in secured properties
- Some institutional capital is still not compatible with the complexity of mixed-use development/repositioning of underperforming mixed-use properties



# Mixed-Use Development



Section 108 is often used to finance portions of mixed-use developments

- For adaptive reuse of existing buildings, fewer limitations on uses of Section 108 funds
- For new construction that involves housing, more restrictions → solution: consult us early on in the process
- Generally, Section 108 helps to fill a 'gap' in budget, so it's about matching it to eligible uses

# There is a need for guidance on using Section 108 for mixed-use development

- Increase Section 108 loan applications seeking funding to carry out projects with mixed-use components.
- The potential issues raised in connection with these applications have demonstrated the need for guidance for our borrowers in determining the permissible uses of Section 108 and other Community Development Block Grant (CDBG) funds for mixed-use projects.
- Borrowers must apply the same **analytical framework** they would use in determining the eligibility of any Section 108-funded activity in deciding whether Section 108 funds may be used to finance any portion of a mixed-use project.





# Mixed-Use Development

The component activity(ies) within the mixed-use development to be funded with CDBG/Section 108 must be:

- Authorized as an eligible use of CDBG/Section 108 funds
- Meet the national objectives criteria
- Comply other federal requirements, such as public benefit standards
- **AND** the costs paid with CDBG/Section 108 funds must comply with the applicable cost principles
  - For cost allocation, use General Accepted Accounting Principles (GAAP), most often involves cost allocation related to square footage of different uses
  - Don't forget that portion of common areas costs can be assigned to specific uses



## Step 1: Break It Up

- Break the mixed-use project into discrete activities
- Determine if each proposed activity falls within an authorized CDBG/Section 108 eligibility category.
- Accurately distinguishing activities in a mixed-use project is critical because each activity must be evaluated **separately** in order to determine its eligibility for receiving funds.
- **Example:** A Borrower providing assistance to a for-profit developer to finance the rehabilitation of a building that will contain both commercial and residential housing uses must divide the project into two component activity categories: special economic development (§ 570.703(i) pursuant to 570.203(b) and housing rehabilitation ((§ 570.703(h) pursuant to § 570.202.)



## Step 2: Determine if the activity meets the criteria for a national objective

- Each activity in its entirety must meet a national objective. This is a key point with respect to mixed-use projects that include acquisition of real property.
- **Example:** (see Step 1): If one of the component activities meets the applicable national objective criteria (i.e., the special economic development activity satisfies § 570.208(a)(4), providing at least 51% of its jobs go to low- and moderate-income persons) while the other does not (i.e., the housing is market-rate and not in a slum or blighted area, the use of CDBG funds will be limited to the component activity that complies. If both components meet the applicable national objectives criteria, CDBG/Section 108 funds may be used to assist both activities.





### Step 3: Determine the amount of Section 108 Loan Guarantee financing that can be used for the proposed activity

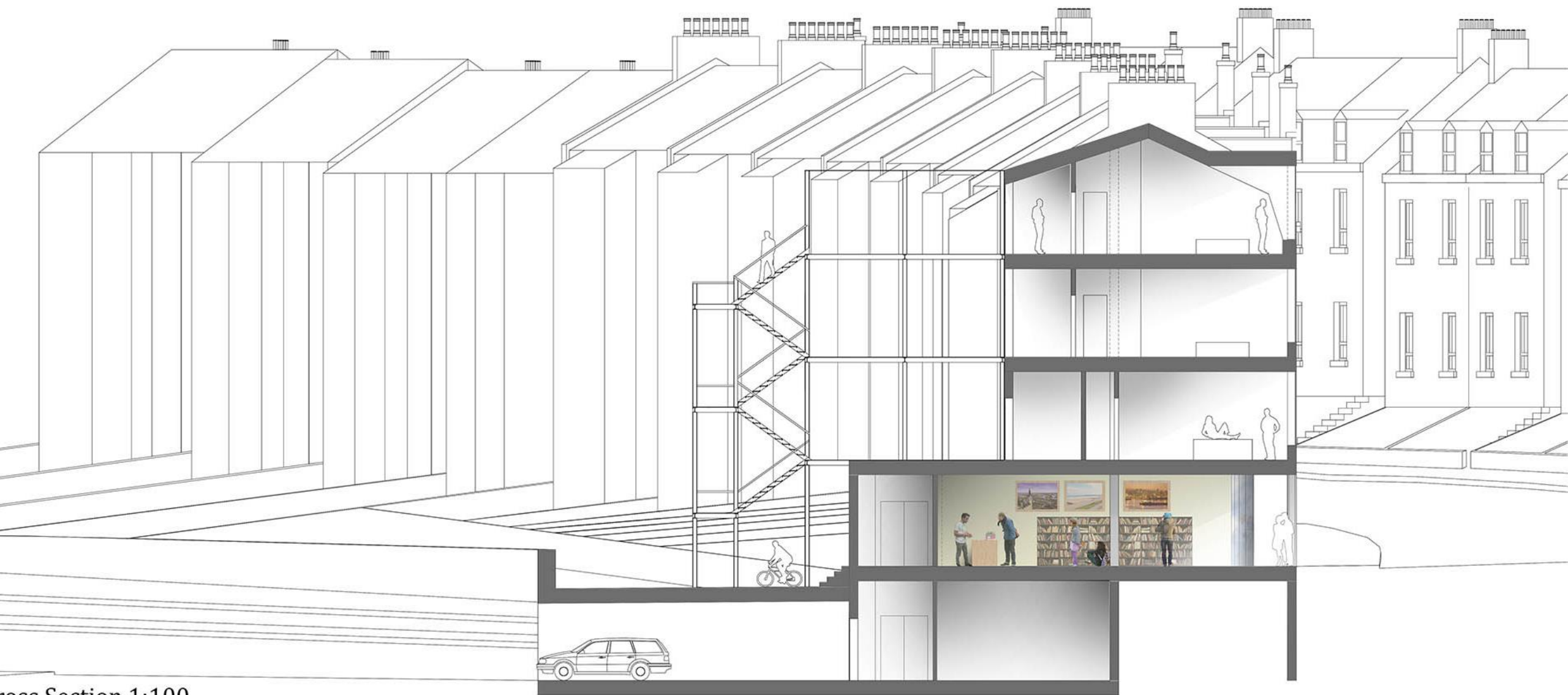
- The Borrower must determine the amount Section 108 Loan Guarantee financing that can be used for the proposed activity pursuant to OMB cost principles.
- If a mixed-use project component is an eligible activity that meets a national objective, the amount of Section 108 funds that can be used is limited to the costs allowable under the applicable OMB cost principles, found in Part 200 - Uniform Administrative Requirements, Cost Principles, And Audit Requirements For Federal Awards, Subpart E. Including the Public Benefit Standards (see § 570.209(b))
- The key step is determining the amount of Section 108 funds allowable and allocable to the component activity.
  - Borrowers cannot allocate costs based on the percentage of beneficiaries of the activity.



## Step 4: Determine if the use of Section 108 meets other applicable requirements

- The component activities of a mixed-use project may require compliance with other applicable requirements
  - Public Benefit Standards
  - Eminent Domain
  - Job Pirating (Relocating jobs to another labor market)
  - HUD Underwriting Guidelines. Appendix A to Part 570 - Guidelines and Objectives for Evaluating Project Costs and Financial

# \$1 million gap in \$5 million project



Cross Section 1:100

# Scenario 1

Only 1 unit of LMI housing out of 4

\$500K in Section 108 → Projected to serve 500 LMI clients/year

\$500K in Section 108 → serves neighborhood residents (>51% LMI)

Housing Rehab

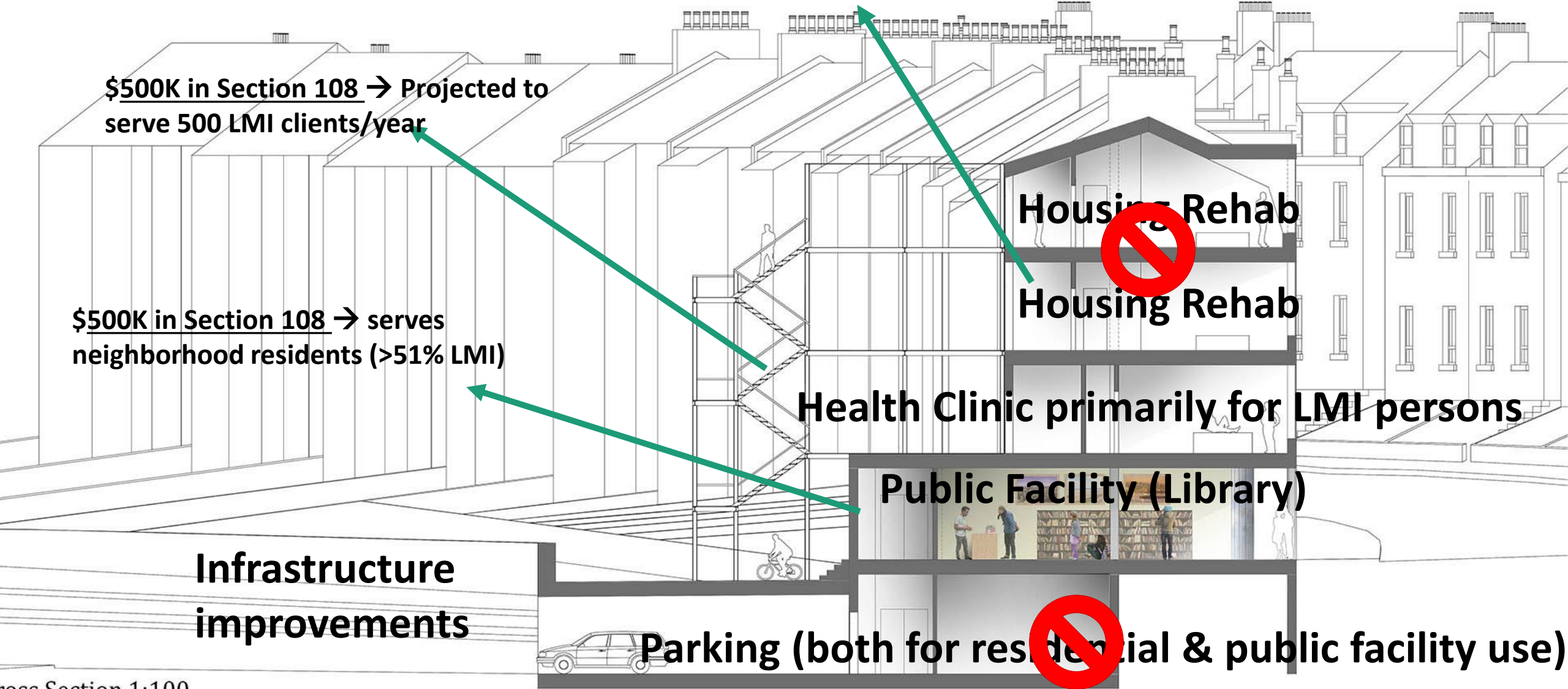
Housing Rehab

Health Clinic primarily for LMI persons

Public Facility (Library)

Infrastructure improvements

Parking (both for residential & public facility use)



# Scenario 2

\$700K in Section 108 → 6 units (4 of which are for LMI households)

\$200K in Section 108 → 4 FTE jobs (3 of which are held by LMI persons)

Tech company, no LMI jobs

Housing Rehab

Housing Rehab

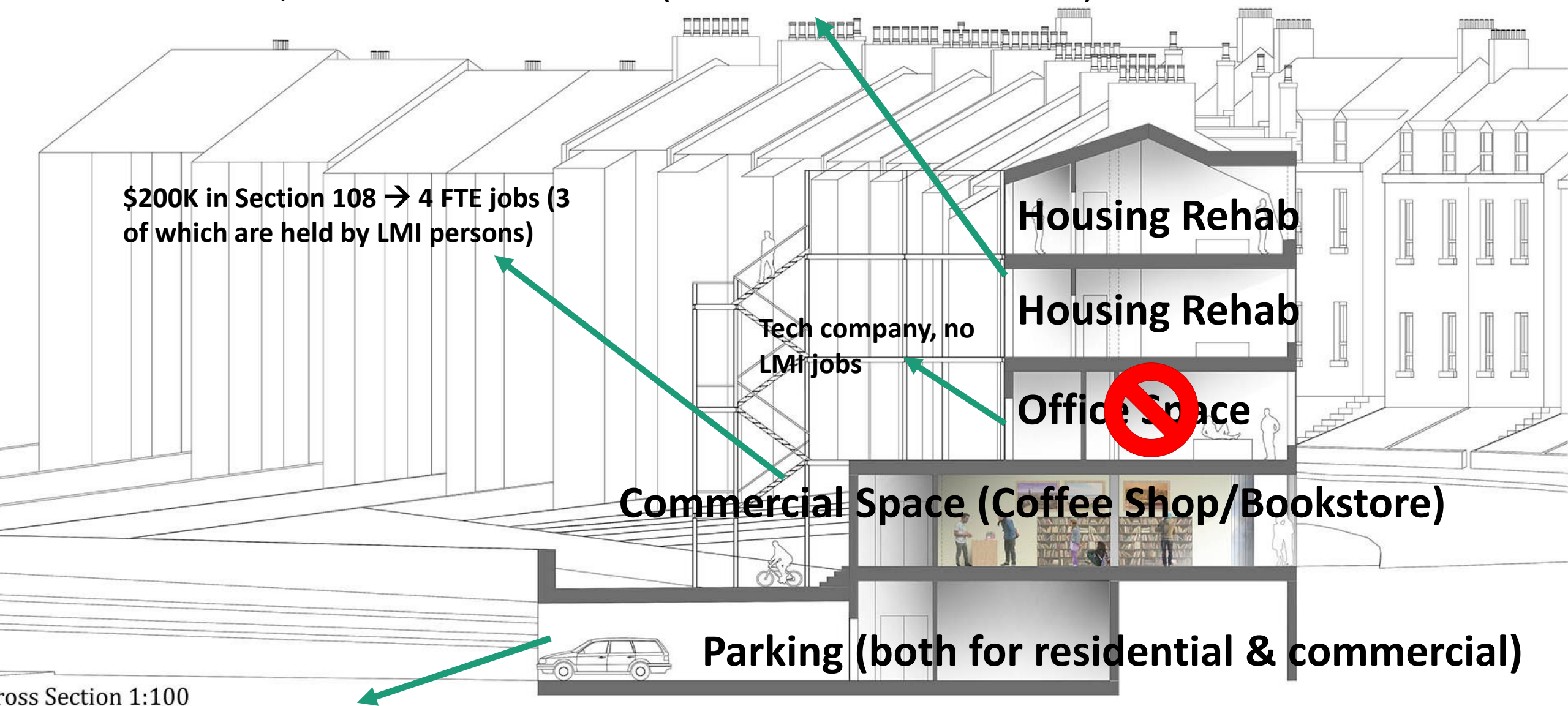
Office Space

Commercial Space (Coffee Shop/Bookstore)

Parking (both for residential & commercial)

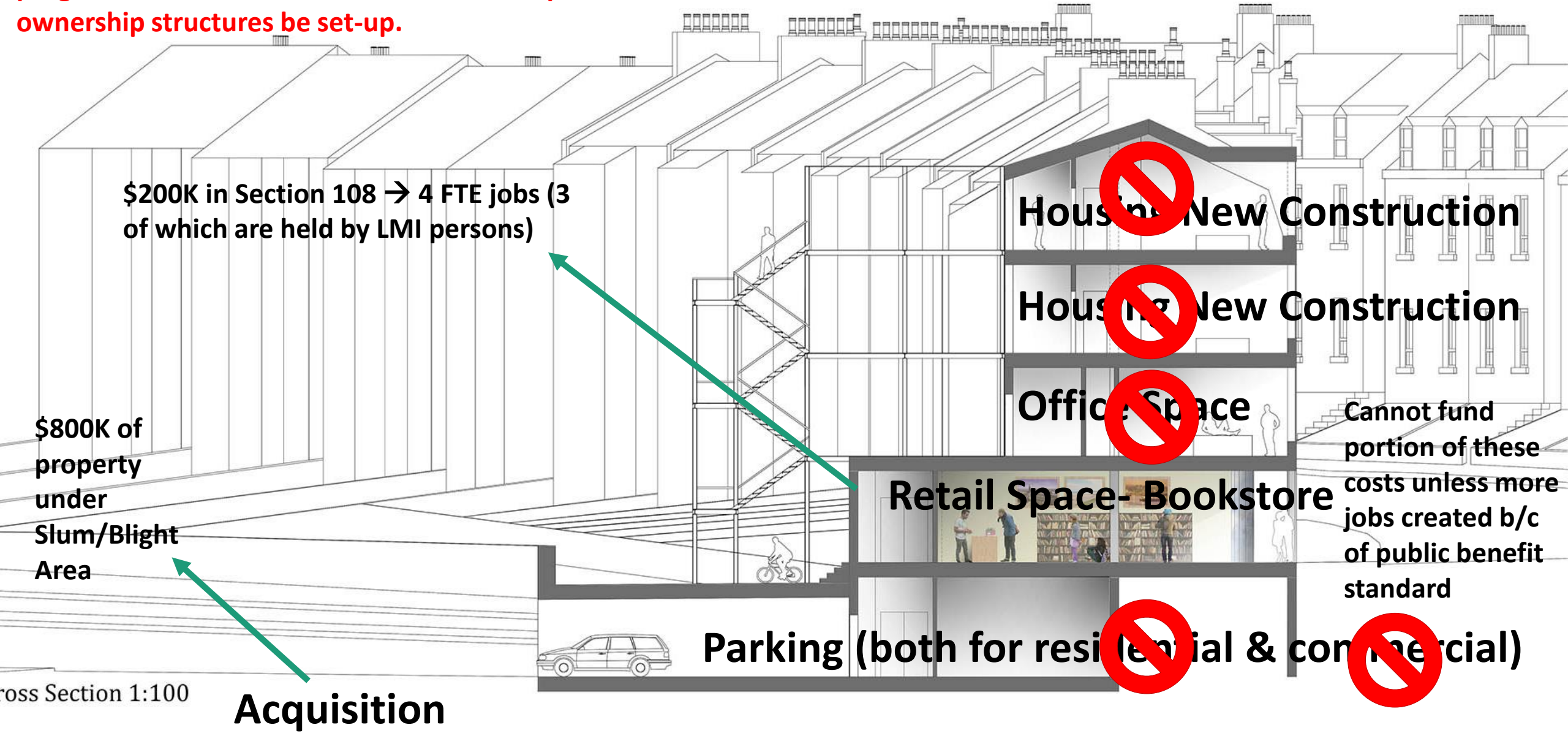
Cross Section 1:100

\$100K in Section 108 for construction of parking lot rehab, **except for portion for office space**



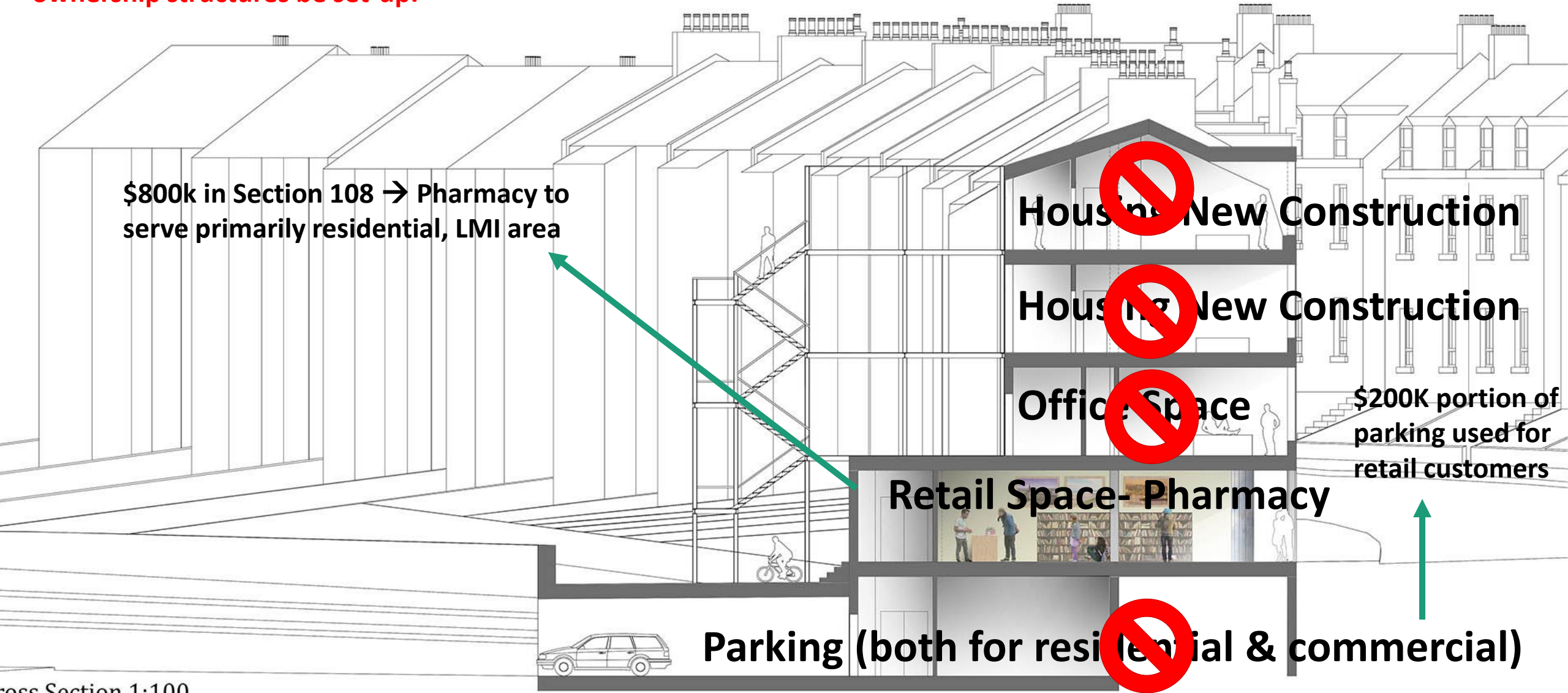
# Scenario 3

For new construction (especially that involving housing), please contact us early in the process. Our program counsel often recommends that separate ownership structures be set-up.



# Scenario 4

For new construction (especially that involving housing), please contact us early in the process. Our program counsel often recommends that separate ownership structures be set-up.



\$800k in Section 108 → Pharmacy to serve primarily residential, LMI area

Housing New Construction

Housing New Construction

Office Space

Retail Space- Pharmacy

Parking (both for residential & commercial)

\$200K portion of parking used for retail customers

Cross Section 1:100

**SUBJECT:** County of Los Angeles, CA  
Section 108 Loan Guarantee Request – \$1,853,000 (B-94-UC-06-0505)  
Economic Development Initiative (EDI) Grant \$1,853,000 (B-95-EZ-06-0002)  
Willowbrook Library and Worksource|Center (WL/WC) Project



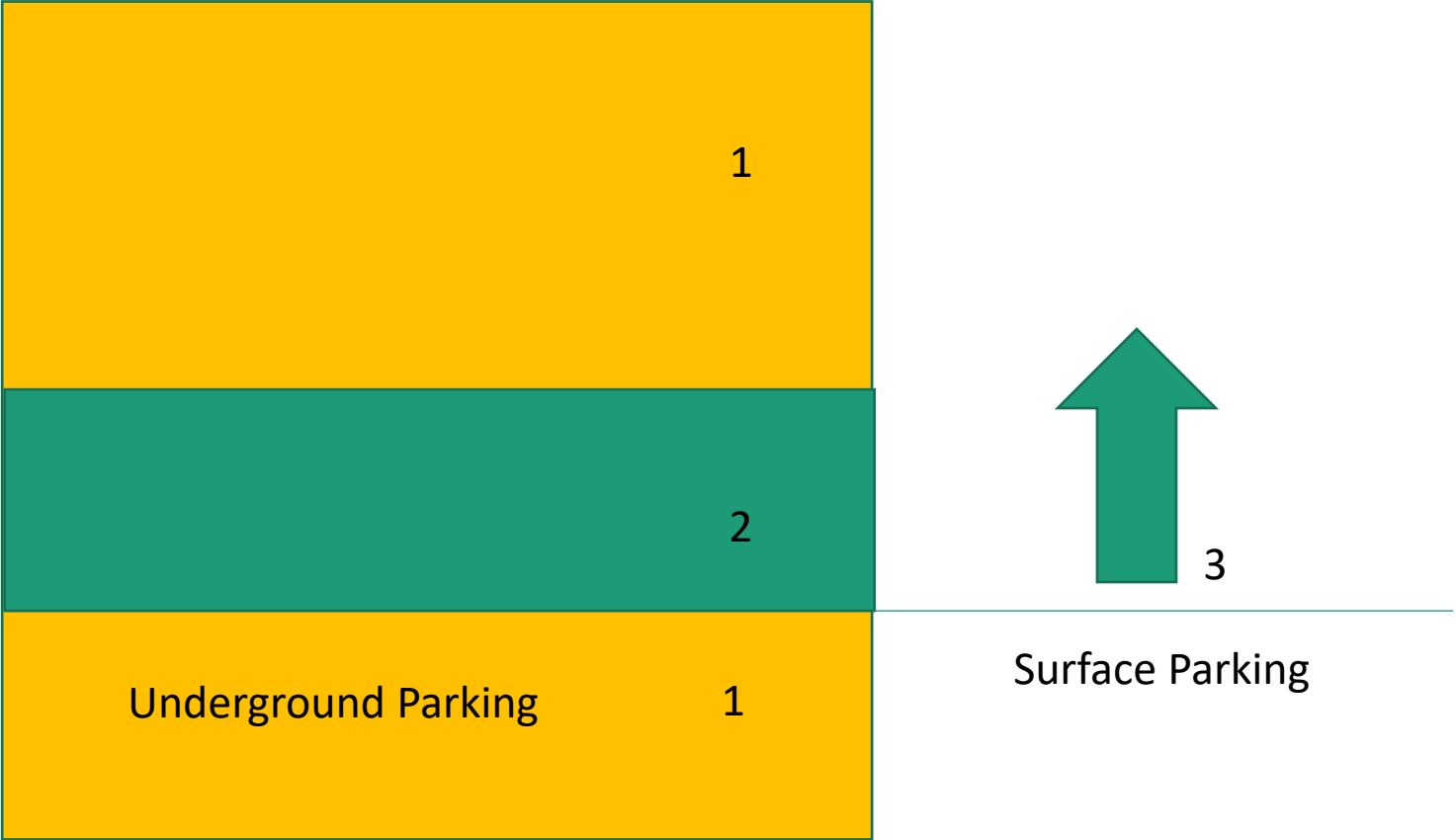
**Project Description.** The Borrower is requesting a \$1,853,000 Section 108 Loan Guarantee and to be used in conjunction with a HUD approved \$1,853,000 EDI Grant to provide financing to construct 8,000 square feet of new space for the WL/WC in a mixed use building for WL/WC in the Willowbrook community of the federally designated Supplementary Los Angeles Empowerment Zone (EZ). The service area, which is primarily residential, for the WL/WC is the unincorporated area of Willowbrook, a 3.8 square mile urban community with a population of approximately 37,337 of which approximately 74% are low-moderate income persons.

The proposed location for this development is an approximately 1.078 acre site, owned by the Borrower, at the on the corner of 118<sup>th</sup> street and Bandera Avenue in the northwest section of the Willowbrook community. It is already zoned for mixed use development. The Borrower is in the process of subdividing the air rights above the ground level of the site into three (3) buildable spaces in order to accommodate the construction of a mixed use building that will include 1) underground, structured, residential parking; 2) WL/WC on the building's first floor; WL/WC, street level parking, contiguous to the WL/WC; and 3) 114 units of affordable, rental senior housing on the four (4) floors above the WL/WC.

Upon close of the building's construction financing, the Borrower will sell the residential air rights and the area for the building's residential underground parking to Wilmington & 118<sup>th</sup> LP, the affordable, senior housing developer. The Borrower will also lease its developable air right spaces for the WL/WC and its related surface parking to the senior housing developer for construction and access. Upon completion of the building's construction by the senior housing developer, the Borrower will terminate its lease and execute a Reciprocal Easement Agreement with the senior housing developer, stipulating ownership, joint use, and maintenance of the mixed use space within the building.

Wilmington & 118 LP is the entity who is going to develop the 114 senior housing units and manage the Low Income Housing Tax Credit (LIHTC) for the housing project.

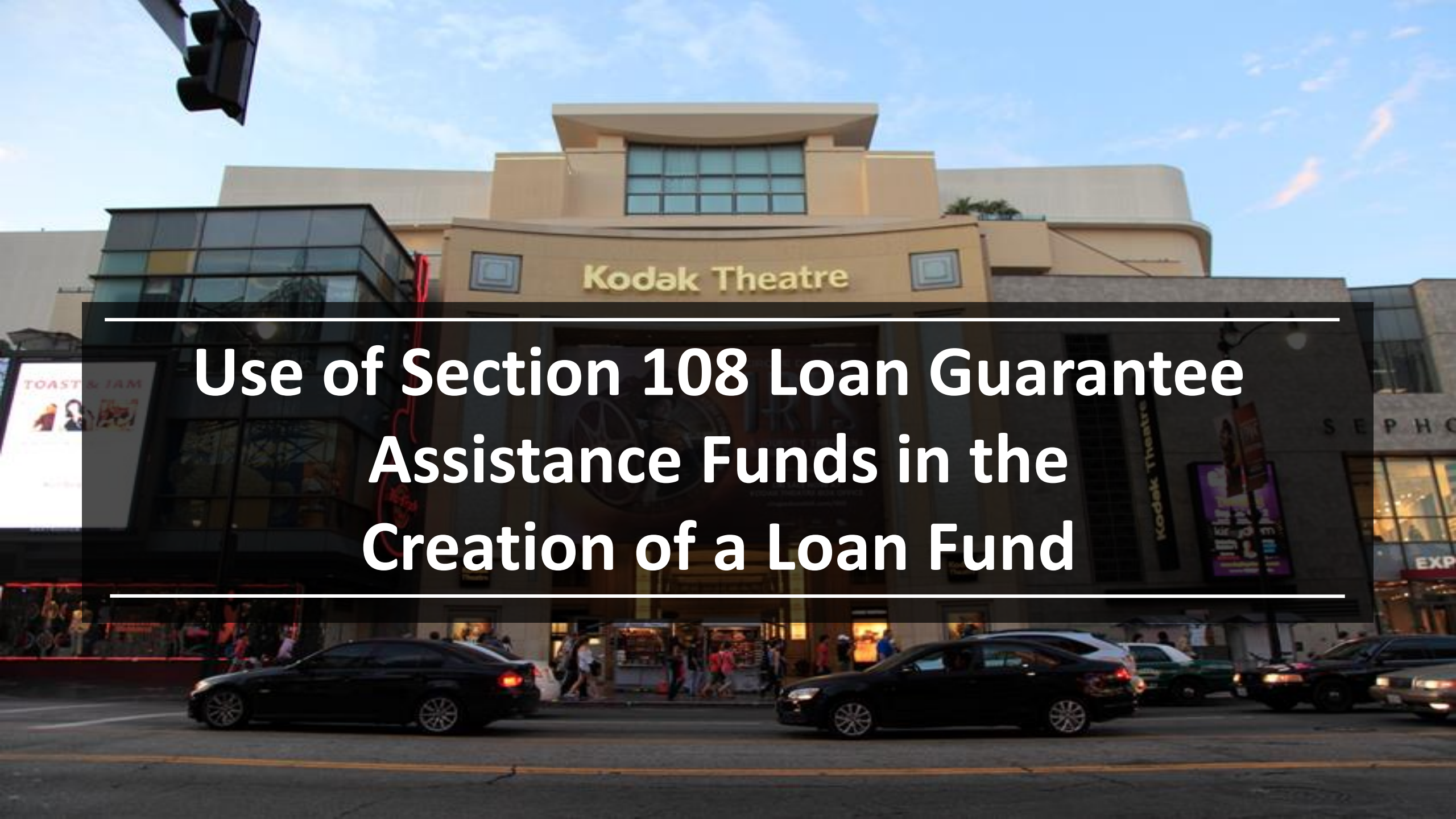
Air Rights Parcels





EAST ELEVATION - WILMINGTON AVENUE ELEVATION

PORCELAIN TILES W  
HORIZONTAL BANDING

A photograph of the Kodak Theatre building at dusk. The building is a multi-story structure with a prominent entrance and a large window above the entrance. The name "Kodak Theatre" is illuminated in gold letters above the entrance. The sky is a mix of blue and orange, suggesting sunset. In the foreground, there are cars on a street and a traffic light. A semi-transparent black box with white text is overlaid on the center of the image.

Kodak Theatre

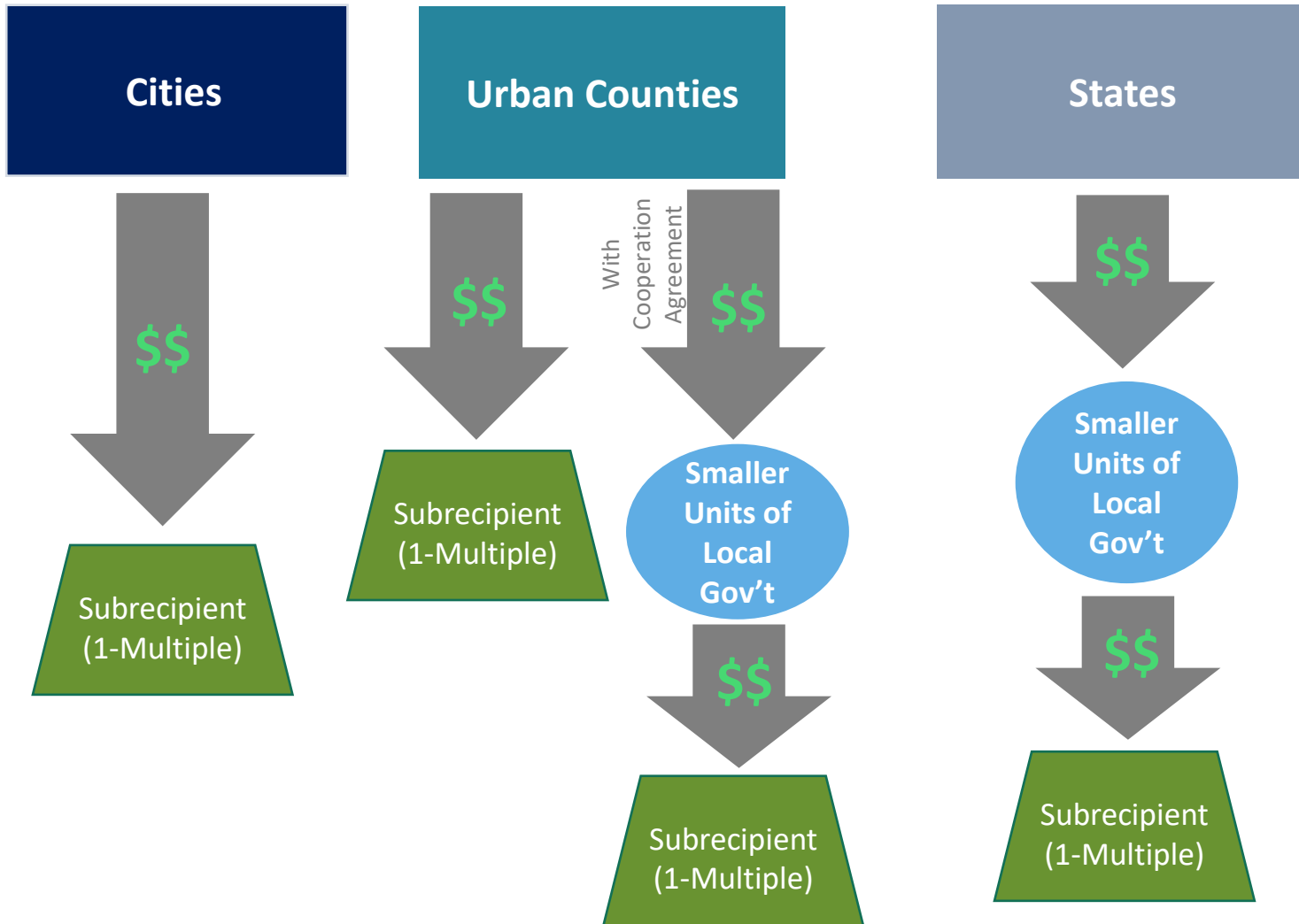
---

# Use of Section 108 Loan Guarantee Assistance Funds in the Creation of a Loan Fund

---

# Who has access to CDBG & Section 108 funds?

Entitlement  
Communities



## Examples of Subrecipients

- ✓ *economic development agencies*
- ✓ *public housing authorities*
- ✓ *community development corporations*
- ✓ *non-profits*

Note: Subrecipient entities and other partners **may** receive Section 108 funds directly if they are public agencies

\* Non-entitlement communities in Hawaii and Insular Areas receive CDBG funds as well

# Approaches to using Section 108

## 1. Project Specific

- Application is for a specific project or projects
- Requires a higher level of project detail & specificity for underwriting by HUD

## 2. Loan Fund

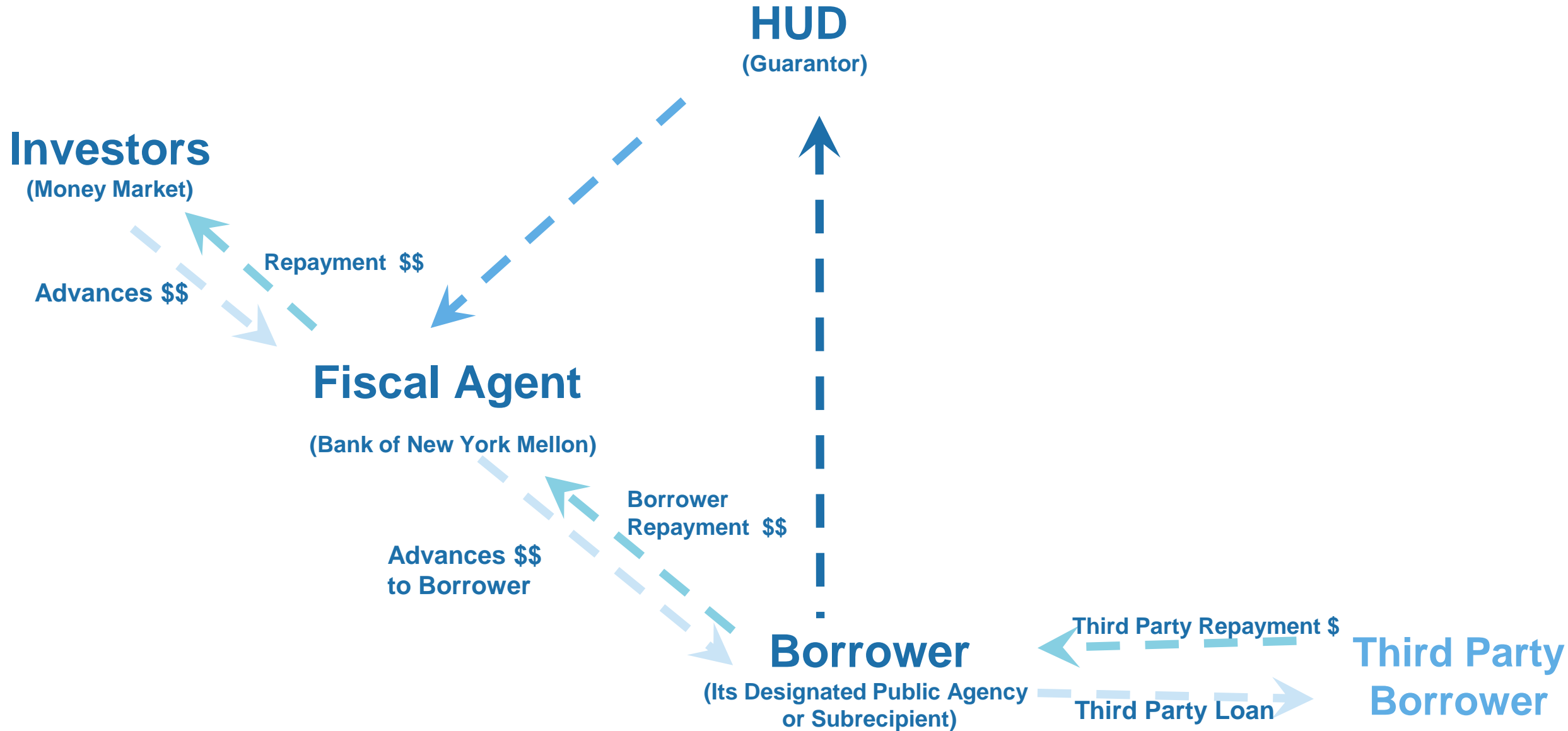
- Application describes type of projects to be funded along with the community's underwriting process
- Individual projects must have a Field Office eligibility determination for funds to be drawn



# Benefits of a Loan Fund

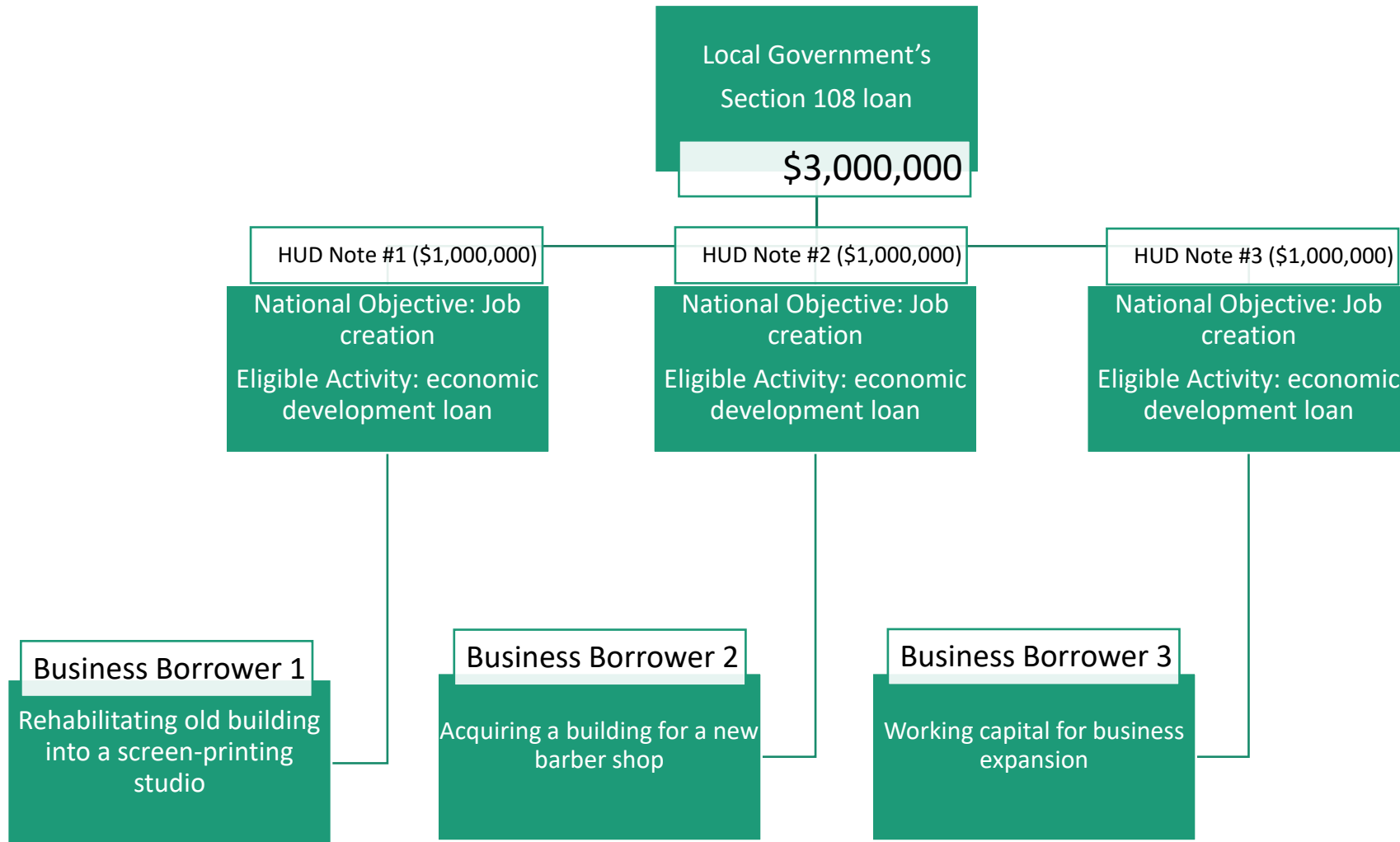
- Section 108 loan funds allow local governments to **fund multiple projects** under a single loan guarantee commitment (and avoid having to submit separate applications).
- This use of Section 108 is ideal for local governments who are wanting **to target investment** into a particular geographic area, or that have **a pipeline of projects** that need financing.
- An advantage of a loan fund is that it **provides flexibility** in a local government's loan portfolio i.e., ability to finance small and large loans with a combination of more and less risk.

# Flow of Funds: Project with a Third Party Borrower





# Flow of Funds for an Economic Development Loan Fund



# Loan Terms

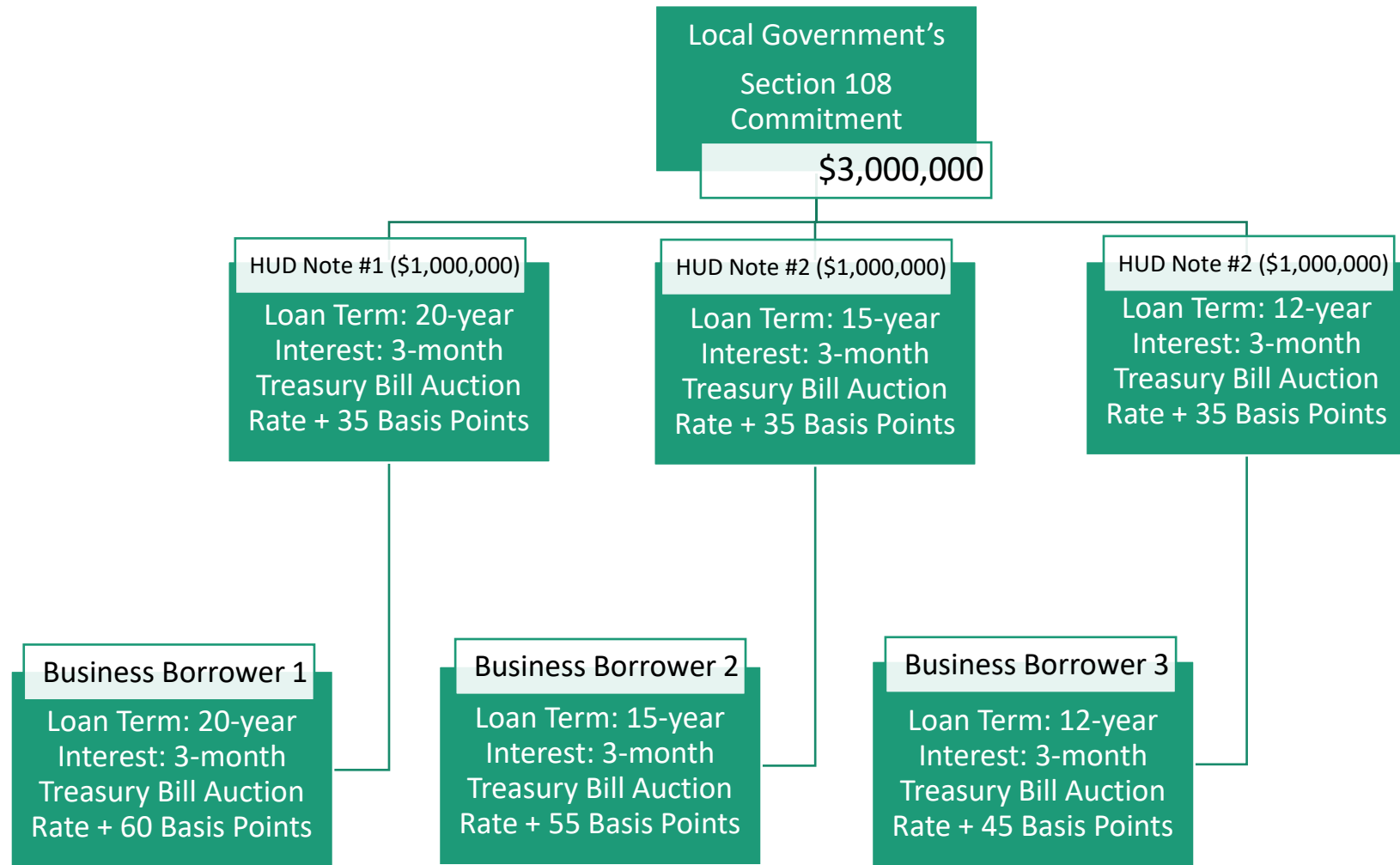
- Loan rates and terms for loans made to business borrowers must at least match the terms of the loan between HUD and the local government borrower.

Interest rates cannot be lower on the business loan, but local government borrowers can charge a spread over the HUD loan to their business borrowers.

Section 108 loan term can be up to 20 years therefore, business loans made using Section 108 loan funds cannot exceed 20 years.

- Section 108 funds can also be granted to businesses.

# Flow of Funds Example (Loan Terms)



# Economic Development Loan Fund | Palm Beach County

Palm Beach County, FL

**TOTAL 108 FINANCING: \$23M**

**CDBG grant allocation: \$29M**

**Approved HUD Loans: 50+**

**Average size: \$507,000**

**Leveraged Funds: \$71+M**

(Commercial Banks, U.S. SBA 504,  
Borrower cash/equity)

**Jobs Created: 2,133**

✓ 60% disbursed in low- and moderate-  
income communities

✓ 82% disbursed to minority recipients



SmartforLife

Amelia's SmartyPlants  
All Things Plants



**A & E**  
Auto Sales And Repair



Source: Palm Beach County, Logos from supported businesses

# Affordable Housing Rehab Loan Fund | WDC

## 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.

# Community Development Block Grant Program including Section 108 (CDBG + 108)

*Economic Development Regulatory Agenda Update*



# Proposed Rule Stage

- Fall 2021 Notice [here](#)
- Submissions for Community Development Block Grant Programs, Consolidated Plans, and Indian Community Development Block Grant Program Changes (FR-6148)
- HUD is proposing to revise the Community Development Block Grant (CDBG) and related Section 108 loan guarantee program regulations to make it easier for recipients to promote economic development and recovery in low- and moderate-income communities and support investments in underserved areas. This proposed rule also would revise provisions related to Consolidated Plan and citizen participation requirements for the CDBG program and add timelines for submissions to improve performance with respect to timeliness.



# Resources





# Section 108 General Resources

HUD has created resources on HUD Exchange to assist potential borrowers with developing applications:

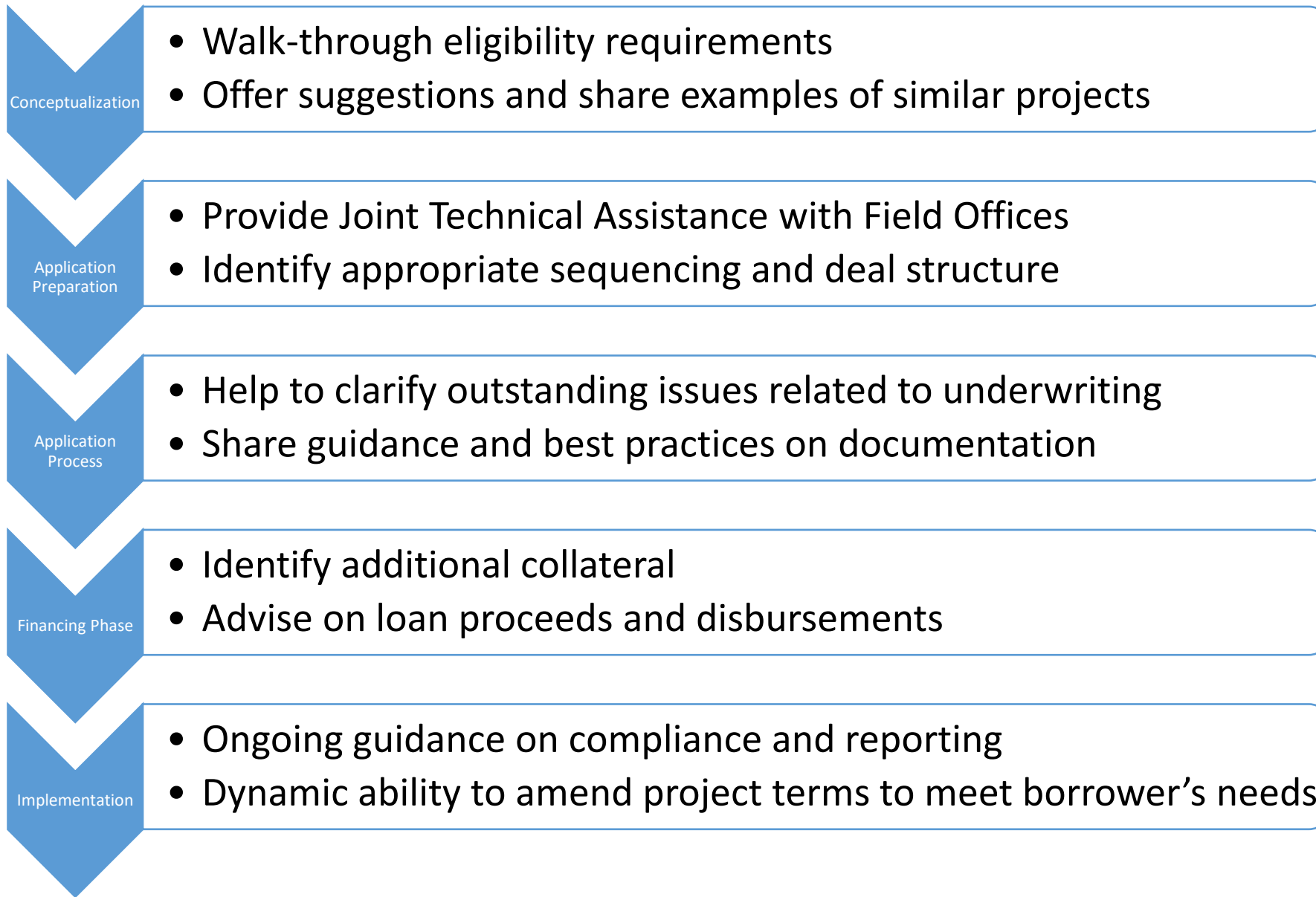
- Borrowing capacity spreadsheet [*updated annually*] [Link](#)
- Application Tool [Link](#)
- Single certifications document [Link](#)
- Section 108 Application & Finance Process Infographic [Link](#)
- Project profiles for all applications approved in recent fiscal years [Link](#)
- [Join our mailing list to get email updates! Link](#)



**Many other resources are available on HUD.gov and HUDexchange.info**

**Note: FMD is willing to provide 1-on-1 Technical Assistance during any project cycle stage for interested applicants.**

# Section 108 offers in-depth, tailored Technical Assistance



**FMD is willing to provide 1-on-1 Technical Assistance during any project cycle stage for interested applicants.**



## *For More Information*

*Paul Webster, Director: [Paul.Webster@hud.gov](mailto:Paul.Webster@hud.gov)*

*Seema Thomas, Deputy Director: [Seema.M.Thomas@hud.gov](mailto:Seema.M.Thomas@hud.gov)*

*Jorge Morales, Loan Origination Team Lead: [Jorge.L.Morales@hud.gov](mailto:Jorge.L.Morales@hud.gov)*

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

