May 8, 2015

The Honorable Susan Collins
Chairperson
Subcommittee on Transportation, Housing and Urban Development,
and Independent Agencies
United States Senate
Washington, DC 20510

The Honorable Jack Reed
Ranking Member
Subcommittee on Transportation, Housing and Urban Development,
and Independent Agencies
United States Senate
Washington, DC 20510

Dear Chairperson Collins and Ranking Member Reed:

The undersigned organizations representing local community development practitioners that administer Section 108 loans ask you to oppose any fee or other mechanism that requires grantees to pay for the subsidy costs associated with the Section 108 Loan Guarantee Program. This fee will add additional costs to the Section 108 loans that are unnecessary and burdensome to the grantees. HUD has never had to invoke its full faith and credit guarantee nor has it utilized the credit subsidy it funds each year to reserve for future loss. Section 108 is already set-up to ensure repayment of the loan in the case of default through the use of CDBG grants and other collateral. As part of the Section 108 loan guarantee application process, grantees must identify appropriate collateral to cover 100 percent of the loan amount. Since 1995, HUD has required grantees to provide evidence that they have pledged sufficient security to ensure payment in the event that CDBG funds are materially reduced or eliminated.

The imposition of a fee will reduce the value of the Section 108 loan program as an economic development resource as the fee will ultimately be charged to the project thus further limiting the benefit or the financing. It would place an additional financial burden on borrowers and creates a disincentive to private developers and local government to utilize the program. Adding a fee of 2.42% of the loan principal amount as proposed by HUD, on top of the Section 108 loan costs of funds, will push the net cost of borrowing Section 108 funds too high for many economic development projects.

Section 108 is an important source of funding for local jurisdictions to develop large-scale projects in distressed areas that focus on economic development, infrastructure, public facilities, and affordable housing. It attracts private investment into the projects thereby expanding the power of the Section 108 investment through the leveraging of other funding. The program currently provides low borrowing costs to jurisdictions, making the financing of large-scale projects feasible. Adding an additional fee to the program will limit financing options and slow down economic development in distressed areas.

We urge you to oppose a Section 108 loan fee to pay for the subsidy costs associated with the program and ask you not to include such a fee in the FY 2016 Transportation-Housing and Urban Development-and Related Agencies spending bill. Please feel free to contact Vicki Watson, Acting Executive Director, National Community Development Association at vicki@ncdaonline.org and Jason Boehlert, Executive Director, National Association for County Community and Economic Development at jboehlert@nacced.org with any questions.

Sincerely,

National Community Development Association
National Association for County Community and Economic Development