## CALIFORNIA ECONOMIC DEVELOPMENT JOURNAL

## IN THIS ISSUE

Time for the U.S. Government to Invest in IT and BPO Domestic Sourcing2
Freight Rail Investment Brings Jobs to California3
One Definition Does Not Fit All: The Four Types of Entrepreneurship4
Using the HUD 108 Loan Guarantee Program for Economic Development5
CALED Board Resolution: Recognizing TeamCalifornia Partnership6
CALED Conference Recap & Service Awards7
CALED Conference Individual Award Recipients7
California Economic Snapshot First Quarter 20148
2013–2014 Economic Development Awards of Excellence14
Partnerships14
Programs
Promotions
Local Government
Welcome the New CALED Ambassadors
New Tool to Jump Start Your Economic Development Initiatives
Executive Summary: Managing Budgets During Fiscal Stress: Lessons for

## Using the HUD 108 Loan Guarantee Program for Economic Development

Norma J. Williams, Esq., Owner, Williams & Associates

**↑**he HUD Section 108 Loan Guarantee Program ("Program") is a part of the U.S. Department of Housing and Urban Development ("HUD") Community Development Block Grant ("CDBG") program. In California, the Program provides a source of financing for economic development to local governments with CDBG allocations. This is possible because those entities can pledge portions of their CDBG allocations back to HUD in exchange for HUD's guarantee of loans made to those local governments by capital market investors with funds raised in underwritten public offerings. The loan funds thus received by the local governments (or their agency designees) are lent by the local governments to borrowers in the local economic development projects.

In addition to the portion of the CDBG allocation, other collateral for the HUD guarantee can include (and must include for loans with repayment periods of ten years or more) collateral from the local project, including liens on real and personal property, income from the sale or leasing of property acquired with Program funds, parking or other revenues and other collateral.

Eligible economic development activities include acquisition of real property, rehabilitation of publicly owned real property, housing rehabilitation eligible under CDBG, construction, reconstruction, or installation of public facilities, payment of interest on the guaranteed loans, public offerings issuance costs, debt service reserves, and in limited circumstances, housing construction as part of community economic development. Some economic development uses of Section 108 financing that we have seen include commercial real estate development (office, retail, parking, conference

centers, restaurant, and hotel), industrial development, and establishment of working capital loan programs.

All activities undertaken under the Program must meet the national objectives of the CDBG program and either principally benefit low- and moderate-income persons, aid in the elimination or prevention of slums and blight, or meet urgent

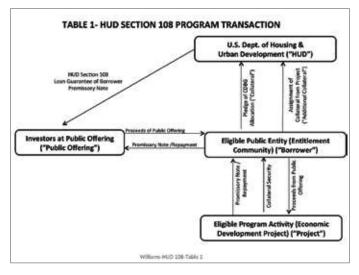
needs of the community. Compliance must also be made with other federal requirements.

An entitlement community may apply for up to five times its latest CDBG entitlement amount minus any outstanding Section 108 commitments and/or the principal balances of Section 108 loans. If approved, the max-

imum repayment period for a Section 108 loan is twenty years. HUD has the ability to structure the principal amortization to meet the needs of the public agency and the project borrower. Interest rates on permanent financing are pegged to yields on U.S. Treasury obligations of similar maturity to the principal amount and the actual rate includes a small additional basis point spread. Interest rates on interim financing made available until the public offering is at three month London Interbank Offered (LIBO) rate plus 20 basis points (0.2%).

At present, in California, non-entitlement local communities are not able to participate in the Program because the State of California (the CDBG recipient for non-entitlement communities) does not have a HUD 108 component within its CDBG program.

Documentation for the Program exists at several levels, including I) the pledge and assignment documents as between the entitlement community and HUD; 2) the Guarantee by HUD to the investors; 3) documents related to the public offering



process; 4) loan and other structuring documents between the permanent and interim investors on the one hand and the entitlement community on the other; and 5) project level financing between the entitlement community and the project.

While somewhat complex, the Program is an important source of financing that allows entitlement communities to leverage their CDBG resources to provide reasonably priced long term financing over a wide range of economic development uses.

For more information, contact Norma J. Williams, Esq. at njwilliams@willassoc.com