



Community Development Block Grant Section 108: Challenges in State Access & Use

The Section 108 Loan Guarantee Program offers additional resources for Community Development Block Grant (CDBG) recipients to apply to qualifying projects. Section 108 allows grantees to access up to five times their annual CDBG award amount through loans to either third-parties or projects supporting 108-eligible activities; activities include acquisition of real property, development of public facilities, and rehabilitation of affordable housing.¹ Activities must also meet CDBG's primary objective with 70% of funds benefitting low-to-moderate income persons along with one of three national objectives: principally benefit low-to-moderate income persons, facilitate elimination of slum and blight, and address urgent needs. Loans are available for up to 20 years.²

While 108 is available and supported in annual appropriations, the program fails to draw down considerable funds available each year. States find it challenging to adopt it in their respective programs and use for community development purposes. Issues vary and cannot be corrected through adjustments by states alone.

First, guidance has been inadequate to support state efforts to facilitate 108 as a viable resource. Webinars and toolkits are currently available from HUD covering 108 and topics such as underwriting guidelines for business loans and economic development.³⁴ However, direct assistance is lacking in demonstrating to states how 108 can be attached to other financing tools. Federal and state grants are facilitated at state CDBG-administrating agencies often without the use of loan resources. State program design may limit how 108 can be incorporated; in this case, technical assistance which is specific to state programs is warranted.

¹ Housing and Urban Development, HUD Exchange, Section 108 Loan Guarantee Program, accessed September 20, 2021: <https://www.hudexchange.info/programs/section-108/>.

² Housing and Urban Development, Community Development Block Grants (Section 108 Loan Guarantee), accessed September 20, 2021: <https://www.hud.gov/hudprograms/section108>.

³ Housing and Urban Development, HUD Exchange, Section 108 Guides, Tools, and Webinars, accessed September 20, 2021: <https://www.hudexchange.info/programs/section-108/guides/#webinars-and-virtual-trainings>.

⁴ Ibid, Self-Paced Online Trainings, accessed September 20, 2021: https://www.hudexchange.info/trainings/online/?ct=&tt=&topic=&loc=&predefdr=&dr=&relmat=&orderby=searchDate&csrf_token=1C99057A-F42C-45A0-991346727AEAA834&q=section+108.

Also, in reviewing available financing, project developers will assess options and determine how to proceed on an approach which is cost-effective and accommodates delivery timelines. Interest rates on Section 108 have been higher than other lending resources. At the same time, projects which receive 108 funds must meet a CDBG national objective. Other financing is often more appealing to developers which comes at a lower rate to borrow and without requirements involved with CDBG.

Further, states administer CDBG supporting projects and services in smaller jurisdictions in non-metropolitan areas. States are allocated funds from HUD and act as the grantee. Once priority activities are determined, states direct funds to cities and counties which are the sub-grantees. States must ensure grant resources can be targeted across the state in a balanced manner.

Many obstacles exist in using Section 108 due to the state CDBG program structure. Since grantees must use current and future grant funds as collateral, states cannot justify risking grant funds available to communities all across the state to fund one or a handful of projects. Essentially, a state may want to fund a particular development using 108 but would need to put some or all of its grant award towards supporting one specific project in an individual locality. Additionally, states distribute CDBG grant funds through a transparent and established allocation method. The process ensures many localities have access to resources through routine funding cycles. However, if Section 108 were to be offered, states would be directing funds to developments on a much-more limited basis. This would likely involve restructuring their distribution method.

Solutions

Changes can be accomplished to facilitate better use of Section 108 for states. An alternative requirement tied to CDBG's national objective may spur additional interest from developers. Currently, CDBG must principally benefit low-to-moderate persons and additionally meet one of three national objectives. However, certain flexibilities may reduce burdens involved in using funds through alternative requirements under 108 in meeting national objectives.

Additionally, the cost to borrow funding is too high for communities and developers to justify using 108. If lower interest rates can be obtained elsewhere, then the other financing options become the more financially-suitable route. If reduced rates could be secured, the product may be more attractive for community development.

States are also concerned in large part because using 108 for a project or set of projects would put their grant funds at risk. Grant awards to states are available to dozens or hundreds of individual communities. By offering 108 and directing funds to provide resources for a specific community, all others would need to agree to allow for this to occur. Other concerns include

capacity to manage loan funds at both the state and local levels, legislative approval to accept loan funds, and altering processes in distributing awards to communities.

Further study is needed to promote how states can overcome these issues and incorporate Section 108 in their respective programs. Ultimately, states aim to reduce the risk involved in using 108 funds.

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