

# DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

## Office of Community Planning and Development

### Community Development Loan Guarantee

#### SUMMARY OF RESOURCES

(Dollars in Thousands)

	Enacted/ Requested	Carry over	Supplemental/ Rescission	Total Resources	Obligations	Net Outlays
2022 Appropriation	-	-	-	-	-	-
2023 Appropriation	-	-	-	-	-	-
2024 President's Budget	-	-	-	-	-	-
Change from 2023	-	-	-	-	-	-

#### PROGRAM PURPOSE

The Community Development Loan Guarantee Program, also known as the Section 108 Loan Guarantee Program, provides Federal guarantees to private lenders to assist communities in undertaking large community or economic development projects.

#### BUDGET OVERVIEW

The 2024 President's Budget requests \$400 million in loan guarantee authority for the Community Development Loan Guarantee program, which is \$100 million more than the 2023 enacted level. This increase reflects the increasing demand for Section 108 loan guarantees. HUD also anticipates greater use of the program if Congress enacts the proposal to add new construction of housing in mixed-use developments as an eligible activity.

With the implementation of the congressionally approved fee structure for the Section 108 program, HUD requests zero credit subsidy in 2024 to support this program. Instead of requesting a credit subsidy, HUD will support loans in 2024 through the imposition of a fee assessed on borrowers, continuing the policy that started with the 2015 Consolidated and Further Continuing Appropriations Act (Pub. L, 113-235).

This program aligns with HUD 2022-2026 Strategic Objective 1C: *Invest in the Success of Communities.*

#### JUSTIFICATION

Section 108 of the Housing and Community Development Act enables communities to leverage their Community Development Block Grant (CDBG) funds into federally guaranteed loans large enough to pursue substantial physical and economic revitalization projects. These projects allow communities to provide critical affordable housing to low- and moderate-income families, expand economic opportunities, and renew entire neighborhoods through new or rehabilitated infrastructure.

Under the requested funding level in 2024, the Section 108 program would continue to fulfill its role as a highly valuable financing tool for the large-scale community and economic development activities carried out by local governments that are vital to the improving the opportunities of their residents. The requested funding level would ensure the expanded availability of low-cost, flexible financing for community and economic development projects for CDBG entitlement communities,

non-entitlement local governments participating through the State CDBG program, and Insular Areas, as local governments nationwide continue to struggle with financing development needs.

States and local governments face challenges in addressing their community and economic development needs. Often, the annual CDBG allocation alone is not sufficient to complete crucial large-scale community and economic development projects that communities desperately need. As a result, communities across the country turn to the Section 108 loan guarantee as a source of funds for these crucial projects. Currently, the Section 108 program is supporting approximately 300 localities across the country, with 468 outstanding loans totaling approximately \$768 million. With leverage, a grantee can carry out a larger project with the Section 108 financing than it could otherwise. Grantees can finance revenue-generating activities (e.g., economic development) with a guaranteed loan and applying the future revenue to repayment of the debt.

The Section 108 program guarantees loans that offer variable and fixed-rate financing for up to 20 years to finance certain CDBG-eligible activities, including economic development activities, public facilities and improvements, housing rehabilitation, adaptive reuse, land acquisition, and related activities. Although some CDBG-eligible activities cannot be financed under Section 108 (such as public services), the CDBG activity types that can be financed through Section 108 account for approximately 70-75 percent of the total CDBG expenditures. Enhanced economic development data for consolidated planning, made possible through recent Consolidated Plan improvements, will help grantees understand how they most efficiently use this financing. To assist governments with the fee-based financing mechanism, HUD allows Section 108 borrowers to include the fee in the guaranteed loan amount, as is permitted under other Federal guarantee programs (e.g., the Small Business Administration 504 program).

Entitlement communities are eligible to apply for Section 108 loan guarantees equal to five times their most recent CDBG award, and communities in non-entitlement areas may receive loan guarantees, in the aggregate, equal to five times the State's grant under the CDBG program. As permitted in recent appropriations, several States have applied directly for Section 108 funding to be distributed to communities in non-entitlement areas to create a loan portfolio of economic development and public facilities projects.

Since 1977, HUD has issued 2,022 commitments totaling approximately \$9.98 billion. When HUD guarantees a Section 108 loan, it provides a full faith and credit guarantee to the lender, thereby ensuring timely payment of principal and interest and favorable interest rates. HUD has never paid a claim from a holder of a guaranteed obligation as a result of a default, due in part to the availability of CDBG funds for repayment if planned repayment sources are insufficient. The loans guaranteed under Section 108 are privately financed. HUD has developed a productive partnership with financial institutions who implement a flexible financing structure while providing States and local governments with low-cost financing.

### **Equity**

The requested funding level supports the Administration's agenda in advancing equity by allowing borrowers to leverage their CDBG funding for transformative projects that address community development needs, such as rehabilitating affordable housing units, creating employment opportunities, and developing needed infrastructure in low- and moderate-income areas. Like CDBG funding, Section 108 primarily benefits low- and moderate-income persons that often suffer from a historic lack Federal investment in their communities.

## **Funding Impact**

The Section 108 program enables communities to leverage their CDBG funds into federally guaranteed loans large enough to pursue substantial physical and economic revitalization projects. These projects allow communities to provide critical affordable housing to low- and moderate-income families, expand economic opportunities, and renew entire neighborhoods through new or rehabilitated infrastructure. Section 108-assisted projects approved between 2011 and 2021 are projected to create nearly 28,500 jobs based on \$1.3 billion in loan guarantees. The Section 108 program's utility as a job generating tool is magnified because many of these economically distressed localities lack alternative sources of financing for community and economic development projects.

Authorizing the Section 108 program at \$400 million would result in the following outcomes:

- The economic development investments financed with loans that would be guaranteed under Section 108 are expected to create or retain at least 3,300 jobs.
- Based on historical data, Section 108 financing for economic development purposes would leverage approximately \$4.62 of additional funds for every \$1 of Section 108 loan funds.
- The program would be expected to provide \$118 million in financing for rehabilitation and construction of public facilities and infrastructure, \$115.6 million for housing rehabilitation, and \$166.4 million in assistance for economic development activities.

## **Key Assumptions**

The requested authorization of \$100 million more than the 2023 enacted level is due to growing demand for Section 108 loan guarantees to finance construction of infrastructure improvements and renovation of multifamily housing. In 2022, HUD issued more than \$171 million in Section 108 commitments, the largest amount it has offered since 2013. That amount is nearly double the amount HUD committed in 2021 and is more than four times the amount committed in 2020. The current pipeline of Section 108 applications indicates that HUD will approach the funding limitation of \$300 million in 2023. HUD requests an increased loan limitation level of \$400 million in 2024 since the Department estimates that demand for the program will approach that level next fiscal year.

## **Outcomes, Performance Indicators, Risk, and Other Evidence**

As discussed above, the Section 108 program currently has 468 outstanding loans totaling approximately \$768 million, which support approximately 300 localities across the country. Existing loan guarantee commitments could extend up to 20 years into the future. HUD will continue to ensure timely repayment of these loans on a quarterly basis as well as continue to provide regulatory and programmatic oversight.

## **New Housing Construction Legislative Proposal**

HUD proposes to add new construction of housing as a component of mixed-use developments as an eligible activity under the Section 108 loan guarantee program. HUD recognizes that the lack of affordable housing nationwide is a crisis that compels the Federal government to use every program at its disposal to address. Historically, HUD has worked with Section 108 borrowers to finance new construction for public facilities or economic development activities and to support activities such as infrastructure, adaptive reuse, and rehabilitation. This proposal will boost housing supply and support transit-oriented development by enabling grantees to include new units of affordable housing in properties constructed for other uses.

The ability to directly fund new construction would make financing options simpler and expand the pool for potential future Section 108 borrowers. Communities seeking to use Section 108 funds in the

past have been stymied by new construction not being an eligible activity, especially as they sought to finance mixed-use developments, which are a popular way to connect housing units to job-generating businesses and/or needed services.

Allowing Section 108 borrowers to use funds to construct new housing in mixed-use developments would provide communities a critical tool to finance new housing for low- and moderate-income persons. This proposal limits the addition of new construction as an eligible activity only to Section 108-funded activities. It would not introduce new construction as an eligible activity under CDBG. Likewise, allowing new construction of housing only in mixed-use developments ensures that grantees focus such activities on projects that incorporate multiple aspects of community development, through the creation of jobs or provision of services in addition to adding new housing.

**SUMMARY OF RESOURCES BY PROGRAM**

(Dollars in Thousands)

Budget Activity	2022 Budget Authority	2021 Carry over Into 2022	2022 Total Resources	2022 Obligations	2023 Appropriation	2022 Carry over Into 2023	2023 Total Resources	2024 President's Budget
Loan Gurantee Subsidy	-	-	-	-	-	-	-	-
Loan Commitment	[300,000]	-	-	-	[300,000]	-	-	[400,000]
<b>Total</b>	-	-	-	-	-	-	-	-

**LEGISLATIVE PROPOSALS AND GENERAL PROVISIONS**

**Legislative Proposals**

The 2024 Budget supports the following legislative proposal and will seek changes through the authorization process:

New Housing Construction: The proposal would add housing construction as an eligible Section 108 activity when construction is part of a mixed-use development.

**APPROPRIATIONS LANGUAGE**

The 2024 President’s Budget includes proposed changes in the appropriations language listed below. New language is italicized, and language proposed for deletion is bracketed.

Subject to section 502 of the Congressional Budget Act of 1974 (2 U.S.C. 661a), during fiscal year [2023] *2024*, commitments to guarantee loans under section 108 of the Housing and Community Development Act of 1974 (42 U.S.C. 5308), any part of which is guaranteed, shall not exceed a total principal amount of [\\$300,000,000] *\$400,000,000*, notwithstanding any aggregate limitation on outstanding obligations guaranteed in subsection (k) of such section 108: Provided, That the Secretary shall collect fees from borrowers, notwithstanding subsection (m) of such section 108, to result in a credit subsidy cost of zero for guaranteeing such loans, and any such fees shall be collected in accordance with section 502(7) of the Congressional Budget Act of 1974: Provided further, That such commitment authority funded by fees may be used to guarantee, or make commitments to guarantee, notes or other obligations issued by any State on behalf of non-entitlement communities in the State in accordance with the requirements of such section 108: Provided further, That any State receiving such a guarantee or commitment under the preceding proviso shall distribute all funds subject to such guarantee to the units of general local government in non-entitlement areas that received the commitment. (*Department of Housing and Urban Development Appropriations Act, 2023.*)