

Secretary's Challenge for Housing - Overview Webinar-20240829_130212-Meeting Recording

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 **Schwartz, Benjamin C** 0:03

That is issuing this challenge communities nationwide to use the Section 108 program to finance transformative housing investments.

These investments will create a lasting legacy in your Community by transforming and revitalizing neighborhoods and lowering housing costs for your residents.

My name is Corey Schwartz, Acting Deputy Director for the Office of Block Grant Assistance. Today, we're going to be providing you the who, what, where, when, why and how to use this critical funding source. A few housekeeping notes before we start, please remember to mute your mics at any questions in the chat. We'll try to get to questions in the chat as best we can and if we can't, we'll be sure to follow up. To begin, I'm excited to introduce to you the principal Deputy Assistant Secretary for Community Planning and Development, Marion McFadden. PDAS McFadden oversees the administration of federal financial assistance to assist communities and ending homelessness, creating and preserving housing affordable to people of modest means, strengthening local economies, and recovering from and mitigating disasters. She is a recognized thought leader on resilience and disaster recovery, has LED efforts at a national scale to create stronger, healthier communities with opportunities for all. PDAS McFadden, it is great to have you.

 **McFadden, Marion M** 1:24

Thanks, Cory. Hi everyone and thanks for joining us today. So excited to be launching this legacy challenge. Can't wait to dive in and tell you about what we're doing? Our team is here to explain the basics of the competition. Sorry, it's not a competition. The challenge? Excuse me. It's not a competition, but before we do that, I just wanted to talk a little bit about why we are issuing this challenge for the jurisdictions that receive Community Development Block Grant funds. We know that there is a shortage of millions of homes across America and I hope you see have seen that across the Biden Harris administration, we have gone to new lengths to make funding available here in the Office of Community Planning and Development. Right now we have billions of dollars in open NOFOs primarily the continuum of care

competition, the new continuum of care builds competition, and the second round of the pro housing competition. But there's also more. So in addition to all the funds that we are putting out for you, we wanted to make sure the jurisdictions were taking advantage of a lesser known source of funding and that's the Section 108 loan guarantee. So Secretary acting Secretary Todman issued a challenge for our elected officials of the state, cities, and counties that receive community development block grant funds every year to come in and take advantage of dollars that, quite frankly, folks are leaving on the table. So let's talk about what the CDBG Section 108 loan guarantee is. The CDBG program every year provides flexible funds to states, cities, urban counties, and insular areas, and then communities make decisions about how they're going to spend those funds. Sometimes we say the CDBG program gives a menu to communities, but one grantee said to me, no, you don't give us a menu. You give us a bag of groceries. CDBG is what we make of it, but the opportunity is here to multiply the impact of the annual CDBG grant by using the Section 108 Loan Guarantee program. And here we allow these communities to borrow up to five times the amount of their annual CDBG grant in a low interest loan. So for example, if you have a small city that receives about \$528,000 a year, they could get a low interest loan of up to more than \$2.6 million, and you can see here that if you have a large city receiving \$20 million, they can get more than \$100 million in a low interest loan. You're probably wondering why is this a low interest loan? And that's because the federal government is backing the loan and we are permitting any payment that's going to be missed to come out of that jurisdictions line of credit. We don't take the whole loan due, we just say if there's a payment that might be missed, it comes out of the CDBG line of credit. Next slide please. And as we go through the slide deck, you'll see on the right hand side some examples of projects and you'll hear more about one at the end. So the challenge here is to put that we're putting aside \$250 million of our loan authority and extending new flexibilities for our applicants using Section 108 loan guarantee or housing development funds or legacy housing projects. But it's not just for housing. Section 108 can provide additional resources to help make transformative changes in the community through infrastructure to support housing production. So here we're looking at things like installation of utilities or upgrades needed for utilities, for adaptive reuse of a non residential property. So that could mean converting an unused office space or commercial space into housing. We see that happening all over the country and quite frankly love that as a practical solution for increasing the nation's housing

supply. The 108 long guarantee funds can be used for preservation, rehabilitation and repairs of existing homes for low and moderate income people, for manufactured housing, and for facilities to build homes to build manufactured housing. This can include working around transit oriented development and the creation of loan pools to support development, so you don't have to come in with a specific project in mind. And we've seen that it works successfully for jurisdictions to create a fund so that when projects are ready to go, they have affordable housing dollars on hand. Next slide please. So our question to the elected officials is what will your legacy be when it comes to affordable housing? Will you have taken advantage of every resource at your disposal to ensure that your Community has the housing resources that you're residents need? So under this challenge, we're doing everything we can to make it as simple as possible for the jurisdictions to come in to get a Section 108 Loan Guarantee for your legacy project. What does that mean? What are the flexibilities we're talking about? We're going to issue waivers so that we can ease program requirements and try to streamline your projects. We're going to provide access to flexible capital and financing. We're going to offer repayment flexibilities, unlimited targeted one on one support, and guidance and new resources and step by step guides for faster approvals. We get it. If you are someone who normally is administering a grant program, it can be kind of overwhelming to think about the risks of operating alone. We absolutely get it and we understand it and we're here to work with you. We have a great team. Both of the HUD staff and technical assistance providers who can listen to your concerns and help you look at your projects and decide whether something's a good bet for a 108 loan guarantee. We can talk to you about what we mean when we say flexibilities. How can we structure your repayment schedule so that it's affordable for you to get the deal done? We're looking forward to working with you. Happy to answer questions as much as we are able. If when you put them in the chat we will put Q&A up on the web, and we will do everything we can to make this process work for you because we know you wanna do everything that you can to address your housing challenges. Finally, for those of you who are joining us and you don't work for a state, city or county, but you're interested in ensuring that the jurisdictions where you live and work take advantage of this, when I'm done, I'll put it into the chat a link so that you can find out who your local CDBG grantee is. We appreciate everyone's interest and I'll turn it back to Corey. Thanks.

 **Schwartz, Benjamin C** 8:57

Thank you so much, PDAS McFadden. This challenge, as PDAS McFadden said, is really aiming to get this funding that HUD has into your communities to make that transformative impact. And we're here to help you as PDAS McFadden mentioned. We're going to be here providing one on one support, along with providing other guidance and technical assistance over the next few months to take advantage of the flexibilities of the challenge. We'll need a non-binding statement of interest by November 1st, but even after that we're going to be continuing to provide you support as you prepare your applications to meet our program requirements. That includes engaging the public on your proposal to get their feedback and incorporate that. The final proposals will be due by July 1st of next year. You can submit them at anytime and HUD will review them immediately to get that funding into your community to talk more about the program and the process, along with further details about HUD support. I'm bringing my colleagues, Scott Laliberte and Jorge Morales. Scott.

 **Laliberte, Scott K** 10:03

Thank you, Corey. Next slide, please. So I'm going to quickly talk again about what PDAS McFadden said is available as support to help you as a potential borrower and recipient. We will be offering additional overview webinars and we'll be offering an application workshop in the next couple of months. We are also anticipating hosting a series of open office hours with a webinar link similar to what we're doing today and once you get to the point that you've expressed interest, we will be offering direct one on one TA and we're also hoping to work with partners to offer small group TA on similar projects or if you have similar concerns. We also have materials that are available on our website that will be updated and available regarding how to draft an application, what sort of formats we require, and we will also be providing a guide to underwriting for Income producing properties and housing, and also for regular finance. We do want to stress that one on one help as a grantee, recipient bar will be available throughout the process through our office and our partners. So if you have a question, we encourage you to reach out to us. We do have our email for our general mailbox multiple places throughout this presentation and it will be on our website as well. So next slide please. This is a quick summary of why we think this is an attractive tool for financing. We do offer a wide range of uses, as

PDAS McFadden said. We follow the CDBG framework, so most eligible activities under the CDBG framework are also going to be eligible for our program, particularly most of the elements around housing, the acquisition, demolition, rehab, bringing in infrastructure, all those different elements that you would associate with a housing project are likely to be available with the exception of construction of units in our program. We do offer low cost financing with flexible terms for repayment and we do also accept, uh, a variety of sources for collateral that go beyond what is traditionally accepted by private financing institutions. So we do have a lot of flexibility there and we do have an immediate availability for funds. Once you've gotten through our commitment process, there is no timeline for an issuance of awards. We review and award financing on a rolling basis. So next slide please. This is a quick flow chart on what our process looks like. Everything begins with an application. This is where you, as a Community, will work to select a project to create your application and work with our office for approval. Once we've issued a commitment, we will move to the financing phase. This is when we'll prepare the loan documents, the contract, the notes, identify security, Fine tune any concerns you have if you are relending the money to a third party developer or a third party owner, and this is where we will work all those elements out and then once we move into the funding portion, you'll move to the management side. This is where we're dealing with advances of funds and sadly, the repayment of the funds, and any loan servicing concerns that you may have for the remainder of the life cycle of the loan. Next slide please. So this is a little bit more in depth view on how our application works. Everything starts with an applicant, but it's important to define what an applicant is. So an applicant for our program is going to be essentially someone who receives CDBG funding. So this is all of our entitlements. Those are our large metropolitan cities and urban counties and also states. I saw a question in the chat that states are allowed to participate, but it has to be structured to work with a unit of general local government. So those small non entitlement communities end up being the ultimate borrower, but the states will be involved in the process. We can also work to make loans to the sub recipient entities of grantees, and we can also make loans to designated public entities that are part of those CDBG entitlement grantees. So next slide please. I'm now going to pass it to my colleague Jorge Morales to talk about our combined Section 108 funding.



Morales, Jorge L 14:35

Thank you so much, Scott. So we're going to emphasize, and we're gonna be amplifying the message provided to you specifically about how flexible the SECITON 108 funds are to you. As you can see on your screen we are a very good mix with any of our sister federal agencies. These different sources of financing are inclusive with our hearts funding you can combine Section 108 with CDBG, Home, CDBG-DR. We have plenty of experience using uh or combining with historic tax credit programs, including LIHTC projects and new market tax credit.

We are the flexibility of the Section 108 is such that you blends in a very great way with these different type of programs. One thing that we must keep in mind that section one week can be deployed as a single source, as combined with other sources, or even as gap filler. Sometimes remember that you know as a gap filler with a small amount that amount might be the necessary amount that the project needs to go to move forward. So we have two ways that the section 108 when we can be deployed. You can deploy it through the project specific application where you will provide the information specific information about the project. It can be a single project or multiple projects. The issue is that it has to be identified from the get go. That type of application will require a higher level of detail and specificity that allows HUD to underwrite the project. And when you hear the word underwriting on the right, what we are doing is assessing the risk of that project. Now, on the other hand, you can use, and PDAS McFadden mentioned this, you can use the long pool approach, we call it loan pool, long fund, and here your application will describe basically what type of projects are you are interested in developing based on your communities need. Then they will be basically that It could be described in terms of the purpose, the locality. I always like to present the project in that we have in Massachusetts, where we have a specific brow borrower requested a phone to assist the restaurant infrastructure in their downtown area, that was Brockton, MA.

So you're talking about specificity. You you're talking about specific type of loan fund. In this case, what we're promoting is you can do a loan fund or a variety of it to assist in affordable housing production and or preservation. The application process is consists of basically a reviewing the communities underwriting process. The program designed who's doing what, when and where and how and as well we review here headquarters ensuring that you will comply with the program requirements, and once you identify your pipeline or projects, then you will submit those specific information to the field offices where they will review for eligible activity, national objective, and if applicable for the public benefits standards.

So once again, once you submit the loan pool, it's just basically you will tell us your program design, how you're going to underwrite. We have plenty of guidance in on our web page in hot.gov that can use those only writing guidelines. So you don't have to reinvent the wheel. So this is an example or illustration how a section 108 Loan pool is carried out. So in this case, for example, we have a Section 108 loan for \$4 million commitment. As you can see in this instance, there are four loans.

There are loans or notes that are issue against that commitment. Notice how you can assist the different activities. For example, housing enabling infrastructure.

Uh, there's some of the family rehab. There's this site acquisition by a recipient or subrecipient because remember, the loan pool can be used by the borrower, or by subrecipient, or by a third party. So you have that flexibility, you will have to tell us who is going to use that or who is eligible to use those funds in that case. Uh, in this for example. Uh, but note for as a recipient in this case. Is \$1,000,000 each note as you can see will have to be secured, their collateral will need to be provided in order to for her to guarantee that note. So once again, very flexible. Your commitment is used as your own to feel fulfill your needs and is once again using the flexible approach. You will receive assistance from us in terms of we will be available to answer your questions. We have one saying that that in that capture our intentions and that is to be with you as a partner from vision to completion.

So that's the type of partnership that we love to go into with our recipients or borrowers. Then this is a great example of one of the most incredible projects that we have had, uh, for some time. It is Crosstown Concourse in Memphis, TN is basically they transform a former Sears distribution center that was built in 1920. They converted that center into a multi-use facility that provides employment, medical services, education, even housing. This project used \$2,000,000 in section 108, but the actual total project cost was \$198.6 million. So you're talking about using 108 as a gap filler. This is a good example. This project also used new market tax credit and once again they have approximately, I believe close to \$49 million in tax credit equity so that flexibility that we've been talking about for the last 25 minutes is really very real. The next project, this one is an interesting one.

Uh in this case? This is Spartanburg, SC the project is Northside Commons. You also assisted with \$3 million in Section 108. The financing of this development was for new construction, entailed new construction, mixed use projects, and there were three buildings, but each building was assisted differently. The only Section or buildings or phase that we assisted, with the Section 108 was for the commercial side

of this. Remember, this is a mixed use. There were some medical offices, some other facilities for commercial use, and that's where the section 108 went into the curious, another curious, but the interesting fact is that to do this project, the whole project was a new market tax credit and once again emphasizing on the flexibility we were able to channel the funds directly to the eligible activities.

Remember this? There's a prohibition on using section 108 for or CDBG for that matter, on new construction with certain exceptions, like in accordance with 57204, which are the Community based development organization. Those they can do that and there are other there are some other exceptions, but the main one will be that right. So we were able to channel the funds directly through the new market tax credit structure directly to the eligible activity, in this case for the commercial component. The total cost for this project? Even though we assisted with \$3 million, but the total project cost was \$11.1 million. So once again, we fill, uh, that gap, this project had new market tax credit equity, they have a private loan.

They have some some foundations money. So it was very successful. You have done very well. And I believe Cory back to you.

SC **Schwartz, Benjamin C** 26:34

Thank you, Jorge.

Thank you, Scott.

Thank you, PDAS McFadden for talking about the legacy challenge.

We have a number of questions in the chat. Really good questions.

We've tried to answer them as we've gone along. We're not going to be able to answer questions verbally, but please, if you have any questions, put them in the chat and if we can't get to them as I wrap up here, then we'll be putting them in a Q&A that we're posting on the website, which you can access by lining up your phone to this QR here on the screen. Please continue to visit that website over the course of the next few weeks and months for more information about guidance and technical assistance opportunities that will be providing as part of this challenge, as well as more information on submitting a statement of interest which was that first deadline as I put back on one of the previous slides of November 1st, will be providing more information on how to submit that statement of interest. The last thing I just wanted to say is this is a non competitive program, as opposed to other programs that are published through a notice of funding opportunity where HUD is radio silent.

As to your questions about your particular projects, we can answer your questions.

So if you're here, it's because there's a need in your community and you have an idea, and that idea may just be an idea or maybe all the way where you just need that last piece of your capital stack, but whatever. However, far along you are on that road to getting that transformative project in your community. Please come to us For more information. We are here to help and get you across the finish line. So with that, I will thank you for giving us some of your time today. Again, please continue to check out the HUD legacy website for more information in the weeks and months to come, and we'll see you along the way. Thank you.



Laliberte, Scott K 28:36

And I would like to make one more additional note.

In the chat, we have also posted a poll for a way to you express initial interest.

So we would encourage you to respond to our poll as well, and we will leave that open for a few more minutes.

Just a reminder, we're going to give just another 5 minutes for responses and then we will end the meeting. So if you've already responded to the poll and you do not have any additional questions to place in the chat, please feel free to exit the meeting and have a good day.