

FACT SHEET: HUD Section 108 Loans

1. What is the United States Department of Housing and Urban Development (“HUD”) Section 108 Loan Guarantee Program (the “Section 108 Loan Program”)?

The Section 108 Loan Program was developed in 1974 as a source of financing for economic development, housing rehabilitation, public facilities, and other physical development projects. This funding cannot be used for working capital, salaries or other non-capital projects. City governments, not private businesses or individuals, act as the applicants for the Section 108 Loan Program. Cities can use the funding for public projects or can loan the funds to third party developers for use in eligible projects.

Private projects that are good candidates for Section 108 Loan Program funding have their land, zoning and additional financing in place and will generate sufficient project revenue to repay the loan.

2. Do funds provided through the Section 108 Loan Program have to be repaid?

Yes. Section 108 Loan Program funds must be repaid in full, and with interest. Cities that choose to use these funds must be careful to select projects that will generate enough revenue to cover the loan payments. HUD requires that every Section 108 Loan is adequately secured to protect against a default by the borrower. The city’s annual Community Development Block Grant (“CDBG”) allocation is the final backstop in the event the borrower defaults on the Section 108 Loan and the additional security does not cover the remainder of the loan balance. HUD uses a strict underwriting process to ensure that the loan is secured adequately to protect the city’s CDBG funds.

3. What kinds of projects are eligible to use Section 108 Loan Program funds?

Projects that use Section 108 Loan Program funds must satisfy one or more of HUD’s National Objectives which focus on providing primary benefit to low- and moderate-income persons. Last year, communities across the nation used the Section 108 Loan Program to provide part of the project financing for hotels and office buildings, the establishment of revolving loan pools for small business development and real estate development, and the redevelopment of historic and brownfields properties.

The West Louisville FoodPort will create jobs for low- to moderate-income individuals, bring vacant property back into productive use, and geographically target Russell, Shawnee and Portland as priority areas for focused investment. These outcomes are consistent with the goals of Louisville Metro Government’s (“LMG’s”) 2015-2019 Consolidated Plan and with HUD’s National Objectives.

4. How did the city decide to use the \$7 million Section 108 Loan for the West Louisville FoodPort?

The City of Louisville was approved for a Section 108 Loan guarantee of \$7 million from HUD in 1995. This loan was intended to be used for projects designed to stimulate business creation and create jobs for low- to moderate-income people in west Louisville. After receiving notice of

the approval for the Section 108 Loan guarantee, the City opted to pursue alternative funding for these projects. The authority to use the Section 108 Loan Program funds remained in place, though the money itself was never deposited into an account.

LMG was not aware this funding remained approved and available for use until 2015, when HUD notified LMG of the opportunity. Since then, LMG has been in conversation with a number of individuals and organizations who are working on projects in west Louisville, many of whom expressed an interest in using Section 108 Loan Program funds for their projects.

Seed Capital Kentucky has the necessary property in hand, zoning in place, committed additional financing that makes up a majority of the FoodPort's funding, and has demonstrated that the project has the capacity to repay the debt in its entirety. Seed Capital Kentucky and LMG are exploring options for sources of collateral to support the loan. Seed Capital Kentucky will use loan funds to support the construction of the FoodPort through the purchase of building materials and other activities.

Since LMG can access up to \$50 million in Section 108 Loan Program funds, it continues to look for other eligible projects and is in preliminary discussions with other projects about the possibility of utilizing the Section 108 program in the future. The \$7 million Section 108 loan will be used as a pilot to develop the internal framework and processes required to manage this financial tool. LMG will also develop a framework for receiving and evaluating project information for future potential projects.

5. Why does the city have to get HUD approval to change the loan?

Any time there is a change in the use of a loan, the lender, in this case HUD, must approve the change. Pursuant to 24 CFR 570, Subpart M, if a public entity wishes to support an activity not previously described in its application or to substantially change the purpose, scope, location, or beneficiaries of an activity, HUD must approve the amendment, and the public entity must follow the citizen participation requirements for amendments in §570.704(a)(2). The citizen participation process started on July 26, 2016 and the entire re-approval process is expected to conclude in late 2016 or early 2017.

6. Does reprogramming the \$7 million Section 108 loan guarantee require Metro Council approval?

24 CFR 570, Subpart M does not require legislative approval to reprogram the previously approved \$7 million loan guarantee.

7. Are taxpayers responsible to repay a Section 108 loan if the borrower cannot? Does the city have to set aside or earmark funds to repay the loan if the borrower fails to do so? How often and in what circumstances has this practice been used previously?

LMG is not required to set aside or earmark general funds to repay the Section 108 loan. The Section 108 program is a tool which allows local governments to pledge a portion of current and future federal CDBG allocations as security for the loan. The city's goal is to make loans that will be repaid without the need to use current or future CDBG dollars for repayment, Section 108 loans are subject to HUD's stringent underwriting requirements, which may include additional collateral to secure the loan. Information regarding HUD's underwriting requirements and process may be found at <https://www.hudexchange.info/programs/section-108/section-108-program-eligibility-requirements/>

8. What other resources are available to businesses and nonprofit organizations in west Louisville?

- LMG provides programs to entrepreneurs to help start and grow their business including Kauffman Foundation's FastTrac® GrowthVenture™ program, METCO loans, Microbusiness loans, and recently partnered to host the Small Developer Training Workshop.
- LMG partners with the Kentucky Housing Corporation to provide loans to support affordable housing development projects through a Notice of Funding Availability (NOFA) process using its annual HOME Investment Partnerships Program funds.
- LMG partners with members of the Louisville Metro Council to develop a list of CDBG-eligible projects. CDBG dollars have recently been awarded as grants to the Louisville Central Community Center, the Louisville Urban League, the Parkland Family Scholar House and REBOUND for projects in west Louisville.

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