

HUD Sec. 108 Guaranteed Loan Pool Frequently Asked Questions

Introduction

The HUD Section 108 guaranteed loan program will enable the City to offer an alternative to conventional bank financing to foster economic development, job creation and benefits to low-moderate income persons. Below are answers to Frequently Asked Questions about the program.

Q: Who can use HUD 108 Loan financing?

- Private for-profit or nonprofit real estate developers of eligible projects
- Operating businesses meeting required Public Benefit Standards
- Municipalities constructing public facilities or clearing sites for private development

Q: What type of projects can be financed with a Section 108 Guaranteed loan?

- economic development activities eligible under CDBG (including loans to for-profit businesses and for-profit or nonprofit owned real estate development;
- acquisition, rehabilitation, clearance, site improvements or relocation carried out by a government jurisdiction (i.e. preparing a site for private development)
- housing rehabilitation eligible under CDBG;
- Public facilities or infrastructure development

Q: Does a Bank provide the HUD Section 108 financing?

No. Section 108 loans are provided by the City through debt obligations financed through HUD. Using underwritten public offerings similar to bond financing, HUD makes funds available to municipalities and such loans can be passed through to the private sector. These loan funds are in addition to the City's annual CDBG funds.

Q: How do Section 108 Interest Rates and Terms compare with conventional bank loans?

Section 108 provides below-market financing (e.g. 1.5%-2% below conventional rates in most cases). A typical rate today would be around 4.5% fixed. The maximum repayment period for a Section 108 loan is twenty years. Loan terms and amortization can be flexible depending on the needs of the borrower, though full repayment is required within the 20 year term.

Q: Is collateral required for the loan?

Yes. Section 108 loans must be underwritten using conventional standards. All Section 108 loans must be fully collateralized (i.e. a mortgage deed of trust, other assets, and/or personal guarantees of the borrower). When Section 108 funds are used directly by a Municipality for construction of public facilities or infrastructure, the Municipality must provide some form guarantee of repayment to HUD. This pledge could take the form of a full faith and credit guarantee, or a general or specific revenue fund pledge. In all cases, HUD will also require a pledge of the jurisdiction's current and future CDBG entitlement as the backstop repayment source. **HUD does not require a General Obligation Pledge of the jurisdiction.**