

# 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
2021 Appropriation	-	-	-	-	-	-
2022 Annualized CR	-	-	-	-	-	-
2023 President's Budget	-	-	-	-	-	-
Change from 2022	-	-	-	-	-	-

Note: The table above reflects only discretionary budget authority and outlays; mandatory authority for upward reestimates and interest is excluded.

#### 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 2023 President's Budget requests \$300 million in loan guarantee authority for the Community Development Loan Guarantee program, which is equal to the 2022 annualized CR level. With the implementation of the congressionally approved fee structure for the Section 108 program, HUD is again requesting zero credit subsidy in 2023 to support this program. Instead of requesting a credit subsidy, HUD will support loans in 2023 through the imposition of a fee assessed on borrowers, continuing the policy which started with the 2015 Consolidated and Further Continuing Appropriations Act (Pub. L, 113-235).

#### 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. Section 108-assisted projects approved between 2011 and 2022 are projected to create more than 29,000 jobs based on \$1.4 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.

Under the requested funding level in 2023, 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 being carried out by local governments that are vital to expanding opportunities for 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.

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).

Outcomes Associated with 2023 Section 108 Requested Commitment Authority:

- The Section 108 program would finance job-creating projects that could be expected to create or retain 2,500 jobs resulting from economic development investments financed by loans guarantees.
- 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 \$105.0 million in financing for rehabilitation and construction of public facilities and infrastructure, \$104.0 million for housing rehabilitation, and \$90 million in assistance for economic development activities.

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 more than 351 outstanding loans in communities across the country, with a total loan balance of approximately \$843.9 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, land acquisition, and related activities. Although some CDBG-eligible activities cannot be financed under Section 108 (such as program administration and public services), the CDBG activity types that can be financed through Section 108 account for approximately 70 to 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.

Entitlement communities are eligible to apply for Section 108 loan guarantees equal to five times their most recent CDBG award. 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 2,007 commitments totaling approximately \$9.8 billion. When HUD guarantees a Section 108 loan, it provides a full faith and credit guarantee to the lender. This, in turn, ensures timely payment of principal and interest to the lender 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.

**SUMMARY OF RESOURCES BY PROGRAM**

(Dollars in Thousands)

Budget Activity	2021 Budget Authority	2020 Carry over Into 2021	2021 Total Resources	2021 Obligations	2022 Annualized CR	2021 Carry over Into 2022	2022 Total Resources	2023 President's Budget
Loan Guarantee Subsidy	-	-	-	-	-	-	-	-
Loan Commitment	300,000	-	300,000	-	300,000	-	300,000	300,000
<b>Total</b>	<b>300,000</b>	<b>-</b>	<b>300,000</b>	<b>-</b>	<b>300,000</b>	<b>-</b>	<b>300,000</b>	<b>300,000</b>

**LEGISLATIVE PROPOSALS AND GENERAL PROVISIONS**

None.

**APPROPRIATIONS LANGUAGE**

The 2023 President's Budget includes the appropriation language listed below.

**COMMUNITY DEVELOPMENT LOAN GUARANTEES PROGRAM ACCOUNT**

*Subject to section 502 of the Congressional Budget Act of 1974 (2 U.S.C. 661a), during fiscal year 2023, 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, 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 no entitlement areas that received the commitment.*

*Note.—A full-year 2022 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2022 (Division A of P.L. 117-43, as amended). The amounts included for 2022 reflect the annualized level provided by the continuing resolution.*