

## CDBG Float Loan Policies

January 15, 1993

Mr. Carlos Jackson  
Executive Director  
Community Development Commission,  
County of Los Angeles  
Monterey Park, CA 91754

Dear Mr. Jackson:

Thank you for your November 12, 1992, letter regarding your concerns with the Community Development Block Grant (CDBG) "float loan" policies set forth in Notice CPD 92-29. In your letter, you express the view that the CPD Notice imposes an unwarranted level of regulatory control that will severely inhibit the use of CDBG funds for economic development activities.

Specifically, you object to the portion of the Notice that requires either that float loans be limited to a term of not to exceed one year or that the grantee identify the activities to be deleted or reduced in the event the loan is not repaid in accordance with the established schedule. Your reasoning appears to rest heavily on the assumption that if a loan is backed by an ironclad repayment guarantee, there should be no need for the limitations outlined in the Notice.

For the following reasons, I do not agree with your assessment that the policy in the Notice is not warranted by a reasonable interpretation of the current regulations or the purpose of the program. We believe that the law authorizing the CDBG program is clear that the final statement, and the associated presubmission requirements, is to deal only with how a grantee expects to use CDBG funds it will receive in the next program year. The sources of these funds would include both the new CDBG grant and any program income expected to be received during that year. In this single-year final statement context, the principal problem with float-funded activities is that repayment of a multi-year float loan (even if derived by calling a back-up letter of credit) will be made after the next program year. This means that to include activities in the current final statement that will receive funding from the float repayment, a grantee is, in effect, committing funds that are to be received in the future. Such a commitment does not appear to me to be within the current statutory and regulatory framework for the final statement.

Some grantees apparently do not see a problem with carrying out additional activities with the float because they assume that they will receive sufficient additional CDBG grant funds in future years to continue funding previously budgeted activities until the float-funded activity generates program income. One problem with this approach is that there is no guarantee of such future funding of the CDBG program, nor that the program can avoid a substantial funding reduction. Even if there were a guarantee of future funding, we believe such an approach also has the effect of placing limitations on the choices that the grantees and their citizens will have in planning for the use of those future funds. For example, a grantee relying on the availability of the float in the succeeding year to provide funding for activities in the current or earlier final statements might not be able to select new activities that would require more rapid

outlays for that succeeding year. The Section 108 loan guarantee program is the only method currently authorized by statute for making commitments that are binding on future grant funds.

As you point out in your letter, a guarantee of repayment on demand may render reduction or deletion of specific projects "theoretical." It does not dismiss the one-year timing issue discussed above. Moreover, it has been HUD's experience with grantees acquiring letters of credit for this purpose that either unexpected legal issues arise making it impossible for the grantee to call the loan or that the cost or other implications of calling the loan result in the grantee avoiding doing so.

One final issue: we believe it is in the CDBG program's best interest to restrict a grantee to planning the use of the coming year's funds on the basis of needs as they are perceived at or near the beginning of that year. We do not believe that it is good public policy to allow a grantee's current administration to commit funds that may be received during, and that should be available for programming by, a future administration.

Your opinions and any other specific comments you may have on how best to regulate float-funded activities are very welcome. The Department plans to issue a proposed rule to modify the final statement regulations regarding float-funded activities. How to treat guarantees for float-funded activities will likely be addressed. I have given a copy of your letter to the staff responsible for developing the proposed rule.

Thank you for your continuing interest in the CDBG program.

Very sincerely yours,

(signed)

Don I. Patch  
Director, Office of Block  
Grant Assistance