

Interest Earned on CDBG Funds Loaned for Ineligible Purposes

February 1, 1993

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

COMMUNITY PLANNING AND DEVELOPMENT

Special Attention of: Notice: CPD-93-05

All Regional Administrators Issued: February 1, 1993
All Regional Directors for CPD Expires: February 1, 1994
All Regional Directors for OIP
All Regional Directors for Administration Cross References:
All Regional Accounting Division Directors
All Category A Field Office Managers
All CDP Division Directors
All CDBG Grantees

SUBJECT: Interest Earned on CDBG Funds Loaned for Ineligible Purposes PURPOSE

The purpose of this notice is to provide advice to Field Offices on implementing a Comptroller General decision regarding the use of CDBG funds to make loans for ineligible purposes.

APPLICABILITY

This Notice applies to the Community Development Block Grant (CDBG) Entitlement, State, HUD-Administered Small Cities, Indian, and Insular Area programs.

BACKGROUND

CDBG grantees, including State CDBG recipients, have long been required to return to HUD interest earned on grant advances, pending their disbursement. The only exception to this rule has been that a State may retain interest earned on CDBG funds which are drawn pending disbursement to units of local government. Prior to the Comptroller General's decision in May 1992, interest earned on CDBG funds used to make loans for ineligible purposes was treated as program income, according to HUD policy, and could be retained by grantees and used for other eligible activities. The Comptroller General has ruled that grant funds remain "advances" until they are used for an allowable purpose. Consequently, any interest earned on them must be returned to the United States. The decision states that HUD does not have the discretion to allow grantees to retain such interest.

TREATMENT OF DISALLOWED COSTS FOR INELIGIBLE LOANS MADE USING CDBG FUNDS

Whenever a finding is made that CDBG grant funds have been loaned for an activity that is deemed to be ineligible or fails to meet a national objective and the finding is not successfully contested by the grantee, the required corrective action shall include:

1. reimbursement of the grantee's line of credit for the principal amount of the outstanding loan balance, and
2. return of all earned interest in accordance with 24 CFR 85.21(h)(2)(i), which states "...grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses."

After the remaining loan principal or equivalent amount has been restored to the line of credit, the disallowance has been satisfied and no further action in this regard is necessary. Any further loan payments, either principal or interest, received from the borrower may be kept by the grantee and is not considered program income.

RETURNING INTEREST

The procedures for returning interest are as follows:

1. The grantee should be advised to notify the Field office prior to sending funds so that detailed instructions may be given.
2. The Financial Analyst in the Field Office should instruct the grantee to wire transfer the funds to RAD (the most current wire transfer instructions were provided during recent financial management training sessions). If there are any questions on the wire transfer procedures, please call the Financial Management Division at (202) 708-1871.

APPLYING THE RULE TO PAST FINDINGS

In addition to action respecting findings made in the future the action required by the Comptroller General's decision shall also be taken in connection with all findings made previously which are unresolved as of the date of this Notice and which involve interest earned on ineligible activities.

* U.S. G.P.O.:1993-342-362:80025