

# Using CDBG Funds for Interest Rate Subsidies for First Time Homebuyers

February 13, 1992

Ms. Hillary Frank  
24 West Street  
Third Floor  
Boston, MA 02111

Dear Ms. Frank:

This is in response to your letter dated January 24, 1992, which raises the question of whether Community Development Block Grant (CDBG) funds can be used for interest rate subsidies and/or down payment assistance for first time homebuyers in a program that does not include re-sale restrictions on the homes sold.

Interest rate subsidies and down payment assistance are both eligible activities under the CDBG program only under certain circumstances. Section 570.204 of the CDBG regulations authorizes interest rate subsidies and down payment assistance when carried out by one of three types of subrecipients as part of a neighborhood revitalization, community economic development, or energy conservation project.

In addition, Section 907 of the National Affordable Housing Act amended the Housing and Community Development Act of 1974 to authorize direct assistance to facilitate and expand home ownership among persons of low- and moderate-income to, among other things, subsidize interest rates and provide up to fifty percent of any downpayment required from low- and moderate-income buyers.

As you may know, every activity assisted under the block grant program must meet one of the three statutory national objectives: benefit low- and moderate-income persons, aid in the prevention or elimination of slums or blight, or meet an urgent community development need. In the case of Section b907 activities, funding is restricted by the statute to assistance benefiting low- and moderate-income persons.

Neither provision requires that properties assisted with block grant funds and initially acquired by low- and moderate-income persons be resold to other low- and moderate-income persons or that homeowners assisted by the program must repay all or part of the subsidy upon resale of the property. There are no programmatic restrictions on the resale of these types of assisted properties. Individual grantees, however, may adopt requirements to restrict disposition of property assisted under these provisions if they wish.

I hope this adequately responds to your questions. Thank you for your interest in the block grant program.

Very Sincerely Yours,  
James R. Broughman  
Director  
Entitlement Communities Division